paragon®

PERSPECTIVES / ANNUAL REPORT 2014

AT A GLANCE

Key Indicators

in € thousands	Jan. 1 – Dec. 31, 2014	Jan. 1 – Dec. 31, 2013	Change in %
Sales	79,037	73,879	7.0
EBITDA	10,531	12,500	- 15.8
EBITDA margin in %	13.3	16.9	
EBITDA (adjusted)*	13,527	12,500	8.2
EBITDA margin in % (adjusted)*	17.1	16.9	
EBIT	6,249	7,923	- 21.1
EBIT margin in %	7.9	10.7	
EBIT (adjusted)*	9,245	7,923	16.7
EBIT margin in % (adjusted)*	11.7	10.7	
Net income	2,775	3,948	- 29.7
Earnings per share in €	0.67	0.96	- 29.7
Total assets	62,424	51,937	20.2
Equity	17,199	15,893	8.2
Equity ratio in %	27.6	30.6	
Unrestricted cash	11,791	16,333	- 27.8
Interest-bearing liabilitities	30,205	23,061	31.0
Net debt	18,414	6,728	173.7
Operating cash flow	6,948	5,100	36.2

* excluding expenses incurred for the development of forward-looking business fields

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DEAR SHAREHOLDERS,

To manage a company successfully on a sustainable, long-term basis, from time to time you have to ask the right questions. Where do we stand? What do we truly excel at? What else can we offer the market? What weaknesses do we need to address? What areas are still our strengths? Setting out in new directions and adopting fresh perspectives – that can, and indeed must be the outcome.

New mindsets are part of paragon's day-to-day business, they are in our DNA. In recent years, we have repeatedly scrutinized our company and found new ways to enhance our activities even further. In this, we always had a clear idea of our objectives:

→ Generating revenue and earnings growth
→ Clear diversification with various revenue sources
→ Becoming less dependent on developments in the automotive industry
→ And thus achieving what we consider an optimal mix of growth opportunities and sustainability.

At core, these new directions and fresh perspectives consist of five strategic pillars that we would like to present to you in this Annual Report. We wish you an enjoyable read.

Klaus Dieter Frers,
Chief Executive Officer

Strategy: new directions, fresh perspectives

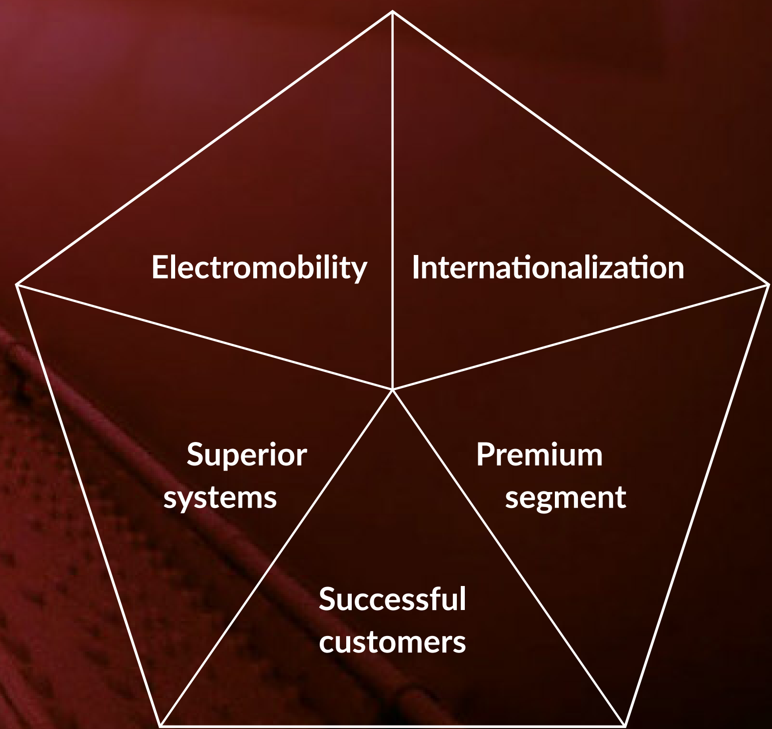
New directions: The Golden Gate Bridge was opened in 1937 and has since connected San Francisco with Napa Valley and Sonoma Valley. It is more than 2,700 meters long and around 230 meters high. In 1994, it was declared one of the Wonders of the Modern World.

A matter of strategy

For many years now, paragon AG has built its business on a targeted mix of customers that not only dominate the global premium segment but are basically synonymous with ongoing success. With names such as Audi, Porsche, VW, BMW, and Daimler, the customers we focus on are precisely those who appreciate the added value offered by the sophisticated products in our Acoustics, Cockpit, and Sensors businesses, and now also in our Body Kinematics business segment. That is why our products are in correspondingly great demand from these customers. With these target groups and their needs in mind, it made strategic sense for us to offer ever higher quality systems. This has enabled us to develop truly outstanding solutions. It also helps us achieve one of our tactical objectives – more euros of revenue per vehicle. This in itself makes paragon AG a stable, healthy company with numerous growth opportunities.

Several years ago, we identified and acted on a completely different trend – Electromobility. This was the right step at the right time, as is clear from the great revenue potential in this area. What makes this move so attractive in strategic terms, however, is the new target groups that will enable us to reduce our overall dependency on the automotive industry. Finally, we are also pressing consistently ahead with developing proprietary international production activities in the largest growth markets in the automotive industry – the USA and China. From 2015, we will have our own production sites in both markets. Overall, this will give our growth tempo a further significant boost.

We are extending our product range, enlarging our revenue and earnings potential and simultaneously reducing risks by diversifying and becoming less dependent on individual industries and market developments. The positive impact of this strategy is already clearly apparent, for example in our orders on hand. Calculated over product lifecycles, this totaled more than € 510 million at the end of 2014, up from € 380 million one year earlier. That is a very respectable interim balance – and offers a clear perspective for the future.



Consistently building success

Our customer list is long, but the most successful German carmakers have long been right at the top – VW, Audi, BMW, Daimler, and Porsche. The VW Group alone topped the 10 million vehicle sales mark for the first time last year. That target, never before achieved by a carmaker, was one VW had only planned to reach in 2018.

At paragon too, the consistent work to satisfy customers' needs has paid off. In 2014, the products delivered to these five manufacturers reached a new record at around 80% of paragon's revenue. The great success achieved by these companies thus offers a decisive foundation for paragon's sustainable development.

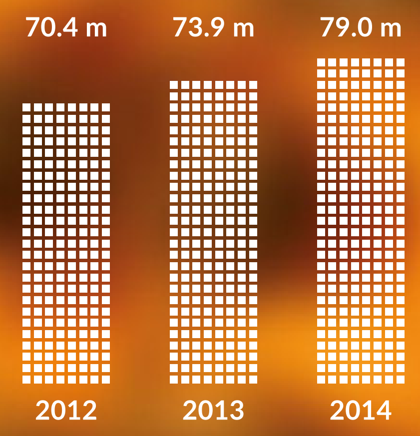
There is every sign that this success will continue in future. Various institutes have forecast global automobile sales growth of 2% to 4% in 2015. According to market watcher IHS automotive, global deliveries are set to grow by 3.9% in 2015. Based on this study, paragon's customers can even expect to see growth of 5.4%. This is an excellent outlook. Alongside the USA, another key growth driver will be Western Europe, which achieved a turnaround in 2014 with new registration growth of 5% after four years of decline. Above all, however, it will be the ongoing dynamism of the Chinese market that will drive growth. Volumes here were almost 13 % on the previous year in 2014, while new vehicle sales reached 18.4 million units. It goes without saying that the automotive industry will continue to channel high volumes of investment to China.

For paragon, this longstanding strategy is also a recipe for future success. By offering smart products and inspiring solutions, we will cultivate and expand our excellent relationships with these successful customers in the years ahead as well.

80

percent – that is the share of revenues paragon AG currently generates with outstandingly successful customers such as VW, Audi, BMW, Daimler and Porsche.

Revenue performance



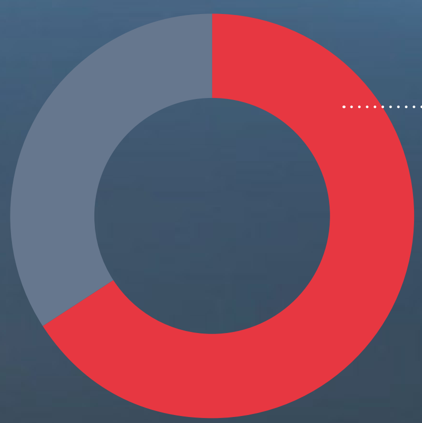
Ultra-class

The premium segment, with providers such as Porsche, Audi, Daimler, and BMW, has been the fastest-growing segment of the global automobile market for years now, and currently accounts for around 10 % of global market volumes. Based on various analyses, this segment will not only, like the automotive industry, continue to grow, but will also generate significantly disproportionate growth. A global market share of around 14 % is forecast for 2030.

German manufacturers are the clear market leaders in the premium segment, and this will remain the case in future. Even higher growth rates are expected for German providers than for the premium segment as a whole. The impressive 66% premium market share already held by German manufacturers today is forecast to top 70 % by 2030.

For paragon, this is the perfect target group, as the company's high-quality solutions always meet with great demand here. Anyone wishing to be always one step ahead, always slightly better than the competition – and that goes without saying for premium providers – has to offer its sophisticated customer base a regular supply of attractive innovations. This is what drove paragon both in the past and at present to offer seatbelt microphones, air quality sensors, and kinematics solutions. It is also now the motivation for development projects such as in-car communications and smartphone-based infotainment systems.

Consistent demand from a disproportionately growing market segment – "ultra-class" is a perfect component in paragon's strategy.



66

percent – that is the share of the global premium market already held by German manufacturers. This is set to rise to more than 70 percent by 2030.

Creating superior systems

At paragon, innovation has never been an end in itself. It is rather our day-to-day business – and the basis for our success. Creating products that are so outstanding that carmakers absolutely want to have them. Put simply, it is about being one step ahead of the competition. We took this step ahead a few years ago, when we announced our strategy of no longer developing and producing standalone products, but rather creating complete superior systems. This way, we aimed to inspire and convince our sophisticated customers even more completely. It goes without saying that we also wanted to generate more revenue, specifically more euros per car at our customers. After all, that makes our growth significantly less dependent on developments in the automotive industry and also predestines us for the attractive premium segment.

One calling card of this strategy is doubtless the spoiler drive now in serial production for a German supercar. Further products in this field will enter serial production in 2015. The battery packs in the Electromobility business are another example – and their success has exceeded even our expectations. Our CO_2 sensor and the new air quality management system, the in-car communication projects and a smartphone-based infotainment system – these are all catchwords for high-revenue products and development targets for the future.

This way we aim to set benchmarks and remain at the forefront of key developments. One further major step on this course is our takeover of SphereDesign GmbH. This company offers excellent development expertise, especially in the seminal field of digital display and control elements, and will boost our global market position. The takeover can thus be seen as a targeted strategic measure

Different weight classes

Battery pack	Air quality sensor
600 kg	0.0145 kg

Headed in new directions

With electromobility, we turned to an entirely new field of business at the beginning of the current decade. What began as an idea at our company premises just a few years ago has already developed into one of the paragon Group's key growth drivers. Two independent subsidiaries under the new Voltabox brand, a strategic partnership with Vossloh Kiepe, order volumes in a double-digit million range, proprietary production in the USA, and cumulative revenue estimated at € 220 million to € 300 million over the next five years – that is a success story that even we did not expect at this pace and on this scale.

It is nevertheless a clear sign that the courage to set out in new directions often pays off, provided that you tackle the challenge consistently and with enough determination. That is why paragon has invested heavily in recent years in electromobility, production plants, and employees. New enhanced battery backs will be rolling off the production line in 2015 already. Not only that, alongside electric buses we have long had other potential deployments in our sights. One example involves the newly developed battery modules with which we will be supporting computer-controlled power storage batteries in future. An initial project is due for implementation in 2015 already. Internal logistics is another area where demand is more or less exactly in line with our offering. Here too, projects can be expected this year.

Taking the strategic course offered by electromobility will make us significantly less dependent on developments in the automotive business. What's more, the time required to implement projects between initial inquiries and production launch is far shorter. Not only that, the scalability of the systems involved means we can achieve substantial economies of scale once order volumes rise. Electromobility – an excellent strategic building block.

300

million euros – the cumulative volume of Electromobility revenues expected over the next five years. That is three times paragon's total revenues in 2014.

Since 2014, paragon has operated the Electromobility segment through its two Voltabox branded subsidiaries in Germany and the USA. This way, paragon can tap the enormous potential of this market with a separate brand and an autonomous product presence.

The world is our market

The lack of a presence in the world's top markets – that was one of the paragon Group's final weak points. Even though we can certainly supply the most important automotive industry customers for our business from within Germany and even though the share of the overall automotive industry value chain within Germany is traditionally very high, it goes without saying that international production on location often offers benefits.

Alongside our traditional core business, this is particularly true for Voltabox in the USA. Given the order from Vossloh Kiepe, in the years ahead numerous buses in Seattle and San Francisco will be equipped with batteries from the Voltabox brand. Since mid-2014, our production has therefore been running at full steam in a rented building in Texas. In 2015, we will be launching even larger-scale production at our proprietary location in Cedar Park near Austin (Texas). The fact that Voltabox was successfully certified under the "Buy American Act" at the end of 2014 is also a great success. After all, when selecting their business partners, all government institutions and large parts of the private sector in the USA require domestic production. Our market potential has thus grown significantly.

Not least, this year will also see us extending our existing sales office in Shanghai with a production site in China. Given the high level of air pollution in Chinese cities, we see particularly great potential in the first stage for the Sensors business segment and have already acquired several Chinese carmakers as new customers with corresponding order volumes. China will remain the key growth driver for the automotive industry, and that for years to come. Our objective here is to play a major role on location.

2015 **will see the launch of production at a proprietary plant in Texas. A proprietary production site is due to be opened in China as well. paragon is on the advance.**

INTERVIEW WITH THE MANAGING BOARD

Mr. Frers, how satisfied are you with the past fiscal 2014 at paragon AG?

Frers: Absolutely satisfied. In the past year, we laid crucial foundations for accelerated growth and sustainable profitability in the years ahead. We planted a lot of seeds, and that made it a very laborious year for everyone in the company. But it was all worth it, as we can already see a rich harvest on the horizon. Having said that, there is of course a great deal still to do in 2015.

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

From your own personal perspective, what were the highlights in 2014?

Frers: Without a shadow of doubt the enormous progress we made in internationalizing paragon AG. A year ago we were a purely national company in terms of production. In 2014, we launched our production activities in the USA, initially in a rented building with Voltabox. In spring of this year, we will be moving into a proprietary building in Texas. Not only that, in late summer we will also be opening a production location in China. Those will certainly be further highlights – and that not only for paragon AG, but also for me personally.

With Dr. Schwehr, paragon has now acquired a second member of its Managing Board – what were the main reasons for that change?

Frers: Recent years have seen us launch a whole series of new and important strategic projects – the two new segments of Body Kinematics and Electromobility, the company's internationalization and more fundamentally the upgrading of our product range towards higher-quality systems. In short, having successfully consolidated our business we have now entered a period of substantial growth.

That means we are addressing many new topics, but also cannot afford to neglect our basis. That is why we needed reinforcement at the top of the company as well. Given his longstanding expertise in the automotive industry, Dr. Schwehr is just the right man for the job. With responsibility for sales, development, and cultivating the existing business, he is playing an absolutely key role in expanding our core activities. And I can now have a good conscience when I invest a great deal of time and energy in our further strategic development, for example in our international production and expanding our Voltabox subsidiaries.

Dr. Schwehr, you can look back on a long career at the Daimler Group. What was it in particular that attracted you to the new position at paragon, a smaller player?

Schwehr: One essential factor for me was the enormous scope to shape developments that I have as a member of the Managing Board at a company like paragon AG. As Mr. Frers already indicated, it is about assuming direct responsibility in the business segments. Not only that, there is of course greater personal room for maneuver at such an agile medium-sized company than at a large group. That was the decisive reason for me.

Frers: For me personally, it is also very important to have Dr. Schwehr as a sparring partner for major strategic and forward-looking matters, above all since the many years he spent working at a large automotive manufacturer mean that he has a completely different perspective in some matters.

What were the key focuses for you as a new member of the Managing Board in 2014? How exactly can we visualize you "shaping developments"?

Schwehr: For many years, I was head of department for the serial development of control and display systems at Daimler – premium manufacturer – and subsequently built up a department dealing with the advance development of future telematics, control, and display solutions.

In these management functions, I learned to separate the utopian from the feasible. Drawing on this experience, I can now provide my business segment heads with guidance in the search for and definition of new products, and that particularly from a vehicle manufacturer's perspective. As suppliers, we have to ensure targeted alignment of our resources in line with customers. That means not just being innovative, but innovative in just the right spot. That was of course already a key factor at paragon in the past. Given my longstanding experience in automotive production, i.e. on paragon's customer side, I can sometimes assess even more exactly what solutions might actually work.

Mr. Frers, alongside qualitative factors, paragon also managed to boost its revenue to € 79 million in the past year. The adjusted EBIT margin is ahead of and the unadjusted EBIT margin is below the previous year's figure. How should these figures be interpreted?

Frers: Our earnings figures in particular are far better than I expected. Our focus in 2014 was on investing time, energy and resources in our new business segments, as well as in our internationalization, for example by developing new plants. Not only that, we took on more engineers than ever before in a single year. We naturally kept an eye at all times on our earnings performance, but that was not our top priority in 2014. We see excellent growth opportunities, particular at Voltabox, but also in other segments, and we had to do the necessary groundwork. We will reap some of the fruits of these labors in 2015 already. Our forecast unadjusted EBIT margin for the current fiscal year is thus well ahead of the figure for the past year.

You exceeded the forecast issued in November – what caused this positive surprise?

Frers: That was due above all to a major development order at Voltabox. We invested a great deal in the past year in the further development our battery packs, as we knew this was an area with great market potential. In December, we then managed to conclude a very attractive contract in which our partner directly assumed part of the development costs. As the expenses were already factored into the November forecast, this customer payment was channeled virtually in full into our earnings.

So the risk paid off?

Frers: That's not how I see it. We are convinced by what we do. That is true not only of electromobility, but also of all other business segments. Heading in new directions does not automatically mean greater risk. Marking time can be far riskier. You have to have a good eye for the market and for what customers actually need. Advance development work then nearly always pays off.

Schwehr: The latest developments in the Sensors business segment are a good example here. Air quality sensors are one area where we have been the global market leader for years. Now if you look at the Chinese market, you will find unbelievable air particle loads in virtually all major cities. Significantly more far-reaching solutions are needed for motor vehicles here, particularly in the premium segment. Customers naturally always want to offer passengers first-class interior comfort. That is why we are working closely on solutions offering air quality management that also works in these extreme conditions. In short, this is one area where we are moving from modules to systems.

Frers: That's right, and this example also shows how closely the various cogs of our strategy are intermeshed. Here, we are talking about our internationalization in China and there we are offering a superior solution going way beyond a standalone product. This way, we can achieve our strategic objective of generating "more euros per car" in an exemplary fashion.

What scale are we talking about here?

Schwehr: The revenue we generate per car with an air quality management system is several times higher than with an air quality sensor.

Frers: Our undeniable competence in this area is also one crucial reason why we have already acquired the first orders from Chinese car manufacturers for our China business. Vehicle interior air quality is a huge topic in China. And since we have been on location with a sales office in Shanghai for several years now, we already have a good network.

What other focuses are there for 2015?

Frers: Alongside our Chinese market entry, which we just talked about and where production on location is due to start this year, the USA is of course right at the top of the agenda. We will be moving into our own premises in Cedar Park near Austin in Texas in the second quarter and will then have the same degree of automation as at the Voltabox plant here in Germany. That will significantly increase our production output.

We also want to sell our products, of course, so we will be focusing on addressing the market. Alongside electric buses and the partnership with Vossloh Kiepe, internal logistics will also play a great role. Not only that, we have already received initial inquiries for stationary applications in the field of renewable energies. Not to put too fine a point on things, the question for us is not so much where we can get the orders from, but rather whether we can directly satisfy the demand. The certification we obtained under the "Buy American Act" in the fall was a further major step putting us right on the radar of government bodies and further sections of the private sector in the USA, and in Texas in particular.

What business segments – alongside Sensors and Electromobility – are particularly in focus?

Frers: The takeover of SphereDesign GmbH this February has significantly boosted our Cockpit business. We generated revenue of around € 27 million in this segment in 2014. That will now be supplemented not only by revenue of around € 4 million already generated by SphereDesign in 2014, but above all by that company's full order pipeline, which promises far higher revenue. That was a major strategic step – bringing this segment, which had no longer achieved notable revenue growth in recent years, back in line with the level of growth we expect for all of paragon's businesses.

Schwehr: Not just that, SphereDesign really is a perfect match in terms of its content. Our market position in high-quality analog display elements is already very strong. This will now be flanked by excellent digital competence for display-based instruments that are in ever greater demand in Europe, especially among premium customers. We could have expanded in this area ourselves, but SphereDesign's development expertise complements our existing structures very well. This way, we are pooling our respective strengths. That is why I am very satisfied with the takeover. Not only that, it has brought us Markus Barth, a highly competent head of the Cockpit business who is well-respected in the market.

Are analog display elements, such as your clocks for Porsche, still in line with the times?

Schwehr: Of course they are. Look at truly valuable wristwatches. You will hardly find a digital display. Excellent analog craftsmanship is a question of style. For a selection of our customers we will continue to satisfy that demand with our analog display elements.

Having said that, there are of course other desired premium class applications where the focus is more on state-of-the-art technology. Looking ahead, wireless connections for smartphones and tablets to central screens is an extremely interesting topic, and one where we are in the forefront of developments. We have long had the individual technological applications in stock at paragon – and now we are drawing on them to build a truly customized system. I have very good contacts to Apple and Google. Bringing these to my work at paragon should also help us get further ahead in these areas.

And Body Kinematics?

Schwehr: Equipping a German super sports car enabled us to set standards and show that even this business segment, which is still quite new, can work in the market. Unit numbers here were of course very low by our standards. But that is about to change. Further spoilers are entering production. Not only that, in Body Kinematics we are taking a further major step by moving one

of our developments forward to serial production as a group spoiler drive. That is a great success and will generate substantially higher volumes that will be reflected in corresponding revenue growth in this segment in the years ahead. When it comes to volumes, Body Kinematics may not be quite as spectacular as Electromobility, but it fits in perfectly with our strategic alignment to the premium segment.

Electromobility is enormously important to paragon, and not only in terms of revenue.

Frers: Exactly. This business segment is a crucial strategic building block. After all, it is not dependent on the automotive industry and that will diversify our customer base and thus bring revenue consistency, as well as solidity and sustainability. But you know me – I naturally find the enormous growth potential in this area far more interesting. Here, I am also thinking of our shareholders, who expect a return and a higher share price.

The strong growth led to a slightly lower equity ratio. Can shareholders nevertheless look forward to receiving a dividend again?

Frers: Yes, of course. In absolute terms our equity has actually grown further and our earnings situation is also very good. That is why together with the Supervisory Board we will be proposing a dividend of € 0.25 per share for approval by the Annual General Meeting. After all, paragon has a tradition of enabling shareholders to participate directly in the company's success. We will be upholding that tradition this year too. Not only that, our share performed well again in the past year – and that too has benefited our shareholders.

Alongside the share price, the bond price also performed strongly in an otherwise risky bond market. Do you sometimes regret that you could possibly have paid 1 or 2 percentage points less interest?

Frers: The interest rate was in line with the market at the time. This issue is secondary to me as an entrepreneur. Two years ago, I had a clear picture of the areas in which I wanted to invest. These investments have to make sense and pay off in the long term. That is what counts for an entrepreneur. We can now say that they will pay off even more clearly than we ourselves expected. The development of the US business, the further development of Electromobility, and the takeover of SphereDesign are strategic steps that will generate very good returns in the coming years.

Today you make 95% of your revenue with the automotive industry –what percentage do you expect in five years' time?

Schwehr: That is difficult to predict. Despite the strategic goal of making our business less dependent on individual developments, one key target is of course to maintain our growth with such successful customers as we have in the automotive industry. I assume, for example, that we will manage to further expand our business volumes with Daimler in the years ahead.

Frers: Having said that, dynamic developments at Voltabox, where we expect to generate cumulative revenue of between € 220 million and € 300 million over the next five years, will certainly reduce the share of revenue generated with automotive manufacturers. But all that will happen at a significantly higher overall level. We have forecast revenue of € 95 million for 2015, but we also know that, if business goes well, paragon could top the € 100 million mark once again.

And earnings for 2015?

Frers: Our key earnings figures will show disproportionate growth, i.e. we will not only raise our earnings in absolute terms, but will also see a significant rise in earnings as a percentage of sales. Accordingly, we currently expect our unadjusted EBIT margin to rise from just under 8% to around 10% in 2015, and that even though we will of course be investing further in the current year, above all in our internationalization and expanding Voltabox.

Is a second strategic partnership to be expected alongside that with Vossloh Kiepe?

Frers: The course we have taken of generating growth in this area together with a strategic partner has certainly proved its worth in the case of Vossloh Kiepe. You can be sure that we will not exclude the possibility of building excellent strategic partnerships in other areas, such as internal logistics or stationary applications. That will further drive our revenue and earnings.

Turning away from your day-to-day business, I have the impression that people are increasingly becoming passengers even in their own cars – what does this development mean for paragon?

Frers: You mean the trend often referred to as "autonomous driving". For my part, I drive autonomously – i.e. independently – today already and like that very much. I am passionate about "driving cars" in the narrower sense. Putting definitions to one side, however, this trend may result in new areas of application for us, but there will be no fundamental changes. We will continue to satisfy the same megatrends as today – comfort, safety, wellbeing, and efficiency. I believe those will be the main points in future as well.

Mr. Frers, do you have something like a personal vision for paragon – where should the company be in five years' time, what should set it apart?

Frers: That question is not new and "vision" sometimes seems a bit hackneyed to me. What truly excites me today, however, is how tangible the results of the work we began years ago to raise our positioning with sophisticated systems are and how this has changed the way we are seen, also by our customers. That is a special kind of sign that we are performing truly excellent work and that we can move our business forward not only one step but sometimes even two steps at a time. That is one aspect that has something visionary about it for me and that I would like to see even more clearly in five years' time. Our thinking is not bound by any limits. If we have global success with our Voltabox battery packs today, for example, what should stop us from offering special electric motors and ultimately complete drive systems for electric vehicles?

SUPERVISORY BOARD REPORT

Prof. Dr.-Ing. Lutz Eckstein

The Supervisory Board of paragon AG performed the advisory and supervisory duties incumbent on it by law, the company's Articles of Association, the German Corporate Governance Code and its Code of Procedure with great care in fiscal year 2014 as well. The Supervisory Board monitored the management on an ongoing basis and satisfied itself as to the legality, correctness, expedience and efficiency of the company's management. Furthermore, the Supervisory Board consistently accompanied the Managing Board in an advisory capacity and was involved in the discussion and decision-making process for matters of fundamental significance. The high quality of cooperation between Supervisory Board members meant that decisions required at short notice could also be taken directly.

The Managing and Supervisory Boards of paragon AG identify with the objectives of the German Corporate Governance Code and are committed to good corporate governance at the company. No conflicts of interest arose on the part of individual members of the Managing or Supervisory Boards in fiscal year 2014. The notes to the annual financial statements include a list of all positions held by Supervisory Board members.

The Managing and Supervisory Boards submitted an updated Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (AktG) in February 2015 and made this permanently available in the Investor Relations section of the paragon AG website. This Declaration also includes explanations of any deviations from the Code, as well as more far-reaching information about corporate governance at paragon AG.

Activities of the Supervisory Board

The Managing Board provided the Supervisory Board at its meetings with extensive written and oral reports on all matters of material significance and on the company's general business performance and current situation. It dealt in particular with the topics of strategy, planning, business development, and the company's risk situation and risk management. The Supervisory Board reviewed the reports from the Managing Board in detail and discussed these at its meetings. In addition to the Supervisory Board meetings and the conference calls held between all members of the Managing and Supervisory Boards, the Supervisory Board Chairman and the Managing Board discussed important issues whenever necessary. The Supervisory Board was kept fully informed concerning exceptional events of significance for the assessment of the annual results.

The Supervisory Board held four scheduled meetings, three unscheduled meetings and one conference call in fiscal year 2014. Furthermore, one resolution was also adopted in writing outside these meetings. With one exception, all of the Supervisory Board's meetings took place in the presence of the Managing Board. All Supervisory Board meetings were attended by all of its members.

The Supervisory Board's first meeting was held by conference call in the absence of the Managing Board on January 17, 2014. In this call, it approved the employment contract with Dr. Stefan Schwehr, a Managing Board member due to be newly appointed, and discussed the new employment contract with the CEO Klaus Dieter Frers.

The first unscheduled Supervisory Board meeting took place in Delbrück on January 29, 2014. The topics addressed here were the preliminary key figures for fiscal year 2013 and the planning for 2014. Furthermore, the Managing Board reported on the progress made with developing production activities in the USA.

The first scheduled meeting of the Supervisory Board, held in Delbrück on March 12, 2014, focused on the audit and adoption of the annual financial statements for fiscal year 2013 and on the preparations for the Annual General Meeting on May 14, 2014. In this context, the Supervisory Board also dealt with the candidate to be nominated for election as auditor for fiscal year 2014 and proposed Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, as the new auditors. Furthermore, the Supervisory Board was also briefed on the company's latest business performance and on the status of its investments in the USA. Finally, the new Code of Procedure was adopted for the Managing Board, which since April 1, 2014 had comprised two members.

The second scheduled meeting of the Supervisory Board, held in Hövelhof on May 13, 2014, served to prepare the contents of the Annual General Meeting. Here, the Supervisory Board Chairman also informed members about the results of the efficiency review of the Supervisory Board's activities in fiscal year 2014. The self-assessments submitted by Supervisory Board members confirmed that the Supervisory Board is sustainably effective in its activities. Like at other meetings, the Supervisory Board was briefed here as well by the Managing Board about the company's performance. It also adopted the new employment contract with Mr. Frers and approved a real estate acquisition.

At its second unscheduled meeting, held directly after the Annual General Meeting on May 14, 2014, the Supervisory Board then elected Prof. Dr.-Ing. Lutz Eckstein, previously elected by the Annual General Meeting as a Supervisory board member, as its new Chairman. Prof. Dr. Eckstein, a proven automobile expert and Director of the Institute for Automotive Engineering at RWTH Aachen University, has thus replaced the previous Chairman, Hans Jakob Zimmermann, who stood down from the Supervisory Board due to personal reasons upon the conclusion of the Annual General Meeting. The Supervisory Board would like to thank Hans Jakob Zimmermann for the key role he played in shaping the course taken by paragon AG, particularly in the difficult years after 2008.

The third scheduled meeting of the Supervisory Board took place in Delbrück on August 25. Key topics of discussion here included the Managing Board's report on the company's latest business performance and the allocation of responsibilities within the Managing Board.

Alongside the information provided by the Managing Board concerning the latest business performance, the fourth scheduled Supervisory Board meeting on November 18 focused above all on the company's planning for the coming fiscal year 2015, which the Managing Board outlined to the Supervisory Board.

Following in-depth discussions at its third unscheduled meeting, held in Aachen on December 12, 2014 and also attended by the Managing Board, the Supervisory Board approved the business planning submitted for fiscal year 2015.

As in the past, the company's three-member Supervisory Board dispensed with forming committees in fiscal year 2014 as well and dealt with all relevant topics as a united whole.

Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed as the external auditor for the fiscal year from January 1 to December 31, 2014 by resolution of the Annual General Meeting dated May 14, 2014 and was commissioned by the Supervisory Board Chairman accordingly. The Supervisory Board has received a statement of independence from the auditor in accordance with Point 7.2.1 of the German Corporate Governance Code. The audit of financial statements had as its object the consolidated and annual financial statements as of December 31, 2014 and the management report of the Group and of paragon AG for fiscal year 2014. Upon completion of its audit, Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, provided the consolidated financial statements and the group management report, as well as the annual financial statements and the management report of paragon AG, with unqualified audit opinions. The auditor also established that the information and monitoring system set up by the Managing Board suitably complies with legal requirements and is able to detect at an early stage any development that might threaten the company's continuing existence. The audit company provided each Supervisory Board member with the documents to be reviewed in connection with the consolidated financial statements, the group management report, the annual financial statements, the management report of paragon AG, the proposed appropriation of annual net income and the audit report. These documents were discussed and reviewed in detail in the presence of the auditor at the meeting held to approve the financial statements on March 11, 2015. Furthermore, at this meeting the Supervisory Board also discussed the appropriation of net income with the Managing Board.

Based on its own detailed review and discussion of the consolidated financial statements, the group management report, the annual financial statements and the management report of paragon AG, the Supervisory Board concurred with the findings of the auditor and approved the consolidated and annual financial statements prepared by the Managing Board. The annual financial statements of paragon AG as of December 31, 2014 are thus adopted.

The Supervisory Board did not make any use of its right to inspect the company's books and records in the past fiscal year.

The Supervisory Board endorses the proposal submitted by the Managing Board concerning the appropriation of net income.

The Supervisory Board would like to thank all employees of paragon AG and its Managing Board for their commitment and dedication in the successful 2014 fiscal year.

Delbrück, March 11, 2015

Prof. Dr.-Ing. Lutz Eckstein

Supervisory Board Chairman

INVESTOR RELATIONS

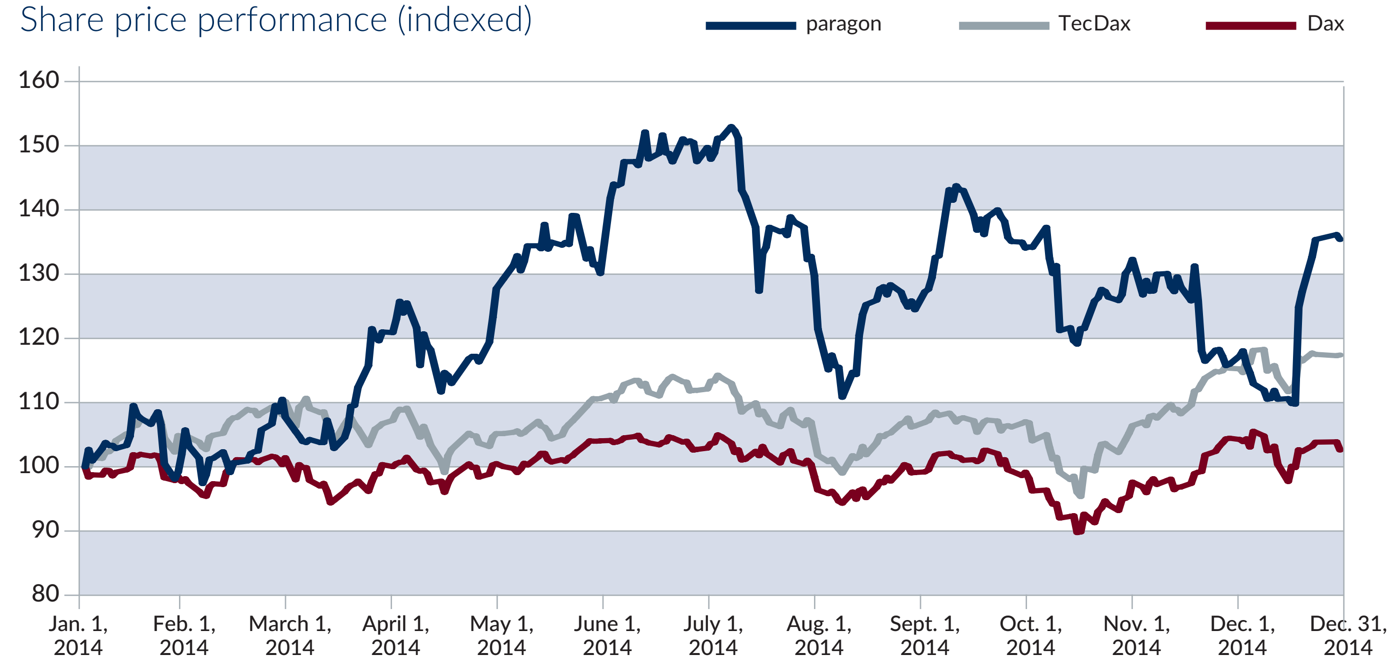
General stock market climate

The German stock index (DAX) ended the 2014 trading year with slight growth, and that despite volatile developments along the way. Investor confidence was repeatedly undermined by various geopolitical crises, such as those in Ukraine and the Middle East, as well as by persistently weak economic developments in the euro area and concerns as to the monetary policy adopted by the European Central Bank.

Following an extended period of sideways movement, in the first half of the year the DAX initially even passed the "magic mark" of 10,000 points (on closing price basis). This was followed in early August by a sharp drop to just over 9,000 points. Having recovered temporarily, the DAX then fell to its annual low of 8,572 points on October 15. The subsequent upturn took the index to its annual high of 10,087 points on December 5, almost 18% up on its previous low. After this rapid rise, the DAX was not quite able to maintain this level to the end of the year and closed the 2014 trading year at 9,806 points, equivalent to a 2.7% increase.

ISIN:	DE0005558696
WKN:	555869
Ticker symbol	PGN
Market segment:	Regulated Market
Transparency standard:	Prime Standard
Sector:	Technology
Industry:	Automobile supplier
Stock exchange:	Frankfurt (XETRA)
Also traded in:	Berlin, Düsseldorf, Hamburg, Munich, Stuttgart
Number of shares:	4,114,788
Share price on Feb. 28, 2015:	€ 15.495
Market capitalization on Feb. 28, 2015:	€ 63.8 million
Average trading volume (52 weeks) at Feb. 28, 2015:	10,908 shares per day
Designated sponsor	Close Brothers Seydler Bank AG

Share price performance (indexed)



paragon's share price performance

Driven by the company's positive business performance, paragon's share left the subdued development in the German lead index well behind. Starting from the previous year's closing price of € 10.40, the share initially fell to a low of € 10.13 (February 4) in a weak overall market climate before rising consistently to its annual high of € 15.93 (July 7). paragon's share too was unable to escape widespread market turbulence in the third quarter and was obliged to yield some of its gains. The announcement of the company's third-quarter figures was used for further profit taking. Following the announcement of a positive outlook for fiscal year 2015, however, the share recovered once again to its year-end closing price of € 14.10. For the fiscal year as a whole, this corresponds to share price growth of 35.6%.

ISIN:	DE000A1TND93
WKN:	A1TND9
Ticker symbol:	PGNA
Market segment:	Open Market
Transparency standard:	Entry Standard for corporate bonds
Stock exchange:	Frankfurt
Also traded in:	Berlin, Hamburg, Hanover
Issue volume:	up to € 20 million
Placed volume (Dec. 31, 2014):	€ 13 million
Coupon:	7.25 % p.a. (annual payment)
Issue date:	July 2, 2013
Maturity:	July 2, 2018
Rating (May 27, 2014):	BBB- (Creditreform Rating AG)
Bond price on Feb. 28, 2015:	111.85 %
Average trading volume (52 weeks) at Feb. 28, 2015:	€ 24,343 (nominal) per day

paragon's bond

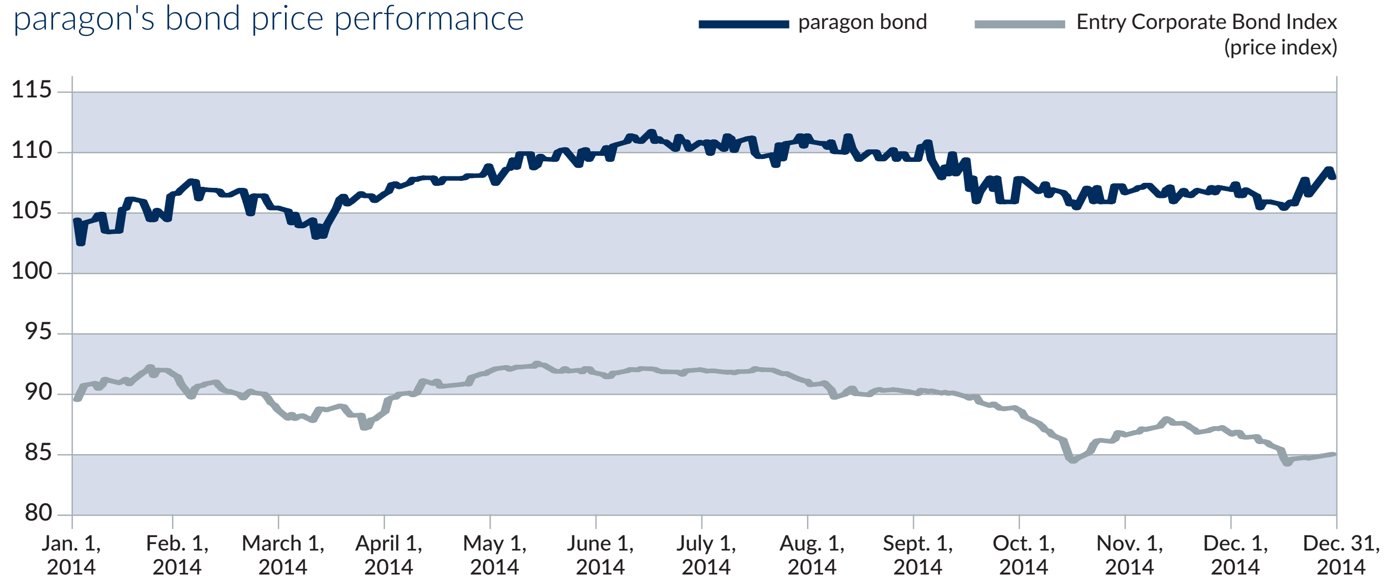
The bond issued in July 2013 continued to perform stably at a level well above the issue price of 100% and was listed at 108.0% at the end of fiscal year 2014. paragon's bond thus also clearly outperformed the Entry Corporate Bond Index (price index), which still fell substantially short of the 100% mark. Given this excellent performance, numerous investment magazines repeatedly highlighted paragon's bond as an exceptionally interesting investment in the course of the year. In March 2014, paragon AG managed to place a further € 3.0 million tranche of the corporate bond in a private placement with institutional investors. This increased the bond's total issue volume to € 13 million (prospected: up to € 20 million). Furthermore, on May 27, 2014 Credit Reform Rating AG raised the company rating for paragon AG from BB+ to BBB-, thus bringing it to investment grade level.

Financial market communications

paragon upheld its commitment to active financial communications in fiscal year 2014 as well, maintaining an ongoing exchange of information with shareholders, investors, analysts, journalists and interested members of the general public. The company reported on its latest business performance and important news in a variety of media, including ad-hoc and press releases, personal meetings, interviews and articles on the company's website at www.paragon.ag. Not only that, in August 2014 the company published a further issue of its company newsletter "paragon fakt".

paragon's financial market communications passed several milestones in the course of the year. At the Annual Results Press Conference held by the company at its headquarters in Delbrück on March 12, 2014, Klaus Dieter Frers, CEO, presented the results for fiscal year 2013, as well as the planning and forecasts for 2014, to the media representatives present. The 13th Annual General Meeting of paragon AG was held in Delbrück on May 14, 2014. All agenda items were approved by the shareholders present with clear majorities in each

paragon's bond price performance



case. In particular, the Annual General Meeting elected Prof. Dr.-Ing. Lutz Eckstein as a new member of the Supervisory Board, where he has succeeded the retiring Supervisory Board Chairman Hans J. Zimmermann. At the subsequent Supervisory Board meeting, Prof. Dr.-Ing. Lutz Eckstein was elected as the new Supervisory Board Chairman. On September 1, 2014, paragon AG once again presented itself to a broad public of analysts and investors at the 12th SCC_ Small Cap Conference in Frankfurt. The CEO later held various one-to-one meetings. Furthermore, meetings and telephone calls concerning the company's business and economic performance were regularly held with capital market representatives, also within the framework of the company's annual and quarterly financial reporting.

paragon's quarterly reporting was also the starting point for various analyst reports on the company's share that can also be viewed on its website. In the 2014 financial year, paragon AG was covered in particular by Close Brothers Seydler Research AG, Frankfurt/Main and Dr. Kalliwoda Research GmbH, Frankfurt/Main.

2015 financial calendar

paragon will continue its Investor Relations work with the following events and activities in 2015:

March 11, 2015:	Annual Results Press Conference
March 11, 2015:	2014 Annual Report
March 12, 2015:	Analysts' Conference Call for Fiscal Year 2014
May 5, 2015	DVFA Spring Conference (Frankfurt)
May 12, 2015	Interim Report: Jan.1, 2015 to March 30, 2015
May 12, 2015	14th Annual General Meeting (Fiscal Year 2014)
May 2015:	2nd Follow-up Rating
Aug. 20, 2015	Half-year Report: Jan.1, 2015 to June 30, 2015
Nov. 19, 2015:	Interim Report: Jan.1, 2015 to Sept. 30, 2015

Group Management Report

GROUP MANAGEMENT REPORT FOR FISCAL 2014

A Group fundamentals

Group structure

paragon Aktiengesellschaft (hereinafter: paragon AG), headquartered in Schwalbenweg 29, 33129 Delbrück, Germany, is a stock corporation under German law. Shares in paragon AG are traded in the Prime Standard segment of the Frankfurt Stock Exchange.

paragon AG has its administrative headquarters in Delbrück and central production facilities in Delbrück, St. Georgen and Suhl. paragon AG also has a branch office in Nuremberg. The scope of consolidation of the paragon Group (hereinafter also: paragon) also includes the subsidiaries paragon Automotive Technology (Shanghai) Co., Ltd., Voltabox of Texas Inc., Voltabox Deutschland GmbH, and the largely inactive company KarTec GmbH (Forchheim).

Business activity

paragon develops, produces and sells electrical, electronic, and electromechanical components, appliances, and systems for the automotive industry. Its key focus is on offering solutions for automotive interiors and sensors. In addition, paragon develops solutions in the fields of electromobility and body kinematics.

paragon is active in the business segments of **Sensors, Acoustics, Cockpit, and Body Kinematics**, which are nevertheless not managed as profit centers. The Electromobility business segment is managed at the companies Voltabox Deutschland GmbH and Voltabox of Texas, Inc.

In the **Sensors business segment**, paragon develops and markets solutions for improving air quality within the vehicle cabin. paragon's products, such as those for climate control systems, prevent harmful substances from penetrating into the vehicle interior or actively eliminate negative influences on air quality. paragon also develops, produces, and markets solutions for optimizing drivetrain control systems. Its products in this segment are characterized by high-precision positioning and distance measurement solutions with Hall-effect sensors and state-of-the-art inductive systems which do not require costly permanent magnets.

In the **Acoustics business segment**, paragon develops and markets products designed to ensure the transmission of speech from its point of origination to its destination without loss of quality. Here, paragon offers a variety of microphones offering optimal audio quality and is also the world's only manufacturer of seatbelts with integrated microphones.

In the **Cockpit business segment**, paragon develops and markets a broad portfolio of products for the cockpit. These include various media interfaces, control elements, backup camera systems, display instruments and special stepper motors. As a connectivity specialist, paragon supplies all in-car communication elements from a single source. Its offerings range from mobile telephone cradles via various interfaces through to the perfect integration of a tablet computer. Alongside these, paragon also offers a wide variety of display instruments and control elements for the cockpit area.

The **Electromobility business segment**, represented by the two wholly-owned subsidiaries Voltabox Deutschland GmbH and Voltabox of Texas, Inc., primarily develops and markets battery packs for commercial vehicles and buses. These are deployed in a variety of areas from buses, commercial vehicles and internal logistics through computer-controlled storage batteries for stabilizing power grids.

In the **Body Kinematics business segment,** paragon develops and markets innovative technical solutions for enhancing the efficiency and comfort of the moving parts of the automobile body, both exterior and interior. The range of products offered to date includes spoiler systems and steering column paddle shifters.

Delbrück headquarters (paragon AG)
Managing Board, Marketing, Purchasing, Finance
Customer Teams
Sensors, Acoustics, Body Kinematics business segments

Suhl branch (Thuringia)
Central production plant

St. Georgen branch (Baden-Württemberg)
Development and production of stepper motors and other electromechanics products

Nuremberg branch (Bavaria)
Cockpit, Body Kinematics business segments

Voltabox Deutschland GmbH, Delbrück
Wholly-owned subsidiary
Electromobility business segment
Electromobility production

Voltabox of Texas, Inc. (Austin, Texas/USA)
Wholly-owned subsidiary
Electromobility production

KarTec GmbH, (Forchheim, largely inactive)
Wholly-owned subsidiary
Performance of development services

paragon Automotive Technology Co, Ltd. (Shanghai, China)
Wholly-owned subsidiary
Sales company

Directors & officers

Managing Board

In the period under report, the Managing Board comprised Klaus Dieter Frers (Chief Executive Officer) and, since April 1, 2014, Dr. Stefan Schwehr (Chief Technology Officer).

Supervisory Board

In the period under report, the Supervisory Board of paragon AG consistently comprised three members elected by the Annual General Meeting. Hans J. Zimmermann, previously Supervisory Board Chairman, retired from his position on the Supervisory Board for personal reasons upon the conclusion of the Annual General Meeting on May 14, 2014 and was replaced by Prof. Dr.-Ing. Lutz Eckstein, who was newly elected to the Supervisory Board by the Annual General Meeting. In fiscal 2014, the Supervisory Board thus comprised the following members: Hans J. Zimmermann (Chairman, until May 14, 2014), Prof. Dr.-Ing. Lutz Eckstein (Chairman, from May 14, 2014), Hermann Börnemeier (Deputy Chairman), and Walter Schäfers.

Management systems

Alongside highly dynamic innovation, the defining features of paragon's daily activities are flat hierarchies, fast processes and efficient workflow organization. The Group retains the character of a medium-sized, owner-managed company and combines the resultant advantages with the integrative power of a publicly listed corporation. This special approach enables paragon to successfully compete with significantly larger companies and to expand its position as a direct supplier to major automotive manufacturers.

The Managing Board of paragon AG regularly reviews and adapts its strategies in line with the Group's development. In discussions on corporate objectives held several times a year, the resultant follow-up activities are determined on management level and measures are introduced to optimize performance or make fundamental changes of direction.

The main focuses here in fiscal 2014 included the following developments:

- Enlargement of the Managing Board to include a Chief Technology Officer, Dr. Stefan Schwehr, since April 1, 2014. The allocation of business activities on to level has led to closer management and even greater transparency. Above all, the new CTO's network among OEMs and downstream suppliers has produced its first tangible success. In the Sensors business segment, for example, the Group now has significantly closer links to a major German OEM and has acquired a corresponding B-sample development order. Direct contact to major tier-two suppliers has granted us access to previously inaccessible forward-looking technologies. The temporary assumption of the management of the Cockpit business segment by the new member of the Managing Board led to a more consistent alignment of the Cockpit product portfolio with long-term OEM strategies in this sector.

- Consistent expansion in second-tier management team (Development, Quality Management, IT, Controlling)
- Streamlining of customer team organization and alignment to core customer relationship responsibility in serial production
- Gradual introduction of a new ERP system. Its implementation at Voltabox Texas, for example, has already shown initial success and further implementation at the Group is currently in the planning stage.

paragon has a comprehensive planning and control system in order to systematically safeguard its success. Its features include continuous oversight of weekly, monthly, and yearly plans. Key management parameters incorporate the traditional instruments for financial and profitability control, such as EBIT and the EBIT margin, as well as EBITDA and the EBITDA margin.

The Managing Board and Supervisory Board of paragon AG receive detailed risk reports based on monthly reporting of business developments. These reports document potential variances from planned figures in budget/actual comparisons and form the basis for decisions. Further key management instruments comprise regular management meetings, at which current business developments in individual business segments and the medium and long-term outlook are discussed, as well as regular meetings of the business segment managers.

With its "paragon prozess ideal (ppi)" program, paragon also maintains a process of permanent, continuous optimization across all of the Group's administrative and operational functions. This is based on strategic objectives defined by the Managing Board. In fiscal 2014, the steering committee chaired by Dr. Schwehr took up its work and implemented the first steps. By the end of the year, processes had been redefined and the main pillars of the value chain revised and realigned for the future. Further implementation steps are being planned for the first half of 2015.

Compensation of the Managing Board

The compensation of the Managing Board was determined and reviewed by the Supervisory Board. Compensation comprises non-performance-related and performance-related components. No benefits were incurred in connection with stock options. The performance-related bonus is based on EBITDA for the past year under report, and thus on the Group's business performance. Information about the amount and composition of Managing Board compensation can be found in the notes to consolidated financial statements.

Information about the compensation earned and actually paid out can be found in Note D (23) in the notes to the consolidated financial statements.

Compensation of the Supervisory Board

The compensation of the Supervisory Board is governed by § 14 of paragon's Articles of Incorporation. This requires the compensation of Supervisory Board members to be determined by the Annual General Meeting. By resolution adopted by the Annual General Meeting on May 13, 2013, since July 1, 2013 Supervisory Board members have received fixed compensation of € 30,000 per annum. The Supervisory Board Chairman receives twice this amount. No variable compensation is provided for. In addition, Supervisory Board members have their expenses reimbursed (including any corresponding value-added tax). An individual breakdown of the compensation of Supervisory Board members in fiscal 2014 can be found in the notes to the consolidated financial statements.

Principles of financial management

The core focus of paragon's financial management is a solid equity ratio, one enabling the company to be ranked very highly among German industrial companies. In the past fiscal year, paragon managed to further increase its equity and thus sustainably boost its financial potential. paragon has gradually built up its group equity from € 4.5 million (December 31, 2010) to € 15.9 million (December 31, 2013) and now to € 17.2 million as of December 31, 2014. Despite the increase in total assets due to the second-round placement of the corporate bond in March 2014, this translates into a consolidated equity ratio of 27.6%. In fiscal 2010, the equity ratio had still amounted to 10.3%.

To finance its planned growth investments, particularly in its internationalization and the expansion of new business segments, in July 2013 paragon AG issued a five-year corporate bond with a prospected volume of up to € 20 million. Retail and institutional investors thus made funds totaling € 10 million available to the company. In March 2014, a further tranche of € 3.0 million was subscribed by institutional investors in the context of a private placement. paragon has thus sustainably strengthened its financing basis.

Given the extensive growth investments made in the year under report, strategic long-term loans from banks amounted to € 15.1 million in the year under report, equivalent to 24% of the balance sheet total. No financial covenants were agreed with the financing banks.

Research and development

As an innovative group that distinguishes itself within the market through active product development and inspired solutions, paragon accords the highest priority to specialist competence and to maintaining adequate research and development capacities. Responsibility for developing new products lies with the five business segments of Sensors, Acoustics, Cockpit, Electromobility, and Body Kinematics. The direct integration of these areas with Sales allows the Group to implement new ideas at great speed.

The most important projects in the **Sensors business segment** in fiscal 2014 included the development of a particle sensor for use in cars. This supplement to the existing AQS air quality sensor makes sense, particularly for markets with high levels of air particle pollution, such as China. In the fourth quarter, the Group also acquired orders to develop B-samples for a fragrancing system and for a CO_2 sensor.

The **Cockpit business segment** is focusing on its core competencies in developing clocks / displays, wireless charging and connectivity. Here, paragon dealt among other topics with the development of a new product platform for display instruments, the preliminary development of an infrared-based gesture technology via display surfaces for premium manufacturers, an innovative TFT display system concept, and the preliminary development of a tray with wireless smartphone charging capability for use in special applications.

The main focuses in the **Acoustics business segment** involved constructing a prototype for the 3D high-end sound system and preliminary development work on new microphone concepts with adaptive wind adjustment capability. Development work was completed for a large German manufacturer on a group microphone with unique technology in terms of wind reduction and thermal robustness. Furthermore, the innovative hands-free "belt-mic" microphone was further enhanced and will in future also be available with colored belts, thus allowing even greater individualization of the vehicle interior.

In the field of **Electromobility**, the battery modules were consistently extended. The objective here is to deploy further forms of cell structure and develop performance and functional modules. The third generation of round cell modules was prepared for rational production in highly automated production processes and is now in serial production. The second module based on prismatic cells entered pre-series production in the fall already. Development work on this module has been completed for two forward-looking cell chemistries (nickel manganese cobalt oxide and lithium titanium oxide) and structured to enable the modules to be inexpensively produced in highly automated production processes. Furthermore, an additional high-performance storage module was developed. With these developments, paragon aims to be able to offer optimal solutions tailored to individual needs for a variety of applications in different industries. On this basis, Voltabox has already managed to acquire numerous projects in Europe and North America.

The **Body Kinematics business segment** pressed further ahead with developing the universal drive. This is being expanded in several stages into a drive concept with fully integrated control. Not only that, several paid preliminary development orders were implemented in the field of aerodynamics, thus facilitating early-stage integration into development processes at various OEMs. Development work in this business segment was rounded off with various convertible periphery prototype orders and the completion of the spoiler module for a renowned premium manufacturer.

paragon spent a total of € 7.8 million on research and development activities in fiscal 2014 (prior year: € 7.1 million). This corresponds to a 9.9% share of revenue (prior year: 9.6%). Capitalized development costs accounted for around 58% of total research and development costs (prior year: 21%). This was due to increased development costs at various business segments and subsidiaries in 2014, for which orders, in some cases with pleasingly high volumes, as well as sales plans or suitable markets are available. This in turn automatically led to higher volumes of development work being capitalized. The number of development staff increased from 69 to 75 employees.

Supplier and client management

Close collaboration with high-performance, select suppliers and a systematic purchasing policy – these remained the key pillars of the Group's procurement philosophy in fiscal 2014 as well. This approach has the advantage of enabling paragon to meet ambitious production targets, even for high-volume orders received from automotive manufacturers at short notice.

Thanks to uniform management of the Materials Management and Customer Relations departments, paragon can satisfy its customers' wishes with the utmost precision while simultaneously optimizing its cost structures.

Cost of materials totaled around € 41.9 million in fiscal 2014 (prior year: € 36.3 million). This resulted in an increased cost of materials ratio (materials as a proportion of consolidated revenue) of 52.9%, up on the prior year's figure of 49.1%[1]. This change was chiefly attributable to one-off third-party services for production activities at the Acoustics and Body Kinematics business segments and in Electromobility (Voltabox).

Quality management

All of paragon's locations are certified under the highest quality standard ISO/TS 16949. The production halls are characterized by state-of-the-art equipment. paragon guarantees the utmost efficiency by ensuring maximum mechanization and permanent optimization of its production processes. In conjunction with consistent service and customer focus, this results in an exemplary quality standard, one that makes error prevention its top priority.

Environmental protection and occupational safety

Comprehensive environmental protection and environmental safety are integral to paragon's corporate philosophy. Many years ago, paragon already implemented far-reaching occupational safety measures and training in its internal processes and these have fully proven their effectiveness. They resulted in improved working conditions and lower stress levels for employees, as well as a consistently low risk of accidents.

Furthermore, by regularly reviewing its production processes paragon is also actively engaged in environmental protection. A strict inspection regime guarantees compliance with legal requirements in this respect. All of paragon's production locations are certified in accordance with environmental standard DIN EN ISO 14001. At the same time, by working with the most up-to-date production technologies paragon ensures careful management of raw materials and energy resources. In conjunction with in-depth quality management, this firmly embedded approach to environmental management has significantly contributed to the Group's business success.

Key focuses in this respect in fiscal 2014 included the following activities:

- Reducing specific electricity requirements by
  - Maintaining plant capacity utilization rates mostly ahead of the previous year
  - Reducing losses in individual process steps (especially in battery pack production in Delbrück)
  - Continuing with plant modernization measures (e.g. reducing energy consumption by introducing a new cooling system, integrating a heat pump using waste heat to heat warm water at the St. Georgen plant, complete conversion to open loop-controlled pumps)
  - Reducing energy losses in individual process steps
  - Heat recovery in individual process steps (at discharging station for battery pack production)
- Reducing specific CO_2 emissions by
  - Reducing extra journeys from Suhl to St. Georgen by working with smart route planning (safeguarding enhanced material provision in display instruments business)
- Reducing use of hazardous substances / substitution
  - Replacing hazardous substances used in paste production

B. Business report

Macroeconomic framework

According to the International Monetary Fund (IMF)[2], the global economy achieved growth on a par with recent years once again in 2014. Macroeconomic developments showed regional disparities. While the USA and the UK, for example, managed to post solid growth rates, the economic recovery in the euro area turned out weaker than originally expected and numerous emerging and developing economies had to contend with slower growth potential. Countries highly dependent on crude oil exports were also adversely affected by the sharp drop in the oil price. The global economy was further held back by the geopolitical conflicts in Europe and the Middle East. Overall, global economic growth persisted at 3.3%, and thus at the same level as in the previous year.

As a supplier to the automotive industry, the paragon Group generated most of its revenue in fiscal 2014 as well with automotive manufacturers in Germany and the EU, particularly within the premium segment. These companies in turn sell the vehicles they produce around the world. Macroeconomic developments are thus relevant to the Group to the extent that they impact on sales opportunities for the automotive manufacturers supplied by paragon, and thus also on demand for the paragon Group's products. Developments remained positive in this respect.

Developments in the automotive industry

Thanks not least to strong year-end business, the global automotive market continued to develop positively in 2014. According to data from the German Association of the Automotive Industry (VDA)[3], the market grew overall by 4% to 76.1 million units (prior year: 73.1 million units). Key drivers of this growth[4] were China (+12.7%), the USA (+5.8%), and Europe (+5.4%), which generated combined volume growth of more than 3.6 million vehicles, of which almost 2.1 million vehicles in China alone. Weaker developments were seen in particular in the Russian (-10.3%) and Brazilian (-6.9%) mar-

1 Cost of materials ratio adjusted to exclude third-party development services reported under cost of materials in 2013: 47.6 %

2 World Economic Outlook Update dated January 19, 2015
3 https://twitter.com/VDA_online dated January 19, 2015
4 VDA press release dated January 16, 2015: China and USA with strong final sprint in 2014

kets, where a total of more than 0.5 million vehicles fewer were sold.

Premium manufacturers reported even more positive developments than the overall market. The number of vehicles supplied merely by the well-known German brands of Audi, BMW, Mercedes and Porsche, which are among the most important customers of the paragon Group, grew by 11.1% to 5.39 million vehicles[5] (prior year: 4.85 million) and thus reached new record levels. Based on an investigation by the CAR Institute at the University of Duisburg-Essen[6], German premium manufacturers were especially successful in countries such as the USA, where half of the two million premium vehicles sold each year now bears a German group brand. In 2005, it was only one in three vehicles.

For 2015, the VDA has forecast renewed global market growth of 2% to 76.4 million[7] units. China and the USA will remain the key growth drivers, albeit with significantly weaker momentum.

Overall, the paragon Group thus operated in a consistently positive economic climate in fiscal 2014.

Group business performance and situation

With revenue growth from € 73.9 million to € 79.0 million, the paragon Group managed to maintain its previous growth course in fiscal 2014 as well. The Group's operating business performance was shaped by strong developments across all business segments. The strategic investments made in expanding the Body Kinematics and Electromobility business segments, e.g. by taking on additional employees in development and establishing Voltabox of Texas, Inc., were reflected in a short-term decline in key earnings figures. This was deliberately accepted to enable the Group to tap the enormous growth potential – particularly in Electromobility, but also in other business segments – in the coming years. The Managing Board thus expects to see a further jump in revenue and substantially improvements in both revenue and the EBIT margin in fiscal 2015 already.

Breakdown of revenue by business segment

	2014 €	2013 €
Sensors business segment	31,273,012	27,581,918
Acoustics business segment	14,465,401	11,693,595
Cockpit business segment	27,501,032	27,286,871
Body Kinematics business segment	3,741,263	3,539,725
Voltabox Deutschland GmbH*	1,110,819	3,776,738
Voltabox of Texas, Inc.*	945,325	0
Total	**79,036,852**	**73,878,847**

* Electromobility business segment

The operating business performance of the largest business segments, namely Sensors and Cockpit, benefited above all from strong existing business with products for premium manufacturers. In the Sensors business segment, the negotiations concerning innovative CO_2 sensors, an area in which paragon has received inquiries from several OEMs, reached a more specific stage. Among other factors, CO_2 sensors increase the safety of modern CO_2 air conditioning systems. The AQI interior ionizer is also developing into an ever greater success story. Within a study performed by one of the world's largest vehicle manufacturers at so-called "Customer Clinics", users singled out paragon's ionizer as the most desirable product. paragon's Managing Board expects this clear result to generate further revenue success in the near future.

The Cockpit business segment continued to benefit from the great interest manufacturers have shown in design-sensitive solutions for integrating wireless charging base technology. Revenue was also positively influenced by increased turnover with display systems and back-up cameras. Moreover, various other OEM inquiries were also processed. Among others, this business segment thus successfully acquired development orders from various premium manufacturers for top-quality displays. Not only that, we also pursued new options in terms of enhancing connectivity technologies.

The Acoustics business segment generated revenue growth in a clearly double-digit percentage range in fiscal 2014. This was driven in particular by rising installation rates for hands-free systems and increased turnover figures with cars thus equipped. The supply of a further vehicle model also led to increased unit totals for "belt-mic" seatbelt microphones. Furthermore, in August this business segment presented its competence in the field of in-car communication to a major OEM that also expressed clear interest in implementing paragon's ideas.

The performance of the Body Kinematics business segment in fiscal 2014 was shaped by the first larger-scale series production launches. These will generate sustainable revenue and earnings contributions. The successful launch of serial production for a spoiler module for a German sports car manufacturer led to unit totals even slightly ahead of our own planning. This competence has enabled the segment to acquire a serial order for a modular spoiler drive from a large automotive group and several concept development orders for new kinematic systems. Turnover with steering wheel paddle shifters also developed very well. The unit totals produced here are expected to rise substantially from the beginning of the coming year.

The Electromobility business segment witnessed a further rise in the number of requests for high-performance battery sets. Following its spin-off under the new "Voltabox" brand approved by the Annual General Meeting, the Electromobility business segment now has an independent market presence. Via the US-American subsidiary Voltabox of Texas, Inc., in May 2014 the business acquired a major battery packs order in a double-digit million dollar range. The strategic partner Vossloh Kiepe is using the high-performance systems offered by Voltabox as emergency batteries for around 200 new trolleybuses in Seattle and San Francisco. Most of the resultant revenue is expected in 2015 and 2016. In September 2014, Voltabox of Texas, Inc. was able to begin, as planned, with the assembly of high-performance batteries in a rented building. A foundation has thus been laid for meeting the high volume of demand in the USA. In the context of the US orders for Vossloh Kiepe, the test run with two buses equipped with Voltabox battery packs was held in Seattle and attracted great public interest. Alongside this use for high-performance batteries, additional applications, such as in the solar industry, are planned. Given the great market potential involved, the groundbreaking ceremony has already taken place for the construction of a proprietary plant of around 21,000 square meters in Cedar Park near Austin, Texas. Production activities with a fully automated production line are due to be ramped up here from May 2015 onwards. In October 2014, Voltabox of Texas, Inc. also obtained certification under the "Buy American Act". This certifies that more than 60% of the large-scale battery value chain is located in the USA. This on the one hand makes it possible for Voltabox to acquire orders from government clients in the USA as well and on the other hand also significantly boosts the company's chances in the private sector. This offers further substantial short and medium-term sales potential given the numerous possible applications for the battery packs. Furthermore, in the fourth quarter the company signed an exclusive cooperation agreement with a leading lithium ion high-performance battery equipper in the field of intralogistics in Europe. Accordingly, the Managing Board now expects the Electromobility business to generate cumulative revenue of between € 220 million and € 300 million in the years 2015 to 2019.

For German premium manufacturers in particular, alongside the USA the Chinese market represents one of the most lucrative growth regions. For paragon as a supplier strongly focused on premium manufacturers, this situation means that being present on location in this booming market is naturally one of the company's key objectives. Based on proprietary estimates, paragon's corresponding export share already amounts to more than one third. The company's aim is to produce air quality sensors – an area in which paragon is the absolute global market leader – as well as air quality improvement systems and stepper motors for display instruments, in China. In a second stage, the company plans to expand its product range. To this end, the sales subsidiary already operating in Shanghai since 2012 is being expanded into a manufacturing company that will be moving in the coming months into a new building of-

5 Calculated on basis of corresponding press releases by manufacturers
6 Automobil Produktion dated January 12, 2015: "Deutsche Premiumautobauer feiern Erfolgsstory in den USA"
7 http://www.presseportal.de/pm/32847/2895894/-automobilkonjunktur-bleibt-auch-2015-auf-wachstumskurs-vda-pr-sident-matthias-wissmann-zur-zukunft

fering ideal conditions. Production is scheduled to be launched in the fall of 2015.

To finance its further internationalization, investments in its new Electromobility and Body Kinematics business segments, and potential acquisitions, in July 2013 paragon AG issued a corporate bond. Overall, a volume of € 10.0 million was placed with retail and institutional investors. In March 2014, paragon AG placed a further € 3.0 million tranche of this corporate bond with institutional investors in the context of a private placement. The total bond issue volume thus increased to € 13 million (prospected: up to € 20 million). The mains areas in which the funds thereby acquired have been deployed are described in the above disclosures on the company's business performance and on research and development. Furthermore, one option for these funds involved the potential acquisition of a company suitably complementing paragon. In February 2015, paragon ultimately signed the contracts to take over SphereDesign GmbH, Bexbach, which will strategically complement the Cockpit business segment in particular. SphereDesign, which has 26 employees and generated revenue of around € 4 million in 2014, has key strengths in the development of innovative display and control elements.

Employees

As of December 31, 2014, the paragon Group had a total of 420 permanent employees and 52 contract workers. The total number of employees grew by 7% compared with the previous year (December 31, 2013: 392 permanent employees, 49 contract workers), thus also reflecting the high volume of investment in the company's growth in the past year. Due to its sales office in Shanghai (2) and its US subsidiary Voltabox of Texas, Inc., (13), paragon had 15 employees abroad. As of December 31, 2014, the individual locations in Germany had the following employee totals (employees/contract workers): Delbrück (124/2), Suhl (206/48), Nuremberg (26/2), and St. Georgen (49/0). These figures include 28 permanent employees at Voltabox Deutschland GmbH (prior year: 0).

Personnel expenses amounted to € 21.8 million in the year under report (prior year: € 19.6 million). Of this total, € 17.0 million related to salaries and wages (prior year: € 15.2 million), € 2.8 million to social security contributions and pension expenses (prior year: € 2.8 million), and € 2.0 million to expenses for contract workers (prior year: € 1.6 million).

Investments

paragon AG made very substantial investments in the company's expansion in the past fiscal year. paragon thus invested a total of € 16.0 million in land and buildings, and in machinery, equipment and tools for new products and development projects (prior year: € 4.9 million). This increase was mainly driven by the development of Voltabox Deutschland GmbH and the US subsidiary Voltabox of Texas, Inc. Key focuses of investment included new production lines for the subsidiaries Voltabox Deutschland GmbH and Voltabox of Texas, Inc., and the acquisition of the company building Bösendamm 11 from Frers Grundstücksverwaltungs GmbH & Co. KG at a now fully paid purchase price of € 1.7 million. Furthermore, operations were launched with a major new production line for the Acoustics business and numerous different new and replacement investments were implemented in other business segments. These investments will help secure the company's future and significantly increase its revenue and earnings potential.

Net asset and financial position

Driven above all by investments in non-current assets, total assets grew by € 10.5 million to € 62.4 million as of December 31, 2014 (prior year: € 51.9 million).

Non-current assets increased from € 18.8 million to € 30.1 million, a development chiefly attributable to extensive investments in real estate, development services and in property, plant and equipment in connection with the expansion in new business segments. Current assets reduced slightly by € 0.8 million to € 32.3 million (prior year: € 33.1 million). The increase in trade receivables due to the positive business performance was countered by a slightly lower volume of inventories and a reduction in cash and cash equivalents as a result of the investments made by paragon AG and the company's internationalization. As in the previous year, a large portion of the trade receivables was subject to a factoring commitment. As part of a factoring agreement with GE Capital Bank AG, paragon had additional cash and cash equivalents of € 5.8 million at its immediate disposal as of the balance sheet date (prior year: € 5.6 million). This important short-term financing instrument has significantly boosted paragon's financial resources. Interest on customary market terms is applied to the credit account.

In addition to current bank balances (€ 6.0 million) and credits from factoring (€ 5.8 million), the cash and cash equivalents of € 13.3 million also include the insolvency escrow account of € 0.5 million (prior year: € 0.3 million) and the escrow account of € 1.0 million for the insolvency dividend payout (prior year: € 1.0 million). The former insolvency administrator has power of disposal of both accounts. The insolvency escrow account is used to pay any outstanding invoices still arising. The surplus amount is allocable to paragon AG. The insolvency mass share loan is used to finance payments to the insolvency creditors. A total of € 11.7 million had been paid out as of December 31, 2014. paragon is not exposed to any residual risks from the former insolvency plan.

The capital structure as of the balance sheet date showed a further rise in equity by € 1.3 million. Given the growth-driven 20% increase in total assets, this resulted in a relatively stable equity ratio of 27.6% (prior year: 30.6%). In nominal terms, equity grew by 8.2% in the period under report. The dividend distribution of € 1.0 million approved by the Annual General Meeting in May 2014 was paid out on May 15, 2014.

Due above all to the subsequent placement of a € 3.0 million bond tranche in the first quarter of 2014, non-current provisions and liabilities rose overall by € 5.1 million. A further reason for this increase was the rise in non-current leasing liabilities by € 1.4 million to € 1.7 million (prior year: € 0.3 million) as a result of the high volume of investment

Non-current loans relate exclusively to euro loans, most of which have fixed interest rates for terms maturing in 2020. Interest and principal payments are made by means of monthly or quarterly annuities.

Current provisions and liabilities rose year-on-year by € 4.0 million to € 16.2 million (prior year: € 12.2 million). The key factor here was the increase in trade payables by € 2.7 million, a development that also reflected the company's higher business volumes. The Group's net debt grew from € 6.7 million to € 18.4 million. Alongside the increase in liabilities, this was the result of a temporary reduction in free liquidity of € 11.8 million (prior year: € 16.3 million). Here, paragon has provided advanced financing for, among other items, investments that following their conclusion will be strategically refinanced via various financing models, such as leasing, hire purchase or long-term financing instruments.

Cash flow from operating activities amounted to € 6.9 million as of December 31, 2014 (prior year: € 5.1 million). Notwithstanding the reduction in annual net income, this development was largely driven by the increase in trade payables on account of higher business volumes. Cash flow from investment activities documents the high volume of investment in property, plant and equipment for the expansion of new business fields. At € -15.7 million, it significantly exceeded the previous year's figure of € -4.8 million. Alongside real estate, the company invested above all in assembly lines to enable it to optimally satisfy existing orders in the coming years. At € 4.3 million (prior year: € 3.3 million), the cash flow from financing activities largely reflects the subsequent bond placement and the financing of investments made in property, plant and equipment. The financial resources of € 13.3 million as of December 31, 2014 include cash and cash equivalents and the trade receivables covered by the factoring agreement with GE Capital Bank AG.

Off-balance sheet obligations decreased from € 28.5 million to € 27.5 million. This was due to the reduction in rental agreement obligations by € 1.4 million and the increase in purchase commitments and other obligations by € 0.4 million.

Earnings performance

paragon generated consolidated revenue of € 79.0 million in fiscal 2014 (prior year: € 73.9 million). This represents an increase of 7.0% compared with the previous year and is consistent with the sales growth forecast of around 8% issued by the Managing Board in January 2014.

Cost of materials increased by € 5.5 million to € 41.8 million in fiscal 2014 (prior year: € 36.3 million). As a result, the cost of materials ratio rose temporarily by 3.8 percentage points to 52.9% (prior year: 49.1%)[8]. These additional expenses were largely incurred for one-off third-party services in production activities at the Acoustics, Body Kinematics and Electromobility business segments, represented by Voltabox. In the coming years, the development in the cost of materials ratio will be heavily dependent on the performance of the Electromobility and Body Kinematics business segments, as these have higher materials ratios in some cases. Driven above all by increased staff totals in new business fields, personnel expenses grew by 11.0% from € 19.6 million in the previous year to € 21.8 million. The personnel expense ratio increased from 26.5% to 27.5%, as the relevant business segments still only contributed a relatively low volume of revenue. Other operating expenses rose by € 3.7 million to € 12.2 million overall in fiscal 2014 (prior year: € 8.5 million). This was the result of higher legal and consulting expenses, freight expenses, advertising expenses, insurance expenses and sundry other operating expenses resulting from the development of the new business fields as well as from increased business volumes and the first-time disclosure of third-party services[9] for development and administration.

EBITDA reduced from € 12.5 million to € 10.5 million, a development chiefly attributable to increased personnel expenses and cost of materials. The EBITDA margin thus amounted to 13.3% (prior year: 16.9%). Earnings were influenced in particular by additional expenses of € 3.0 million in connection with the development of the forward-looking Body Kinematics and Electromobility business segments and investments in the Acoustics business segment. Excluding these additional expenses, EBITDA would have risen by 8.2% to € 13.5 million and the adjusted EBITDA margin would have amounted to 17.1%.

EBIT decreased from € 7.9 million to € 6.2 million. Excluding the aforementioned additional expenses of € 3.0 million, however, the resultant EBIT of € 9.2 million would have been 16.7% ahead of the previous year's figure. The EBIT margin amounted to 7.9% (prior year: 10.7%). The adjusted figure nevertheless amounted to 11.7%. In fiscal 2014, the company thus also exceeded its adjusted operating EBIT margin target of around 10%.

The financial result deteriorated by € 0.5 million to € -2.0 million (prior year: € -1.5 million). This was the result of higher financing costs for the investments made and the additional interest expenses of 7.25% p.a. for the subsequent bond placement of € 3.0 million in 2014. Financing costs associated with non-current loans were essentially unchanged compared to 2013.

Income taxes amounted to € 1.5 million in fiscal 2014 (prior year: € 2.5 million).

Overall, paragon generated consolidated net income of € 2.8 million as of December 31, 2014 (prior year: € 3.9 million). Based on 4.115 million shares, earnings per share (EPS) thus amounted to € 0.67 (prior year: € 0.96).

Overall assessment of Group situation

The Group's performance in fiscal 2014 was fully in line with the Managing Board's expectations and even exceeded these expectations in some business segments. The focus on attractive niche markets and in particular on highly successful premium manufacturers continues to pay off. paragon thus currently expects lifetime orders on hand – i.e. calculated over the respective product lifecycles – of more than € 510 million. As in previous years, fiscal 2014 was once again greatly influenced by the high volume of investments in new product fields, with even greater intensity of investment in 2014. By establishing a standalone presence for Electromobility under the "Voltabox" brand and launching production activities at Voltabox of Texas, Inc. in the USA, paragon has implemented a major step in its growth strategy. Together with the independent plans to establish a proprietary production site in China, this step offers substantial growth potential for the future. Electromobility in particular offers further opportunities for use in commercial vehicles, internal logistics, and computer-controlled storage batteries for stabilizing power grids. Not only that, the significantly shorter time to market here compared with automotive electronics will have a positive and stabilizing influence on paragon's business performance.

C. Events after the balance sheet date

In February 2015, paragon AG acquired a 100% stake in SphereDesign GmbH, Bexbach, as of January 1, 2015. SphereDesign is an established development service provider and system supplier to the automotive industry. With its expertise in control and display elements, it represents an ideal addition for paragon AG, especially in its Cockpit business segment. With 26 employees, the company generated revenue of around € 4 million in fiscal 2014 and was profitable in past years. It is planned to finance part of the acquisition price with external financing.

Reference is made to the disclosures in the notes to the consolidated financial statements (Section B(3)) with regard to the purchases of a piece of land and a commercial property.

Otherwise, no material events of particular significance for the company's financial position, financial performance and cash flows occurred after the close of the fiscal year.

8 Third-party services development and administration (2013: € 1,086k) were disclosed as other operating expenses for the first time in 2014 (€ 1,250k). Adjusted materials ratio in 2013: 47.6%
9 See previous footnote. Adjusted percentage of sales ratio of other operating expenses in 2013: 13.0% (unadjusted: 11.6%)

D. Internal control system in respect of the financial reporting process and risk management system

As the internal control and risk management system is not defined by law, paragon relies on the definition provided by the German Institute of Public Auditors (Institut der Wirtschaftsprüfer in Deutschland e.V, Düsseldorf) with regard to the internal control system in respect of the financial reporting process (IDW PS 261). According to this definition, an internal control system can be viewed as the principles, processes, and measures introduced by a company's management that are intended to ensure organizational implementation of management decisions. The following objectives are pursued:

a) Ensuring the effectiveness and efficiency of business activities (including protection of assets and the prevention and detection of damages to assets)

b) Correctness and reliability of internal and external financial reporting, and

c) Compliance with the regulations relevant to the company by law and under its Articles of Incorporation.

The Group's risk management system encompasses the entirety of all organizational rules and measures involved in risk detection and in dealing with the risks of entrepreneurial activity.

The Managing Board of paragon AG bears overall responsibility for the internal control and risk management system in respect of the financial reporting process. The principles, procedural instructions, operational and organizational structure, and processes involved in the internal control and risk management system in respect of the financial reporting process are laid down in organizational instructions. These are regularly updated to reflect the latest external and internal developments.

Given the size and complexity of the financial reporting process, the management has specified the scope and design of the relevant control activities and implemented these within the process. Process-independent checks have also been established. Control activities address those control risks that could materially affect the company's accounting and the core contents of the consolidated financial statements, including the group management report, in terms of their probability of occurrence and their implications. The most important principles, processes, measures and checks include:

- Identification of material control risks relevant to the financial reporting process
- Process-independent checks to monitor the financial reporting process and its results on Managing Board level at paragon AG
- Control activities in those accounting and controlling departments at paragon AG that provide the key information for the preparation of the annual financial statements, including the management report, and including the necessary segregation of duties and established approval processes
- Measures that assure the correct IT-assisted processing of information relevant to the financial reporting process.

E. Opportunity and risk report

paragon has established a comprehensive risk management system in order to identify risks and opportunities in the Group's development. The management is kept informed of the probability of occurrence and potential extent of damages by means of risk reports prepared on a regular basis from across all areas of the Group. The risk reports contain an assessment of the risks and proposals for appropriate countermeasures. Information about the risk management objectives and methods in connection with the use of derivative financial instruments can be found in the disclosures in the notes.

Opportunities

Turnover is set to grow further at the premium manufacturers relevant to paragon. Key customers of the Group are making new investments worth billions in new plants in China. Other major paragon customers (Porsche, AMG) have predicted strong turnover growth. Not only that, the premium products offered by paragon's key customers have hardly been affected by the negative developments seen in some countries.

As a highly innovative player, paragon is one of the suppliers forecast to be among future winners in a current study compiled by Roland Berger and Lazard's. The opportunities available to paragon in the automotive business result in particular from the "more euros per car" strategy pursued by the company for years already, i.e. increasing equipment rates for existing customers, acquiring new customers for existing products, and continuously developing new, innovative products with a higher share of value added. Examples here are the AQS air quality sensor, the AQI ionizer system, and the unique "belt-mic" seatbelt microphone, which are now being installed in growing numbers of vehicle models.

The Cockpit business segment will receive great new momentum from SphereDesign GmbH, a company taken over in February 2015. SphereDesign is a highly innovative developer of control and display elements and in recent years has also acquired several major orders from OEMs. This acquisition will clearly promote the development of this business segment. Furthermore, the development of the Cockpit business will be boosted by the persistently positive trend in display instrument sales. By making targeted investments, paragon plans to further expand this segment in the coming years to do justice to the trend towards digital display instruments as well. Here too, SphereDesign will make a key contribution with its specialist competence. The first impact on revenue should be apparent in 2017/2018, as is also the case for a novel, smartphone-based infotainment system currently in development. Due to the expiry of several longstanding products, based on current information this segment should witness a slight organic reduction in revenue in fiscal 2015. Among other developments, the Sensors business segment will see two production start-ups for the second generation of the AQI ionizer in 2015. Overall, this segment is expected to achieve substantial revenue growth. Due to the addition of further models, sales figures for the "belt-mic" seatbelt microphone in the Acoustics business segment are set to more than double. Not only that, new development orders are also expected for new vehicle models in which the seatbelt microphone is to be included. Overall, the Managing Board expects to see slight revenue growth in this segment. Consistent with the sales performance at vehicle manufacturers, turnover with trunk lid release switches, steering column paddle shifters and spoilers in Body Kinematics is developing significantly more positively than expected. This segment is therefore expected to show substantial growth.

A further source of opportunities involves additional potential applications for Voltabox products. Alongside the use of battery packs in buses, commercial, and internal logistics, paragon sees potential above all in the field of computer-controlled storage batteries for stabilizing power grids. Computer-controlled electricity storage facilities are now performing new stationary tasks. They store energy at times when more electricity is generated from wind and solar power than is currently needed and then make this energy available immediately at times of peak demand. This applies equally on a small scale for homeowners with photovoltaics systems and on a large scale for grid stabilization at grid operators. This reduces the risk of power cuts and makes the expensive provision of peak demand power plants increasingly unnecessary. In the medium term, this will make a major contribution to the energy turnaround.

Voltabox has developed battery modules superbly suited to this kind of stationary application. Following a trial phase in an initial project on a megawatt hour scale, these are due to be installed in 2015. For this, the company is collaborating with providers that have already implemented several large-scale storage facilities for grid operators around the world. A significant expansion in this business is planned for 2016. From mid-2015, an innovative system will also be offered to owners of home solar systems. By reducing the level of feed-in compensation, this will pay off for many homeowners. Depending on its success, this new market segment represents an opportunity for Voltabox to boost its revenue, previously planned conservatively for 2015/16, to a high double-digit million figure. Given the scalability of the systems for the aforementioned stationary applications, economies of scale are also expected for established products. For the period from 2015 to 2019, the Managing Board therefore expects Voltabox to generate cumulative revenue of between € 220 million and € 300 million.

Overall economy

Macroeconomic developments represent a latent risk to the extent that fundamental changes in supply and demand behavior may arise in the procurement and sales markets of the paragon Group. For paragon, developments in its own industry are otherwise more relevant.

Market and industry

paragon has held a strong market position as an established and innovative direct supplier to automotive manufacturers for years now. Fiscal 2014 brought confirmation of the bifurcation of the global automobile business, with the two large growth markets of China and the USA on the one hand and the rest of the world on the other. paragon still has the advantage that its core customers are among the winners of this development in the industry and continue to enjoy strong prospects for the future. The globally-positioned German premium manufacturers Audi, VW, BMW, Daimler, and Porsche consistently posted new record levels of turnover and expect to see rising sales figures in fiscal 2015 as well. The Group continues to be characterized by its close links to these core customers and its focus on interesting market niches continue to shape the Group's position. Furthermore, the Group is increasingly reducing its dependency on the automotive business and diversifying into new business segments, such as Electromobility.

Due above all to its Electromobility business segment, paragon no longer supplies its products exclusively to automotive manufacturers (OEMs). As a result, economic trends in the automotive industry will continue to impact on the Group's future revenue and earnings, but this influence will gradually reduce. paragon identifies sales opportunities and risks with a comprehensive sales controlling system. Key components of this system include the analysis of market and competition data, a rolling short and medium-term plan, and regular coordination meetings between sales, production and development. The comparatively broad portfolio of around 200 individual products underlines the company's independence of individual product segments and customers. The loss of a major customer could nevertheless impact significantly on the company's financial position, financial performance, and cash flows, particularly given its strong dependence on the VW Group. Due to the multiyear contractual terms for individual production series, however, the loss of a core customer would be apparent at an early stage. paragon counters this risk with its wide-ranging development work, constant flow of new products, and outstanding customer service, as well as by performing detailed order level analysis as part of its early-warning risk identification process.

Active product development that takes due account of the interests and wishes of end customers (vehicle passengers) is a defining aspect of paragon's daily work. The Group does not simply wait for manufacturers' requests and specifications, but rather works on its own initiative on novel solutions that are implemented together with pilot customers and subsequently offered to a broad customer group. Given that a majority of automotive innovations involve electrical engineering or electronics, there are manifold market opportunities for an electronics manufacturer such as paragon. Nevertheless, there is always the possibility that a developed product may not achieve the anticipated number of units, or that its success will take longer to achieve than originally planned.

Research and development

Working in close collaboration with its core customers' development departments, paragon supports manufacturers' success with diverse development projects and novel solutions. Any major deviations from project targets in terms of timing or money may give rise to cost-related or legal risks (e.g. contractual penalties). paragon limits such risks with an ongoing development and project controlling process. Past experience has shown that paragon can generate additional business with new products by drawing on its existing distribution channels. Not only that, the presentation of in-house products may also attract new customers. By continually investing in machinery and equipment, paragon ensures that the Group's equipment satisfies the exacting standards of the automotive industry.

Procurement and production

Raw material prices for the plastic-processing industry remained high in the past fiscal year, while other raw materials such as metals and precious metals rather witnessed a downward trend in prices. paragon exploited global price competition in relevant areas and locked in a majority of its procurement prices through framework contracts, annual agreements, and long-term supplier relationships. The Group continues to procure more than 90 percent of its purchasing volumes in Europe, while the remaining purchases are made in Asia and the USA. Payment terms are consistent with the industry average. The procurement currency is the euro, with a small share of purchases being made in US dollars (2014: USD 3.0 million; 2013: USD 3.2 million). Given the sales growth expected at Voltabox of Texas, Inc. and at Voltabox Deutschland GmbH, the USD procurement volume will rise substantially. However, currency risks only apply to USD procurements destined for the European market. These risks are minimized with price adjustment clauses and further suitable measures.

Information technology

The widespread use of information technology (IT) and comprehensive networking via the internet leads to increased risks from events such as hardware failure or unauthorized access to the Group's data and information. To avert potential risks, paragon has collaborated with specialist service providers to establish modern security solutions that protect data and the IT infrastructure.

As well as pressing ahead with the modernization in its IT infrastructure, in fiscal 2014 the company also connected the newly founded plant in the US to the German IT landscape. Use was made here of the servers and systems built up in recent years. This enabled substantial synergies to be leveraged by working together. Finally, various security measures were established to protect the company from internet-related risks.

Liquidity and financing

Currency risks in procurement and sales only have a very limited effect on paragon, as its business activities are chiefly concentrated in Germany and the euro area. The Group nevertheless monitors potential risks in this area based upon ongoing reviews of expected exchange rates. paragon currently does not deploy any financial instruments to hedge currency risks.

paragon safeguards its solvency with comprehensive liquidity planning and monitoring. These plans are prepared on a short, medium and long-term basis. Furthermore, the Group consistently manages its accounts receivable to secure timely cash flows. A substantial portion of receivables is also guaranteed by trade credit insurance. The factoring agreement with GE Capital Bank AG provides paragon with an additional short-term financing option.

Interest rate risks are virtually insignificant for paragon, as the majority of its non-current liabilities are covered by fixed interest rate agreements. None of the financing facilities provided by various banks require adherence to key financial indicators (financial covenants).

Overall risk

The Managing Board of paragon AG regularly assesses the Group's risk situation in close consultation with the Supervisory Board. The consolidation of the long-term financing structure through the bond issue and the sustainable accumulation of additional equity have further stabilized the Group and further reduced its overall risk in fiscal 2014. paragon's further development nevertheless remains closely linked to economic developments in the automotive industry, and especially among its core customers.

The Group will have to safeguard itself against general market risks in future as well. These risks are nevertheless substantially mitigated by the Group's well-known position as a direct supplier of prestigious automotive manufacturers and its longstanding, successful business relationships with these companies. Not only that, the Group's existing customer contacts also offer considerable opportunities for placing additional products in established business segments, as well as in the new Body Kinematics business segment. The increasing diversification of the business model with the high-growth Electromobility business segment creates a second source of revenue and reduces the Group's dependence on the traditional automotive business.

In the 2014 calendar year, the Internal Revenue Office for Large Corporate and Group Companies in Detmold performed a tax audit at paragon AG for the years 2009 to 2013. Following the issue of corrected corporate income tax and trade tax assessment notices, it can be assumed that the corporate income tax and trade tax allocable to recapitalization gains will be waived. Based on oral statements and the comments in the tax audit report dated November 11, 2014, the approval of the corporate income tax waiver required from the regional tax authorities in Münster had been provided to the Internal Revenue Office in Paderborn. There are therefore no legitimate grounds to doubt the waiver of corporate income tax on recapitalization gains. The local authorities entitled to determine trade tax multiplier rates have issued binding approval of the trade tax waiver. Should the income taxes on these recapitalization gains not be waived, the resultant income tax charge would amount to around € 6.0 million in total, which would result in a significant impairment of the Group's financial position, financial performance and cash flows.

At the time of publication of this report, no risks have been identified that could threaten the Group's continued existence. A nuanced view of the developments in the automotive industry shows that the Group is positioned in a forward-looking market segment, that it maintains promising relationships with its customers, and that it has outstanding niche products often offered solely by paragon.

F. Outlook

paragon's corporate planning is based on revenue and is broken down on a customer-specific basis down to the respective parts level. Key cost components are planned over a time period of several years using individual planning models and are then extrapolated in line with the development in revenue. Significant parameters, such as price changes in procurement or sales, and potential increases in personnel expenses and tax changes, are incorporated into the planning. The risk management system, which is continually updated, enables the Group to detect risks at an early stage and where necessary to take appropriate countermeasures.

Macroeconomic and industry developments

In its growth outlook for 2015, the IMF assumes that the positive impact of lower oil prices will be more than offset by the negative effects of moderate medium-term growth expectations in many industrialized and emerging economies, and in particular by weak investment demand. It therefore only expects to see a slight revival in the global economy. Moreover, persistently weak growth in the euro area and Japan continues to present risks, as do renewed disruption on the capital markets, particularly for commodities exporters, and the expected reduction in sales figures in Russia due to the current political situation. Overall, the IMF has forecast a slight increase in global economic growth to 3.5% (2014: 3.3%), with the industrialized economies, largely driven by the USA, increasing their growth from 1.8% to 2.4%, and the emerging and developing economies witnessing a slight slowdown in growth from 4.4% to 4.3%.

For the paragon Group, these factors will initially not have any specific implications for its business performance. One highly significant factor, by contrast, is the development in the automotive industry.

The outlook for the global automotive market remains positive for 2015 as well. The German Association of the Automotive Industry (VDA) has forecast further global market growth by 2% to 76.4 million units[10]. China and the USA will remain the key growth drivers, albeit with significantly less momentum. According to the CAR Institute at the University of Duisburg-Essen, global car sales are set to rise by 3.0%. German premium manufacturers also remain confident and aim to achieve new sales records, not least by offering new models. The marked reduction in the oil price, a factor that has already significantly eased the strain on car drivers at gas stations, can also be expected to contribute to this growth.

At present, the economic climate for the paragon Group in fiscal 2015 remains positive, although there is still an increased risk of economic shocks with the potential to negatively affect developments in the automotive industry, and thus also at the paragon Group.

Company development

paragon AG witnessed a very good start to fiscal 2015, one consistent with the pleasing development in large parts of the automotive industry at the beginning of the year. New car registrations in the dynamic Chinese market grew by 10% in January. paragon AG achieved year-on-year revenue growth in the months of January and most likely February as well. This trend is expected to continue in March too, as a result of which revenue for the first quarter of 2015 is very likely to exceed the previous year's figure.

In the further course of the year, the company will be focusing, among other areas, on the internationalization of paragon AG and of the partly related expansion in the Electromobility business field at Voltabox of Texas, Inc. In the USA, paragon AG expects to launch production activities at a proprietary site from spring of this year. In parallel, further sales opportunities are due to be tapped for the battery packs produced there, leading the projects currently in the pipeline to be booked as orders. The final call-up of an order already agreed with Vossloh Kiepe is expected in the first months of 2015. Furthermore, Voltabox has developed battery modules superbly suited to this kind of stationary application. Following a trial phase in an initial project on a megawatt hour scale, these are due to be installed in 2015. From mid-2015, the company will also be offering an innovative system for the owners of home solar systems, one that should make financial sense for many homeowners by reducing feed-in compensation. Given

10 http://www.presseportal.de/pm/32847/2895894/-automobilkonjunktur-bleibt-auch-2015-auf-wachstumskurs-vda-präsident-matthias-wissmann-zur-zukunft

the scalability of the systems for the stationary applications outlined above, economies of scale are also expected for established products. This in turn should further improve profit margins in this business.

Following the decision in favor of proprietary production, preparations for the China business are also progressing on schedule. Production here is expected to begin in the fall of 2015. Initial orders have already been received and a General Manager with Chinese experience took up his work in March.

The performance of the paragon Group in fiscal 2014 was absolutely consistent with Managing Board expectations. Revenue grew by 7.0% to € 79.0 million, while the adjusted EBIT margin reached 11.7%. paragon's Managing Board now expects to see a substantial surge in growth in fiscal 2015. Accordingly, consolidated revenue should rise by around 20% to approximately € 95 million. EBIT is expected to show significantly disproportionate growth and to benefit from the investments made in prior periods. The target is to achieve an unadjusted EBIT margin of around 10%. The high volume of forward-looking investments made in recent years should now gradually be reflected in rising key earnings figures once again. More than 92% of the actual and expected customer orders underpinning this forecast had already been received as of December 31, 2014. At the same time, paragon will continue to make further investments in 2015. Including expenditure on buildings in Germany and the USA, paragon expects investments to total around € 23.8 million.

This strong growth should continue to be driven by all business segments. The Managing Board sees key growth drivers in the Sensors, Acoustics, and Electromobility businesses. This positive forecast is backed up by significant growth in orders on hand. As of December 31, 2014, the volume of registered orders was 30% ahead of the equivalent previous year's figure. Based on lifetime analysis, i.e. over the entire product lifecycles, the Group expects orders on hand of more than € 510 million (prior year: approx. € 380 million). A conservative growth rate of just 3% for the existing business in the Cockpit, Acoustics, and Sensors business segments has been factored into the forecast, although analysts believe that revenue attributable to paragon's automotive industry customers will rise by 5.4% and the proportion of vehicles fitted with paragon products is rising. paragon expects the Body Kinematics business segment to contribute revenue of around € 4 million to € 5 million, while the share of total revenue attributable to Electromobility and its Voltabox brand is predicted to be as much as € 15 million. The intralogistics industry is also due to be supplied for the first time. Not only that, 2015 will see the launch of operations at automated production lines for (round cell) battery modules both in Delbrück (1st quarter of 2015) and Cedar Park, Texas (2nd quarter of 2015). Fiscal 2015 and fiscal 2016 will witness numerous new production starts, including air quality sensors, the AQI ionizer system, trays for wireless smartphone charging, CO_2 sensors, and a new type of fragrancing system.

Research and development activities in the Sensors business segment will continue to focus on the "clean air concept", an area in which paragon will be presenting new innovations to its customers. The Acoustics business segment is developing products including a Class-D amplifier with a digital audio interface accounting for automotive factors, a scalable audit system, a compact microphone and e-mobile sound design applications. The Cockpit business segment will be bringing new products in the fields of connectivity, steering wheel control, and high-quality dials to the presentation stage. These should produce corresponding follow-up orders. Following the successful completion of the electrical spoiler driver for a large vehicle manufacturer, Body Kinematics will now be focusing on developing individual spoiler systems for the customer's group brands. In Electromobility, Voltabox will be further developing the modularity of existing battery solutions for decentralized and vertically arranged high-performance battery systems.

Based on forecast revenue of around € 95 million, paragon expects to generate an unadjusted EBIT margin of around 10%. Compared with unadjusted EBIT of € 6.3 million in 2014 (adjusted: € 9.2 million), the company thus aims to achieve substantial earnings growth in the coming year. Should the market perform favorably, including revenue at SphereDesign, and particularly if other projects in the pipeline involving Voltabox battery systems come to fruition, then revenue could top the € 100 million mark again for the first time since 2008. Given the sharp rise in revenue, expense ratios are set to reduce accordingly in the coming year. As a result, paragon expects a personnel expense ratio of around 26.5% and a cost of materials ratio of around 52%.

Assuming that the market climate remains favorable, the Managing Board expects to see further substantial, double-digit revenue growth in 2016.

G. Takeover-related disclosures pursuant to § 315 Abs. 4 HGB

paragon AG provides the following disclosures pursuant to the requirements of § 315 (4) of the German Commercial Code (HGB):

Capital

As of December 31, 2014, the share capital comprised 4,114,788 shares with a notional par value of € 1.00. Subscribed capital amounted to € 4,114,788.

All shares have dividend entitlement. As far as the Managing Board is aware, there were no restrictions on transfer and voting rights in the past fiscal year. There are no shares with special rights conferring powers of control. A direct holding in paragon AG of more than 10% is held by company CEO Klaus Dieter Frers (51.32%). To the extent that paragon AG employees participate in the company's capital, they are not subject restrictions with respect to directly exercising their voting rights.

By resolution adopted by the Annual General Meeting on May 9, 2012, the share capital was conditionally increased by € 410,000 through the issue of up to 410,000 new no-par bearer shares (Conditional Capital 2012/I). Conditional Capital 2012/I serves exclusively to secure subscription rights issued to members of the Managing Board and company employees in the period until May 8, 2017 on the basis of the authorization by the Annual General Meeting on May 2012. This conditional capital will only be exercised to the extent that subscription rights are issued and their bearers make use of their right to subscribe shares in the company and the company does not grant treasury stock or pay a cash settlement to satisfy such subscription rights. The new shares participate in profit from the beginning of the fiscal year in which they arise due to the exercising of subscription rights. The Managing Board is authorized, subject to approval by the Supervisory Board, to determine further details relating to the exercising of the conditional capital increase. The Supervisory Board is correspondingly authorized in cases where the Managing Board is involved. The Supervisory Board is further authorized to adapt the wording of the Articles of Incorporation in line with the respective utilization of conditional capital.

Furthermore, by resolution adopted by the Annual General Meeting on May 9, 2012 this share capital was conditionally increased by € 1,647,394 through the issue of up to 1,647,394 new no-par bearer shares (Conditional Capital 2012/II). This conditional capital increase (Conditional Capital 2012/II) serves exclusively to grant shares to the bearers or creditors of warrant and/or convertible bonds issued or guaranteed by the company or by group companies as defined in § 18 of the German Stock Corporation Act (AktG) in which the company directly or indirectly holds a stake of at least 90% in the period up to and including May 8, 2017 on the basis of the authorization resolved by the Annual General Meeting on May 9, 2012.

The same resolution by the Annual General Meeting authorized the Managing Board, subject to approval by the Supervisory Board, to issue on one or several occasions in the period up to and including May 8, 2017 bearer warrant and/or convertible bonds to a total par value of up to € 100,000,000.00 with a term of up to 20 years; furthermore, it was authorized to grant to or impose on the bearers or creditors of the relevant bonds warrant or conversion rights and/or obligations of up to a total of 1,647,394 of the company's no-par bearer shares with a proportional amount of share capital totaling € 1,647,394.00 as further stipulated in the respective bonds.

The Managing Board is further authorized, subject to the approval of the Supervisory Board, to increase the company's share capital on one or several occasions in the period up to and including May 8, 2017 by up to a total of € 2,057,394 through the issue of up to 2,057,394 new no-par bearer shares in return for cash contributions and/or contributions in kind (Authorized Capital 2012/1). Shareholders must generally be granted subscription rights. The Managing Board is nevertheless authorized, subject to the approval of the Supervisory Board, to exclude shareholders' statutory subscription rights in the cases specified in § 5 (6) of the issuer's Articles of Incorporation in the version dated May 9, 2012.

Change of control

In the event of a change of control resulting from a takeover bid, no agreement existed within the Managing Board contracts to the effect that the Managing Board would be indemnified under certain conditions.

Appointment and dismissal of Managing Board

Reference is made to the legal provisions set out in § 84, § 85, § 133 and § 179 of the German Stock Corporation Act (AktG) concerning the requirements governing the appointment and dismissal of the Managing Board.

H. Corporate Governance declaration

The corporate governance declaration pursuant to § 289a of the German Commercial Code (HGB) with the declaration in accordance with § 161 of the German Stock Corporation Act (AktG) is permanently available on paragon's website at www.paragon.ag/Investor Relations/Corporate Governance.

Disclaimer

The group management report contains forward-looking statements concerning expected developments. These statements are based on assessments made at the time of publication and by their very nature involve risks and uncertainties. The events that actually materialize may differ from the statements made here.

Delbrück, February 25, 2015

Klaus Dieter Frers
Chief Executive Officer

Dr. Stefan Schwehr
Chief Technology Officer

Responsibility statement (balance sheet oath)

"We hereby affirm that, to the best of our knowledge, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the Group in accordance with applicable accounting principles and the group management report provides a fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

The Managing Board

Klaus Dieter Frers Dr. Stefan Schwehr

Consolidated Financial Statements

Note: Rounding differences of +/- one unit (€ 000s, %) may occur in the tables.

Consolidated Balance Sheet of paragon AG, Delbrück, as of December 31, 2014, in accordance with IFRS

in € thousands	Notes	Dec. 31, 2014	Dec. 31, 2013
ASSETS			
Non-current assets			
Intangible assets	D (1)	9,439	5,602
Property, plant and equipment	D (2)	20,178	12,984
Financial assets		376	120
Other assets		89	128
Deferred tax assets	C (9)	0	0
Total non-current assets		**30,082**	**18,834**
Current assets			
Inventories	D (4)	6,911	7,469
Trade receivables	D (5)	9,763	6,036
Income tax claims		639	504
Other assets	D (6)	1,765	1,447
Cash and cash equivalents	D (7)	13,264	17,647
Total current assets		**32,342**	**33,103**
Total assets		**62,424**	**51,937**

in € thousands	Notes	Dec. 31, 2014	Dec. 31, 2013
EQUITY AND LIABILITIES			
Equity			
Subscribed capital	D (8)	4,115	4,115
Capital reserve	D (8)	2,450	2,450
Revaluation deficit	D (8)	- 781	- 446
Profit carried forward		8,746	5,826
Net income		2,775	3,949
Currency translation differences		- 106	- 1
Total equity		**17,199**	**15,893**
Non-current provisions and liabilities			
Non-current lease obligations	D (9)	1,703	298
Non-current borrowings	D (11)	10,131	10,178
Non-current bonds	D (10)	12,873	9,730
Investment grants	D (14)	1,268	1,496
Deferred tax liabilities	C (9)	1,124	938
Pension provisions	D (12)	1,882	1,224
Total non-current provisions and liabilities		**28,981**	**23,864**
Current provisions and liabilities			
Current portion of lease obligations	D (9)	536	669
Current loans and current portion of non-current borrowings	D (11)	4,962	2,186
Trade payables	D (17)	6,119	3,357
Other provisions	D (15)	91	55
Income tax liabilities	D (16)	95	57
Other current liabilities	D (13)	4,441	5,856
Total current provisions and liabilities		**16,244**	**12,180**
Total equity and liabilities		**62,424**	**51,937**

Consolidated Statement of Comprehensive Income of paragon AG, Delbrück, for the period from January 1, 2014 to December 31, 2014, in accordance with IFRS

in € thousands	Notes	Jan. 1 – Dec. 31, 2014	Jan. 1 – Dec. 31, 2013
Sales revenue	C (1), D (22)	79,037	73,879
Other operating income	C (2)	1,350	1,097
Increase or decrease in inventory of finished goods and work in progress		791	257
Other own work capitalized	C (3)	5,153	1,676
Total operating performance		**86,331**	**76,909**
Cost of materials	C (4)	- 41,849	- 36,268
Gross profit		**44,482**	**40,641**
Personnel expenses	C (5)	- 21,756	- 19,604
Depreciation of property, plant and equipment and amortization of intangible assets	C (7)	- 4,265	- 4,309
Impairment of property, plant and equipment and intangible assets	D (1)	- 17	- 268
Other operating expenses	C (6)	- 12,195	- 8,537
Earnings before interest and taxes (EBIT)		**6,249**	**7,923**
Financial income	C (8)	11	34
Finance costs	C (8)	- 1,973	- 1,524
Financial result		**- 1,962**	**- 1,490**
Earnings before taxes (EBT)		**4,287**	**6,433**
Income taxes	C (9)	- 1,512	- 2,485
Net income		**2,775**	**3,948**
Earnings per share (basic)	C (10)	0.67	0.96
Earnings per share (diluted)	C (10)	0.67	0.96
Average number of shares outstanding (basic)	C (10)	4,114,788	4,114,788
Average number of shares outstanding (diluted)	C (10)	4,114,788	4,114,788

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

in € thousands	Notes	Jan. 1 – Dec. 31, 2014		Jan. 1 – Dec. 31, 2013	
Earnings before income taxes		4,287		6,434	
Depreciation/amortization of non-current assets		4,265		4,309	
Financial result		1,962		1,490	
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets		105		- 6	
Increase (+), decrease (-) in other provisions and pension provisions		359		62	
Income from the reversal of the special item for investment grants		- 228		- 595	
Other non-cash income and expense		- 131		- 92	
Increase (-), decrease (+) in trade receivables, other receivables and other assets		- 4,006		- 3,979	
Partial transfer of pension provisions		- 1,453		0	
Impairment of intangible assets		17		268	
Increase (-), decrease (+) in inventories		558		- 156	
Increase (+), decrease (-) in trade payables and other liabilities		4,581		712	
Interest paid		- 1,945		- 1,415	
Income taxes		- 1,423		- 1,932	
Cash flow from operating activities	D (21)		6,948		5,100
Cash receipts from disposals of property, plant and equipment		370		24	
Cash payments to acquire property, plant and equipment		- 10,840		- 2,335	
Cash payments to acquire intangible assets		- 4,948		- 2,411	
Cash payments for investments in financial assets		- 256		- 120	
Interest received		9		32	
Cash flow from investing activities	D (21)		- 15,665		- 4,810
Distribution to owners		- 1,029		- 1,440	
Cash repayments of borrowings		- 3,892		- 2,081	
Amounts paid on insolvency ratio		0		- 2,707	
Cash proceeds from issuing loans		6,621		350	
Cash repayments for liabilities from finance leases		- 266		- 159	
Net cash proceeds from the issuance of bonds		2,900		9,310	
Cash flow from financing activities	D (21)		4,334		3,273
Cash-effective change in liquidity		- 4,383		3,563	
Cash and cash equivalents at beginning of period		17,647		14,083	
Cash and cash equivalents at end of period	D (7), D (21)	13,264		17,646	

Consolidated Statement of Changes in Equity of paragon AG, Delbrück, in accordance with IFRS

					ACCUMULATED PROFIT		
in € thousands	Subscribed capital	Capital reserve	Revaluation deficit	Reserve from currency translation	Profit carried forward	Net income	Total
January 1, 2013	4,115	2,450	- 803	0	7,266	0	13,028
Net income	0	0	0	0	0	3,949	3,949
Actuarial gains and losses	0	0	357	0	0	0	357
Currency translation	0	0	0	-1	0	0	- 1
Other comprehensive income	0	0	357	- 1	0	0	356
Comprehensive income	0	0	357	- 1	0	3,949	4,305
Dividend payout	0	0	0	0	- 1,440	0	- 1,440
December 31, 2013	4,115	2,450	- 446	- 1	5,826	3,949	15,893

					ACCUMULATED PROFIT		
in € thousands	Subscribed capital	Capital reserve	Revaluation deficit	Reserve from currency translation	Profit carried forward	Net income	Total
January 1, 2014	4,115	2,450	- 446	- 1	9,775	0	15,893
Net income	0	0	0	0	0	2,775	2,775
Actuarial gains and losses	0	0	- 335	0	0	0	- 335
Currency translation	0	0	0	- 105	0	0	- 105
Other comprehensive income	0	0	- 335	- 105	0	0	- 441
Comprehensive income	0	0	- 335	- 105	0	2,775	2,334
Dividend payout	0	0	0	0	- 1,029	0	- 1,029
December 31, 2014	4,115	2,450	- 781	- 106	8,746	2,775	17,198

Shares held by members of the Managing and Supervisory Boards as of Dec. 31, 2014

Capital stock: 4,114,788 shares	Shares as of Dec. 31, 2014
Managing Board, total	2,113,205
Supervisory Board, total	8,000
Boards, total	2,121,205
as % of share capital	51.55

Notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2014

A. Information on paragon AG

General information

paragon Aktiengesellschaft (paragon AG or paragon), headquartered in Delbrück, Schwalbenweg 29, Germany, is a joint stock company set up under German law. paragon AG's shares have been traded on the Frankfurt Stock Exchange in the Prime Standard segment of the regulated market since 2000. paragon AG is entered in the commercial register of the district court of Paderborn (HRB 6726). paragon develops and manufactures electronic components and sensors for the automotive industry.

The Managing Board of paragon AG released the consolidated financial statements as of December 31, 2014 and the management report for the period from January 1 to December 31, 2014 to the Supervisory Board on February 25, 2015.

The consolidated financial statements and management report of paragon AG prepared for the period from January 1 to December 31, 2014 are submitted to the electronic Federal Gazette and are available as part of the Annual Report on the company's website (www.paragon.ag).

B. Basis of accounting and accounting policies

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

The consolidated financial statements of paragon AG as of December 31, 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, as adopted by the European Union (EU) and applicable on the balance sheet date, and in accordance with the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC).

(2) Going concern

The financial statements for the reporting period from January 1 to December 31, 2014 have been prepared under the going concern assumption. The carrying amounts of assets and liabilities were therefore determined on the basis of going concern values.

(3) Events after the balance sheet date

The financial statements have been prepared on the basis of the circumstances existing as of the balance sheet date. In accordance with IAS 10.7, events after the reporting period include all events up to the date when the consolidated financial statements are authorized for issue. The consolidated financial statements as of December 31, 2014 were authorized for issue by the Managing Board and submitted to the Supervisory Board for issue on February 25, 2015. All information available up to that date with regard to the circumstances on the balance sheet date must be taken into account. The intended debt financing is currently being negotiated.

The following events of special significance occurred after the close of the fiscal year:

By notarized purchase agreement dated December 23, 2014, paragon AG acquired the property Artegastrasse 1 from Frers Grundstücksverwaltungs GmbH & Co. KG at a total purchase price of € 7.1 million. The purchase price will be due for payment during fiscal 2015 once the notary public has provided the buyer with written confirmation of the purchase price payment requirements.

By notarized purchase agreement dated December 13, 2014, paragon AG acquired an undeveloped piece of land directly adjacent to Artegastrasse 1 for a total purchase price of € 0.3 million. The purchase price was paid by the company on January 29, 2015.

In the year under report, a joint venture in Shanghai was in the process of being founded with a Chinese production partner. Company foundation costs of € 256 thousand were incurred in the year under report.

In February 2015, paragon AG acquired 100% of the shares in SphereDesign GmbH, Bexbach, effective as of January 1, 2015. SphereDesign is a well-established development service provider and system supplier to the automotive industry and with its expertise in control and display elements, it ideally complements paragon AG, especially in the Cockpit business. At this point in time, an estimation of the financial effects of this acquisition on the consolidated financial statement cannot yet be reasonably performed. The future debt financing portion of the acquisition price is currently being negotiated with the creditors.

(4) New accounting principles due to new standards

The following revised and new standards promulgated by the IASB, as well as interpretations of the IFRSIC, had been endorsed by the EU and required mandatory application for the first time as of December 31, 2014:

- In June 2012, the IASB issued amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", and IFRS 12 "Disclosure of Interests in Other Entities". The amendments clarify the transitional provisions for the first-time application of IFRS 10. In addition, the amendments to IFRS 10, IFRS 11 and IFRS 12 introduce relief for the first-time application of these standards to the extent that adjusted comparative information now only requires disclosure for the immediately preceding comparative period. The European Union endorsed the amendments on November 20, 2013 and April 4, 2013. The amendments have not had any implications for the consolidated financial statements.

- In October 2010, the IASB published requirements for the recognition of financial liabilities. These supplement the existing requirements for the classification and measurement of financial assets already published in November 2009 in IFRS 9 "Financial Instruments". The amendments required application at the latest at the start of the first fiscal year beginning after January 1, 2013. The European Union endorsed the amendments on December 13, 2012. The amendments have been applied since January 1, 2014.

- In May 2011, the IASB completed its improvements to the requirements governing off-balance sheet activities and joint arrangements with the publication of IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", and IFRS 12 "Disclosure of Interests in Other Entities", as well the revised standards IAS 27 "Consolidated and Separate Financial Statements" and IAS 28 "Investments in Associates". IFRS 10 results in the implementation of a single consolidation model and is based on the current principles for identifying the controlling influence according to which a subsidiary should be included in the scope of consolidation of a parent company. Furthermore, the standard provides additional guidelines intended to assist in determining the controlling influence. The introduction of IFRS 10 has replaced SIC-12 "Consolidation – Special Purpose Entities" and parts of IAS 27. IFRS 11 is intended to place the focus more clearly on the rights and obligations involved in a joint arrangement and enable the accounting presentation to better reflect reality. The standard now only permits one accounting method for joint arrangements. Upon taking effect, IFRS 11 has superseded SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers" and IAS 31 "Interests in Joint Ventures" and has thus eliminated the possibility of using proportionate consolidation. Notable amendments include changes in terminology and the standardization of IAS 28 to require application of the equity method. IFRS 12 is a new standard specifying the note disclosure obligations for all jointly managed companies, including joint ventures, associates, special-purpose entities and other off-balance sheet instruments. The new standards require mandatory application in fiscal years starting on or after January 1, 2014. The European Union endorsed the new standards on December 11, 2012. The resultant amendments have not had any implications for the consolidated financial statements.

- In October 2011, the IASB issued supplements to IAS 32 "Financial Instruments: Presentation" and IFRS 7 "Financial Instruments: Disclosures". With these amendments, the IASB has clarified the rules for offsetting financial instruments. The amendments are intended to eliminate inconsistencies in the interpretation of the existing rules for offsetting financial assets and liabilities. In addition, enterprises should in future disclose gross and net offset amounts, as well as the amounts of existing offset rights not meeting the offset accounting criteria. The European Union endorsed the amendments on December 13, 2012. The supplements require mandatory application in fiscal years beginning on or after January 1, 2014. The amendments have been applied since January 1, 2014.

- In October 2012, the IASB issued amendments to IFRS 10, IFRS 12 and IAS 27. These amendments only require application by enterprises that meet the definition of an investment entity. The European Union endorsed the amendments on November 20, 2013. The amendments, which require application in fiscal years beginning on or after January 1, 2014, have no implications for the consolidated financial statements.

- In May 2013, the IASB issued an amendment to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets." As a follow-up amendment to IFRS 13 "Fair Value Measurement", a disclosure requirement has been introduced in IAS 36.134(c) pursuant to which the recoverable amount has to be disclosed for all cash generating units to which a significant amount of goodwill has been allocated. This disclosure requirement is highly controversial because, in particular circumstances, this requirement may result in a company having to disclose its enterprise value, for example when the entire company consists of one cash generating unit and a significant amount of goodwill is recognized. This provision may also require disclosure of the recoverable amount of individual segments in cases where the segments represent cash generating units to which goodwill has been allocated. The amendment restricts the disclosure requirement with respect to recoverable amounts. Disclosure is only necessary for assets and cash generating units when an impairment loss is recognized or reversed in the current period (IAS 36.130(e)). Moreover, the disclosure requirements have been amended and clarified for cases in which an asset is impaired and the recoverable amount has been determined at fair value less costs to sell. The amendment was endorsed by the European Union on December 19, 2013. The amendments require retrospective application in fiscal years beginning on or after January 1, 2014. Earlier application is permitted, provided that simultaneous application is made of IFRS 13. The amendment has no implications for the consolidated financial statements.

Upon the preparation of the financial statements for the reporting period from January 1 to December 31, 2014, the following standards and interpretations had already been issued, but did not yet require mandatory application and/or had not been endorsed by the European Union:

- In November 2009, the IASB issued IFRS 9 "Financial Instruments". Together with two further amendments, the standard is intended to replace IAS 39 with regard to the classification and measurement of financial assets. The changes were previously intended for application at the latest in the first fiscal year beginning after January 1, 2013. In December 2011, however, the IASB decided to postpone first-time application from January 1, 2013 to January 1, 2015 since at that time only Phase 1 of the project had been completed. Phase 2 (Impairment) and Phase 3 (Hedge Accounting) were still under discussion. To ensure simultaneous application of all future regulations, and thus of the definitive version of IFRS 9, the IASB officially postponed the effective date for this standard. The IASB subsequently issued the final version of IFRS 9 "Financial Instruments" on July 24, 2014. The revised version of IFRS 9 now also contains regulations governing a new measurement category for fair value measurement in other comprehensive income (FVOCI) and the impairment of financial instruments. Upon adoption, IFRS 9 supersedes all previous versions and its predecessor standard IAS 39. The new version of IFRS 9 requires mandatory application in fiscal years beginning on or after January 1, 2018. Subject to endorsement by the EU, premature application is permitted. The date of EU endorsement is not yet clear. The company will evaluate the expected implications and set a date for initial application.

- In May 2013, the IASB published the interpretation IFRIC 21 "Levies". The interpretation refers to levies imposed by a government entity that do not fall within the scope of another IFRS and clarifies how and, in particular, when such obligations have to be recognized as liabilities in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The interpretation was endorsed by the European Union on July 13, 2014. IFRIC 21 requires first-time application in fiscal years beginning on or after July 1, 2014. The requirements have to be applied retrospectively. Earlier application is permitted. IFRIC 21 will have no implications for the consolidated financial statements.

- In November 2013, the IASB issued an amendment to IAS 19 "Employee Benefits" with regard to the recognition of contributions by employees or third parties to defined benefit plans. When employees (or third parties) participate with contributions to the defined benefit obligation, this reduces the costs incurred by the employer. The amendment to IAS 19.93 now clarifies that the recognition of such contributions depends on whether or not they are linked to the service period achieved. Following this amendment to IAS 19, contributions made by employees or third parties that pursuant to IAS 19.93 (a) are incurred in differing amounts due to the link between the amount of contribution and the service years achieved, will in future have to be allocated to the respective periods of services as a reduction in the corresponding expenses (pursuant to IAS 19.70 either on a straight-line basis or on the basis of the company-specific plan formula). The reduction in expenses leads to a corresponding reduction in the present value of the defined benefit obligation through to the date on which the employer contribution is made. This is then recognized as an increase in the present value of the defined benefit obligation. Should the contributions not be linked to the service years achieved, however, then the contributions made may either be recognized as outlined above pursuant to IAS 19.93 (a) or as a reduction in service cost provided that these are fully linked to the work performed by the employee in this period. This is possible in particular for contributions that represent a fixed percentage of the employee's salary that is not dependent on the employee's years of service at the enterprise (IAS 19.93 (b)). These amendments require application in fiscal years beginning on or after July 1, 2014. Earlier application is permitted. The amendment will have no implications for the consolidated financial statements.

- On December 12, 2013, the IASB issued the 2010–2012 and 2011–2013 cycles of its "Annual Improvements". These amendments each become effective in fiscal years beginning on or after July 1, 2014. They were endorsed by the European Union on December 18, 2014.
  Amendments resulting from the 2010–2012 cycle:
  IFRS 2 Definition of "Vesting Conditions", IFRS 3 "Accounting for Contingent Consideration in a Business Combination", IFRS 8 "Aggregation of Operating Segments", IFRS 13 "Short-Term Receivables and Payables", IAS 16.38 "Revaluation Method – Proportionate Restatement of Accumulated Depreciation" IAS 24 "Key Management Personnel".
  Amendments resulting from the 2011–2013 cycle:
  IFRS 1 "Meaning of Effective IFRSs at End of Reporting Period", IFRS 3 "Business Combinations", IFRS 13 "Fair Value Measurement", IAS 40 "Investment Property".

- On June 30, 2014, the IASB issued amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture". Under these amendments, bearer plants, such as grape vines, banana trees and oil palms, will in future be included in the scope of IAS 16. Previously, biological assets were measured pursuant to IAS 41 at fair value less costs to sell. This was based on the assumption that the biological transformation of such assets was best reflected by measurement at fair value. By contrast, bearer plants are biological assets that, once fully grown, are held for the sole purpose of bearing fruit. As fully grown bearer plants are no longer subject to any material transformation, they are similar to production assets. Bearer plants should consequently be recognized as property, plant and equipment pursuant to IAS 16 using either the cost model or the revaluation model. The "fruits" of these plants continue to be recognized in accordance with IAS 41. These amendments require retrospective application in fiscal years beginning on or after January 1, 2016. Subject to EU endorsement, which is scheduled for the first quarter of 2015, premature application of the amendments is permitted. This amendment will have no implications for the consolidated financial statements.

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

- On September 25, 2014, the IASB issued the 2012-2014 cycle of its "Annual Improvements". These amendments require application in fiscal years beginning on or after January 1, 2016. They require retrospective application in some cases and prospective application in others. Subject to endorsement by the EU, premature application is permitted. The company will evaluate the expected implications and set a date for initial application.
  IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations"
  Changes in methods of disposal: By introducing IFRS 5.26A and IFRS 5.26B, the IASB has clarified that no changes should be made to the method of accounting upon reclassification from "held for sale" to "held for distribution to owners" or vice versa. Special guidelines have been included for when held-for-distribution accounting is discontinued.
  IFRS 7 "Financial Instruments: Servicing Contracts and Offsetting Norms"
  The addition of IFRS 7.B30A has clarified that servicing contracts constitute continuing involvement and should be included in disclosures concerning transfers of financial assets. The amendment also clarifies the disclosure requirements on offsetting financial assets and financial liabilities in interim financial statements.
  IAS 19 "Employee Benefits"
  Discount rate on currency basis: When determining the discount rate, reference should be made to corporate bonds in the same currency (and not only in the same country).
  IAS 34 "Interim Financial Reporting"
  Disclosures "elsewhere in the interim report": IAS 34 has been supplemented with the clarification that the disclosures listed in

IAS 34.16A must be made either in the interim financial statements or elsewhere in the interim report. In this case, the interim financial statements should include a cross-reference to this effect.

- On August 12, 2014, the IASB issued amendments to IAS 27 "Separate Financial Statements" that permit application of the equity method once again as an accounting option for interests in subsidiaries, associates and joint ventures in the separate financial statements of an investor (following criticism of the previous abolition of this method). As previously, the options of recognition at amortized cost or in accordance with IAS 39 or IFRS 9 continue to apply. Standardized application must be made of the respective accounting option for each category of interests. An amendment to IAS 27.11B has further clarified that in cases in which the parent company is no longer an investment entity, application may also be made of these accounting options set out in IAS 27.10. The fair value of the investment upon this change of status is treated as the deemed cost for the subsequent accounting. These amendments become effective for fiscal years beginning on or after January 1, 2016. Subject to endorsement by the EU, premature application is permitted. The amendment will have no implications for the consolidated financial statements.

- On May 28, 2014, the IASB and the FASB, the US standard setter, published the long-awaited, jointly compiled standard on revenue recognition. IFRS 15 "Revenue from Contracts with Customers" creates standardized regulations for all issues relating to the recognition of revenue from contracts with customers. The regulations set out in IFRS 15 require uniform application for various transactions and across all industries and thus enhance global comparability of company revenue disclosures ("top line of financial statements"). The only exceptions are contracts within the scope of IAS 17 "Leases", IFRS 4 "Insurance Contracts" and IFRS 9 "Financial Instruments". This standard replaces the existing standards and interpretations dealing with revenue recognition (IAS 11 "Construction Contracts", IAS 18 "Revenue" and IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC-31 "Revenue – Barter Transactions Involving Advertising Services"). The new standard requires mandatory application in fiscal years beginning on or after January 1, 2017. Premature application is permitted. For European users, this presupposes prior endorsement by the EU Commission, which is scheduled for the second quarter of 2015. The company will evaluate the expected implications and set a date for initial application.

- On January 30, 2014, the IASB issued the interim standard IFRS 14 "Regulatory Deferral Accounts". IFRS regulations currently do not include any requirements when it comes to accounting for rate-regulated transactions. Rate regulation is understood as the setting of prices for services or products on account of government regulations (e.g. by a supervisory authority or government). The aim of IFRS 14 is to increase the comparability of the financial statements of companies that perform rate-regulated transactions. Rate regulations may result in economic advantages or disadvantages when expenditure in the current fiscal year affects the prices charged in future fiscal years. National accounting standards in some countries permit or require the capitalization/deferral of economic advantages (capitalization/deferral of economic disadvantages). IFRS 14 envisages permitting companies to retain their national regulations on regulatory deferral accounts upon first-time application of IFRS. IFRS 14 is thus only relevant for first-time adopters of IFRS and only requires consideration when simultaneous application is made of IFRS 1 "First-Time Adoption of International Financial Reporting Standards". IFRS 14 is conceived of as an interim solution and should offer first-time adopters of IFRS temporary assistance until such time that the IASB has completed its actual research project on rate regulation. Application of IFRS 14 is voluntary. The standard may be applied when a company prepares its first IFRS statements for reporting periods beginning on or after January 1, 2016. Premature application is nevertheless permitted. When a company decides to apply the standard upon its first-time application of IFRS, however, then the standard must also be applied in all subsequent periods. The date for the endorsement of this standard by the EU is still unclear. The amendment will have no implications for the consolidated financial statements.

- On May 6, 2014, the IASB issued amendments to IFRS 11 "Joint Arrangements". The amendments include additional guidelines concerning the presentation of acquisitions of interests in joint operations, which pursuant to IFRS 11.20 are recognized in proportion to the level of holding. The amendments clarify that the acquisition of an interest in a joint operation that constitutes a business as defined in IFRS 3 "Business Combinations" should be recognized in accordance with the requirements of IFRS 3 (i.e. using the acquisition method) and other relevant standards, such as IAS 12, IAS 38, and IAS 36. Specifically, this means that most identifiable assets and liabilities thereby acquired are measured at fair value. Compared with the exposure draft ED/2012/7, the amendment now additionally clarifies that the acquisition of further interests in a joint operation does not require remeasurement of the interests already held previously. Transaction costs are expensed. Deferred taxes arising upon first-time recognition must be recognized, as must any goodwill thereby arising. Annual implementation of impairment tests for cash generating units to which any goodwill is allocated. Publication of disclosures required in connection with business combinations. Alongside the acquisition of interests in existing joint operations, the scope of these new requirements also applies to the foundation of new joint operations to the extent this involves the contribution of a business as defined in IFRS 3 (IFRS 11.B33B). The amendments also apply to the acquisition of additional interests in joint operations; in this case, however, the existing interests do not require remeasurement (IFRS 11.B33C). Where the companies participating in the joint operation are under the common control of a (topmost) parent company, however, these amendments do not require application. These amendments require prospective application for acquisitions of interests in fiscal years beginning on or after January 1, 2016. Premature voluntary application is permitted. Endorsement by the EU is scheduled for the first quarter of 2015. The company will evaluate the expected implications and set a date for initial application.

- On May 12, 2014, the IASB issued amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets". These amendments include guidelines concerning the applicable method of depreciation and amortization for property, plant and equipment and intangible assets. According to these amendments, the revenue-based method is not an acceptable method of depreciation under IAS 16. That is because this method accounts for the generation of expected economic benefits rather than the consumption of economic benefits associated with the assets. IAS 16.62A clarifies this point accordingly. The same principle basically applies for IAS 38. A rebuttable presumption has been included in IAS 38.98A whereby, by analogy with the clarification in IAS 16, a revenue-based amortization method is not deemed appropriate. This presumption may be rebutted by the following circumstances: the asset is expressed as a measure of revenue, i.e. the factor determining the intangible asset is the achievement of a specified revenue threshold. The revenue and consumption of economic benefits of the intangible asset are highly correlated. Clarifications have been added to both standards to the effect that expected future reductions in prices may be an indicator of a reduction in the future economic benefits of the asset due to technical or economic obsolescence. These amendments require prospective application in fiscal years beginning on or after January 1, 2016. Premature application is permitted. Endorsement by the EU is scheduled for the first quarter of 2015. The amendment will have no implications for the consolidated financial statements.

- On December 18, 2014, the IASB issued amendments to IAS 1. The amendments are intended to improve the effectiveness of financial reporting in respect of note disclosures. The IASB has introduced the following amendments to IAS 1: Greater focus has been attached to the principle of materiality. Note disclosures should only be mandatory to the extent that they are material. The IASB has clarified that the materiality principle requires application not only to the balance sheet, statement of comprehensive income, cash flow statement, and statement of changes in equity, but also to the notes. The enterprise should itself assess whether a specific disclosure is material, even if such disclosure is required by a standard. Useful information may not be obscured by aggregation or disaggregation. A further subcategorization of the minimum breakdown items in the balance sheet has been introduced, as has the recognition of subtotals. The IASB has clarified that the items in the balance sheet and statement of comprehensive income as listed in IAS 1 also allow for further subcategorization. Furthermore, the amendment includes new requirements for the recognition of subtotals to the extent that these are appropriate for an understanding of the company's financial position or performance. Such subtotals should only include items recognized and measure in accordance with IFRS. Furthermore, the subtotals should be presented in a way that is understandable and consistent. There should be greater flexibility when preparing the notes in terms of the order of disclosures. In the past, companies have misunderstood the requirements by assuming that these stipulate a particular order of disclosures. The IASB has clarified that the order presented in IAS 1 is merely an example and that other note structures may also be appropriate. For example, accounting policies do not automatically have to be presented in a single chapter, but may be presented in the notes to the respective items. Furthermore, the IAS 1 requirements concerning the identification of significant accounting policies as a component of note disclosures have been rescinded. The IASB has deleted the examples listed in IAS 1.120 and added a clarification, namely that the identification of significant accounting policies should be performed on a company-specific basis. The amendments require prospective application in fiscal years beginning on or after January 1, 2016. The amendments have not yet been endorsed by the EU. The company will evaluate the expected implications and set a date for initial application.

- On December 18, 2014, the IASB issued amendments to the standards IFRS 10, IFRS 12, and IAS 28. The amendments have clarified application of the consolidation exception in cases where the parent company meets the definition of an investment entity. The amendments provide explicit confirmation that the exemption from preparing consolidated financial statements applies for subsidiaries of an investment entity if such subsidiaries are themselves parent companies. A subsidiary that provides services that support the parent company's investment activities (investment-related services) does not require consolidation if the subsidiary is itself an investment entity. Similarly, simplified application of the equity method is permitted for companies that are themselves not investment entities, but nevertheless hold interests in an associate that is an investment entity. Investment entities that measure all of their subsidiaries at fair value are required to provide the disclosures on investment entities required by IFRS 12. These amendments require application in fiscal years beginning on or after January 1, 2016. The amendments have not yet been endorsed by the EU. The amendments will have no implications for the consolidated financial statements.

(5) Scope of consolidation

Name and registered office of the company	Shareholding	Consolidation method		Revenue in local currency (prior to consolidation)
Germany				
paragon AG, Delbrück	not applicable	Parent	€	79,803,415.96
KarTec GmbH, Forchheim	100%	Full consolidation	€	345,333.00
Voltabox Deutschland GmbH	100%	Full consolidation	€	2,723,753.34
China				
paragon Automotive Technology (Shanghai) Co., Ltd.	100%	Full consolidation	CNY	0
USA				
Voltabox of Texas, Inc.	100%	Full consolidation	USD	3,143,185.26

Alongside the parent company, paragon AG, Delbrück, four subsidiaries are included by way of full consolidation, of which the companies Voltabox Deutschland GmbH and Voltabox of Texas, Inc. were included in the consolidated financial statements for the first time in fiscal 2014. The balance sheet date for all companies is December 31. The scope of consolidation and list of shareholdings are set out in the above table.

Consolidation methods

The consolidated financial statements are based on the separate financial statements of the companies included in the Group, which were prepared using uniform policies under IFRS as of December 31, 2014. The audited annual financial statements of paragon AG prepared in accordance with German commercial law as of December 31, 2014 formed the basis for the standardizing entries subsequently made to bring the statements in line with IFRS.

Consolidation of capital is based on the purchase method in accordance with IAS 27.22 in conjunction with IFRS 3. Recognition of the investments in affiliated companies at their carrying amount at the parent is replaced by the fair values of the assets and liabilities of the companies included. In this way, the equity of the subsidiaries is compared with the carrying amount of the shares at the parent company. Any remaining excess from consolidation is reported as goodwill under non-current assets and is tested annually for impairment in accordance with IFRS 3 in conjunction with IAS 36.

In addition, intragroup balances, transactions, income and expenses are eliminated. The differences arising from eliminating intragroup income and expenses are recognized in profit or loss.

Profits and losses arising from intercompany deliveries that are recognized in non-current assets and inventories are eliminated.

(6) Currency translation

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

Exchange rate losses from operations in the amount of € 31 thousand (prior year: € 18 thousand) and exchange rate gains in the amount of € 378 thousand (prior year: € 24 thousand) are recognized in the consolidated statement of comprehensive income. These exchange rate differences are contained in other operating expenses or other operating income.

Foreign currency for 1 €	Balance sheet – median rate as of December 31	Income statement – average rate	Balance sheet – median rate as of December 31	Income statement – average rate
	01–12/2014		01–12/2013	
U.S. dollar (USD)	1.2155	1.3293	1.3768	1.3279
Japanese yen YEN (YEN)	145.03	140.28	144.5	129.78

(7) Accounting policies

The consolidated financial statements were prepared in euros (€). Pursuant to IAS 21 "The Effects of Changes in Foreign Exchange Rates", the reporting currency is the euro. Unless stated otherwise, all amounts are disclosed in thousands of euro (€ thousand). The reporting period for paragon in these financial statements extends from January 1 to December 31, 2014. Individual items in the consolidated balance sheet and the consolidated statement of comprehensive income have been combined in order to provide better clarity and transparency. Where this has occurred, the items are explained individually in the notes to the financial statements. The consolidated statement of comprehensive income continues to be structured in accordance with the total cost (nature of expense) method. The balance sheet makes a distinction between non-current and current assets and liabilities; these are broken down in detail by maturity in the notes. Assets and liabilities are recognized as current if they mature within twelve months.

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

Intangible assets

Intangible assets acquired for a consideration are recognized in the balance sheet at cost, taking into account ancillary acquisition costs and cost reductions.

Research costs are recognized as expenses in the period in which they are incurred. Development costs arising in connection with the development of patents and client-specific solutions are recognized as intangible assets at cost, provided the unambiguous attribution of expenses required by IAS 38 is possible, technical feasibility and marketability are assured, and the anticipated realization of future economic benefit has been demonstrated. Cost comprises all costs directly and indirectly attributable to the development process, as well as necessary portions of project-related overhead costs. If the asset recognition requirements have not been fulfilled, development costs are directly expensed within other operating expenses in the year in which they are incurred. After their initial recognition, development costs are entered in the balance sheet at cost less cumulative amortization and cumulative impairment losses.

If intangible assets have limited useful lives, they are generally amortized on a straight-line basis in accordance with their useful economic lives. Amortization starts as soon as the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Intangible assets with indefinite useful lives are subject to annual impairment tests. At each balance sheet date, the carrying amounts of such intangible assets are used as a basis for determining whether there are reasons to believe that impairment exists. In the case that such indications existed, an impairment test pursuant to IAS 36 "Impairment of Assets" was performed. All residual values, useful lives, and amortization methods are reviewed at the end of each fiscal year and adapted as necessary.

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

Property, plant and equipment

Additions to property, plant and equipment are measured at cost plus ancillary acquisition costs, less all reductions to acquisition costs. If the cost of certain components of an item of property, plant and equipment is significant when measured against the item's total cost then such components are recognized in the balance sheet and depreciated individually. Depreciation is generally undertaken on a straight-line basis. In the case of buildings, the useful life is considered to be 20 to 25 years, for technical plant five to ten years, and for other items of plant and office equipment three to ten years.

Fully depreciated items of property, plant and equipment are presented under cost and accumulated depreciation until the asset is retired. Depreciated cost and accumulated depreciation are deducted from the revenue derived from retired assets. The profit or loss contributions of retired assets (disposal proceeds less residual carrying amounts) are shown in the consolidated statement of comprehensive income under other operating income or other operating expenses. All residual values, useful lives, and depreciation methods are reviewed annually and adapted as necessary.

As of every balance sheet date, the carrying amounts of property, plant and equipment (which are depreciated in accordance with their useful lives) are tested to see if there is reason to believe that impairment exists. If such evidence exists, an impairment test is performed.

Leases

Leases are classified as finance leases if substantially all the risks and rewards incidental to beneficial ownership of an asset are transferred to paragon. Property, plant and equipment whose leases fulfill the criteria of a finance lease in accordance with IAS 17 "Leases" are capitalized at the lower of their fair value and the present value of the minimum leasing payments at the beginning of the usage period.

A liability is then recognized in the balance sheet for the same amount. Subsequent measurement takes place using the effective interest method at amortized cost. The amortization methods and useful lives correspond to those of assets acquired in a similar manner.

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

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

A sale-and-leaseback transaction involves the sale of an asset owned and used by the future lessee to the lessor and the subsequent continued use of the asset by the lessee under a lease agreement. In this respect, two economically interdependent agreements are involved (purchase agreement and lease agreement). The transaction is recorded in the balance sheet of the lessee as one item. Depending on how the leaseback agreement is arranged, it is either recognized in the balance sheet as an operating lease or a finance lease.

Impairment of non-financial assets

At each balance sheet date, an assessment takes place to ascertain whether any indication exists that non-financial assets (in particular intangible assets with definite useful lives) have become impaired. If evidence of such impairment exists, the recoverable amount of the relevant asset is estimated. Pursuant to IAS 36.6 "Impairment of Assets", the recoverable amount reflects the higher of fair value less cost to sell and value in use of the asset or an identifiable group of assets that represent a cash-generating unit (CGU). If the carrying amount of an asset or a CGU exceeds the recoverable amount, the asset is impaired and written down to its recoverable amount.

For property, plant and equipment and intangible assets other than goodwill, at each balance sheet date an assessment takes place to establish whether any indication exists that a previously recognized impairment loss no longer exists or has decreased. If such an indication exists, the recoverable amount of the asset or the CGU is estimated. A previously recognized impairment loss is reversed only if the assumptions used for determining the recoverable amount have changed since the last impairment loss was recognized. The reversal of the impairment loss is limited in that the carrying amount of an asset may exceed neither its recoverable amount nor the carrying amount that would have resulted after taking scheduled depreciation/amortization into account if no impairment loss had been recorded for the asset in earlier years.

Financial instruments

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

Financial assets comprise, but are not limited to, cash and cash equivalents, trade receivables, loan receivables, other receivables and primary and derivative financial assets held for trading. Financial assets are measured at either fair value or amortized cost depending on their classification. The fair value recorded in the balance sheet as a rule corresponds to the market prices of the financial assets. If no market prices are available, fair value is calculated using recognized valuation models and by referring to current market parameters.

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

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

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

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

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

Financial assets and financial liabilities that are not denominated in euros are initially recognized at the median rate as of the transaction date and subsequently translated as of each balance sheet date. Any currency translation differences that arise are recognized in income.

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

Income taxes

Income taxes contain both income taxes to be paid immediately and deferred taxes.

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

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

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

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

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

Inventories

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

Consistent with applicable reporting principles, in the first quarter of 2013 the company decided to reduce the measurement deduction of 100 % for individual groups of spare parts. This was implemented to reflect the actual pattern of release orders from customers in relation to spare parts which have to be held in stock. The deductions were adjusted with reference to the age of spare parts to 25 % (older than 12 months) and 100 % (older than 48 months) for the spare parts storage of raw materials and supplies, to 80 % for the spare parts storage of finished products as well as to 100 % for the spare parts storage of semi-finished products, each for inventories older than 12 months, resulting in an overall measurement deduction amounting to approximately 42.5 % in 2014 (prior year: 59 %).

Trade receivables and other current assets

Trade receivables are allocated to the "loans and receivables" category of financial assets and carried at amortized cost less any necessary write-downs. Write-downs in the form of specific valuation allowances take sufficient account of the expected default risks. Actual defaults lead to derecognition of the receivables concerned. The calculation of write-downs for doubtful receivables is primarily based on estimates and evaluations of the creditworthiness and solvency of the client.

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

Cash and cash equivalents

Cash and cash equivalents include cash and bank balances with original maturities of up to three months. They are measured at nominal value. Foreign currency positions are measured at fair value. "Cash and cash equivalents" in the cash flow statement corresponds to "cash and cash equivalents" in the balance sheet (cash and bank balances). As of December 31, 2014, the Group reported receivables of € 5,807 thousand (prior year: € 5,587 thousand) relating to factoring agreements under cash and cash equivalents.

Pension provisions

Provisions for pensions are calculated using the projected unit credit method in accordance with the revised IAS 19 "Employee Benefits". In June 2011, the IASB published a revised version of IAS 19 requiring mandatory application in fiscal years beginning on or after January 1, 2013. The company decided voluntarily to account for pension provisions in accordance with the amended standard already from fiscal 2012. The key change is the elimination of the possibility previously permitted to recognize actuarial gains and losses on an accrual basis, using the so-called corridor method, and the related introduction of the full recognition directly in equity in the revaluation deficit.

The projected unit credit method not only takes into account the pension benefits and benefit entitlements known as of the balance sheet date, but also the increases in salaries and pension benefits to be expected in the future by estimating relevant influencing factors. The calculation is based on actuarial opinions, taking into account biometric principles. Amounts not yet recorded in the balance sheet arise from actuarial gains and losses due to changes in inventory and differences between the assumptions made and actual developments. Actuarial gains and losses occurring in the reporting period are recognized in their full amount directly in equity under other comprehensive income. The service cost is shown under personnel expenses. The interest cost included in pension expenses is recorded in the financial result.

Other provisions

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", provisions are recognized when an enterprise has a present obligation (legal or constructive) to third parties as a result of a past event that is likely to lead to an outflow of resources. The amount of the provisions is determined based on a best estimate of the expenditure needed to discharge the liability without offsetting them against reimbursement claims. Each situation is evaluated separately to determine the probability that pending proceedings will be successful or to qualify the possible amount of the payment obligations. In each case, the most probable settlement amount has been taken into account. Non-current provisions have been measured at their discounted settlement amount as of the balance sheet date.

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

Government grants

Government assistance is recognized in accordance with "IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance" and shown in the balance sheet under non-current liabilities. Under IAS 20, government grants are recognized only if there is reasonable assurance that the conditions attaching to them will be complied with and the grants will be received. Government assistance is accounted for as a deferred liability and reversed over the average useful life of the subsidized asset. Reversal occurs in accordance with the assumed useful life of the asset concerned and amounts are credited to other operating income.

Financial liabilities and equity instruments

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

Trade payables and other current liabilities

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

Recognition of income and expenses

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

Income from the sale of products is recognized once the material risks and rewards associated with ownership of the products sold have been transferred to the purchaser. This normally occurs upon shipment of the products, as value creation is deemed to have been concluded at that point. Revenue is shown after the deduction of discounts, rebates, and returns.

Revenue from development services is recognized on the basis of the percentage of completion achieved as of the balance sheet date.

Interest income and interest expenses are recognized using the effective interest method. Operating expenses are charged against income when the relevant services are rendered or when the expenses are incurred.

Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred. They are capitalized if they fulfill the requirements of a "qualifying asset" as set forth in IAS 23 "Borrowing Costs".

(8) Use of estimates and assumptions

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

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

Measurement of the fair values of the assets acquired and liabilities assumed in business combinations

The fair values as well as the allocation of the cost of the business combination to the assets acquired and liabilities assumed were determined on the basis of experience and estimates regarding future cash inflows. The actual cash inflows may differ from the estimated amounts.

Capitalized development costs

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

Inventories

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

Regarding measurement deductions please refer to the comments on inventories in the previous section B (7).

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

Other assets and liabilities

Assumptions and estimates are generally also necessary when writing down doubtful receivables, as well as for contingent liabilities and other provisions, and when determining the fair value of durable property, plant and equipment and intangible assets.

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

Deferred tax assets

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

Domestic deferred taxes were computed as of December 31, 2014 at a combined income tax rate of 30.0% (prior year: 29.8%). This includes a corporate tax rate of 15% and a solidarity surcharge of 5.5%. The income tax rate also reflects trade tax, taking into account the breakdown of the trade tax assessment rates among the municipalities in which the company's branches are located.

Provisions for pensions

Expenses arising from defined benefit plans are arrived at using actuarial calculations. Actuarial measurement is based on assumptions related to discount rates, expected revenue from plan assets, future wage and salary increases, mortality rates, and future pension increases. These estimates are subject to significant uncertainty due to the long-term nature of such plans.

With respect to measurement as of December 31, 2014, the discount rate decreased from 3.75% on December 31, 2013 to 2.00% in anticipation of the long-term trend in market interest rates.

The actuarial calculations are otherwise based on a salary growth of 0% since 2009 and pension growth of 2.00%, and are thus unchanged on the prior year.

C. Notes on individual items of the consolidated statement of comprehensive income

(1) Revenue

Revenue includes sales of products and services less any sales reductions. Of the revenue of € 79,037 thousand (prior year: € 73,879 thousand) in the period under report, domestic sales accounted for € 55,539 thousand (prior year: € 55,785 thousand) and foreign sales for € 23,498 thousand (prior year: € 18,094 thousand).

In the period under report, other revenue generated in connection with development services came to € 3,184 thousand (prior year: € 8,087 thousand).

The breakdown and classification of revenue by strategic business field and region are shown in the "Segment Report" chapter.

(2) Other operating income

Other operating income includes income of € 228 thousand (prior year: € 595 thousand) from the reversal of the special item for grants, income of € 263 thousand (prior year: € 231 thousand) from the use of company cars by employees, and income of € 128 thousand (prior year: € 9 thousand) from the reversal of specific valuation allowances. In addition, this item includes other income from government assistance and government grants, from retired assets, other provisions and exchange rate differences.

(3) Other own work capitalized

For development projects satisfying the requirements of IAS 38.21 and IAS 38.57 in the year under report and capitalized, project-related development costs have been recognized in other own work capitalized. The capitalized amounts are recognized under intangible assets. Other own work capitalized also includes costs for test equipment.

in € thousands	Jan. 1 - Dec. 31, 2014	Jan. 1 - Dec. 31, 2013
Project-related development costs	4,534	1,518
Cost of test equipment	619	158
Other own work capitalized	5,153	1,676

(4) Cost of materials

in € thousands	Jan. 1 - Dec. 31, 2014	Jan. 1 - Dec. 31, 2013
Raw materials and supplies	39,956	33,497
Cost of purchased services	1,893	2,771
Cost of materials	41,849	36,268

(5) Personnel expenses

Personnel expenses amounted to € 21,756 thousand in the year under report (prior year: € 19,604 thousand) and are structured as follows:

in € thousands	Jan. 1 - Dec. 31, 2014	Jan. 1 - Dec. 31, 2013
Wages and salaries	16,980	15,162
Social security contributions/pension expenses	2,804	2,804
Expenses for temporary staff	1,972	1,638
Personnel expense	21,756	19,604

Personnel levels changed as follows compared to the previous year:

	Jan. 1 - Dec. 31, 2014	Jan. 1 - Dec. 31, 2013
Salaried employees	237	220
Wage-earning employees	235	221
Total number of employees	472	441

(6) Other operating expenses

Other operating expenses chiefly relate to building rental expenses and energy costs (€ 2,538 thousand, prior year: € 2,416 thousand), IT and telephone costs (€ 1,005 thousand, prior year: € 993 thousand), vehicle costs (€ 738 thousand, prior year: € 715 thousand), maintenance costs (€ 644 thousand, prior year: € 614 thousand), legal and consulting costs (€ 811 thousand, prior year: € 370 thousand), advertising and marketing costs (€ 450 thousand, prior year: € 366 thousand), and plant insurance and leasing costs (€ 382 thousand, prior year: € 309 thousand). Other taxes recognized under other operating expenses during the period under report amounted to € 58 thousand (prior year: € 25 thousand).

In the year under report, third-party development services in non-production-related areas amounting to € 1,250 thousand were allocated for the first time to other operating expenses; in the prior year, an amount of € 1,086 thousand was allocated to cost of materials.

(7) Depreciation, amortization and impairment losses

A breakdown of depreciation, amortization and impairment losses on intangible assets, property, plant and equipment, and financial assets can be found in the non-current asset schedule.

(8) Financial result

in € thousands	Jan. 1 - Dec. 31, 2014	Jan. 1 - Dec. 31, 2013
Financial income	11	34
Interest income	11	34
Financial expenses	-1,973	-1,523
Other financial and interest expense	-1,973	-1,523
Financial result	-1,962	-1,489

Other financial and interest expenses included interest expenses to banks of € 1,533 thousand (prior year: € 1,078 thousand).

(9) Income taxes

in € thousands	Jan. 1 - Dec. 31, 2014	Jan. 1 - Dec. 31, 2013
Current taxes	1,182	1,695
Current domestic taxes	1,182	1,695
Current taxes	330	790
Deferred domestic taxes	420	790
Deferred taxes abroad	-90	0
Income taxes	1,512	2,485

Current taxes include corporate income tax and trade tax. No foreign taxes were incurred in the year under report.

Of the deferred tax assets of € 1,783 thousand (prior year: € 853 thousand), at the end of the year under report € 1,294 thousand related to domestic taxes (prior year: € 853 thousand) and € 489 thousand to foreign taxes (prior year: € 0 thousand). These deferred tax assets resulted from temporary differences in the measurement of property, plant and equipment, receivables and other assets, provisions for pensions, and loss carryovers. Of the deferred tax liabilities of € 2,908 thousand (prior year: € 1,790 thousand), at the end of the year under report € 2,847 thousand related to domestic taxes (prior year: € 1,790 thousand) and € 61 thousand to foreign taxes (prior year: € 0 thousand). These deferred tax liabilities mainly resulted from temporary differences in the measurement of intangible assets that are not eligible for capitalization under German tax law.

Consolidated statement of non-current assets as of December 31, 2013

	ACQUISITION COST						DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES							CARRYING AMOUNTS	
in € thousands	Jan. 1, 2013	Change currency	Additions	Disposals	Reclas-sification	Dec. 31, 2013	Jan. 1, 2013	Change currency	Additions	Impairment in accordance with IAS 36/38	Disposals	Reclas-sification	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013
Intangible Assets															
Licenses, patents, software	18,388	0	1,172	- 1	512	20,071	16,883	0	1,224	0	- 1	0	18,106	1,505	1,965
Capitalized development costs	3,244	0	1,518	0	0	4,762	716	0	216	268	0	0	1,200	2,528	3,562
Advance payments made for intangible assets	881	0	705	- 1,000	- 512	74	0	0	0	0	0	0	0	881	74
Total intangible assets	**22,514**	**0**	**3,395**	**- 1,001**	**0**	**24,908**	**17,600**	**0**	**1,439**	**268**	**- 1**	**0**	**19,306**	**4,914**	**5,602**
Property, plant and equipment															
Land and buildings	13,939	0	49	0	315	14,303	5,952	0	767	0	0	0	6,720	7,987	7,583
Technical equipment and machinery	19,208	0	164	- 17	1,012	20,367	16,312	0	1,176	0	- 15	0	17,472	2,896	2,895
Other plant, office furniture and equipment	9,812	0	680	- 60	17	10,449	7,345	0	927	0	- 42	0	8,230	2,467	2,220
Payments on account	187	0	1,442	0	- 1,344	285	0	0	0	0	0	0	0	187	285
Total property, plant and equipment	**43,146**	**0**	**2,335**	**- 76**	**0**	**45,405**	**29,609**	**0**	**2,870**	**0**	**- 58**	**0**	**32,421**	**13,537**	**12,984**
Financial assets															
Equity investments	0	0	120	0	0	120	0	0	0	0	0	0	0	0	120
Total financial assets	**0**	**0**	**120**	**0**	**0**	**120**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**120**
Total	**65,660**	**0**	**5,850**	**- 1,077**	**0**	**70,433**	**47,209**	**0**	**4,309**	**268**	**- 59**	**0**	**51,727**	**18,451**	**18,705**

Note: Rounding differences of +/- one unit (€ 000s, %) may occur in the tables.

Consolidated statement of non-current assets as of December 31, 2014

	ACQUISITION COST						DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES							CARRYING AMOUNTS	
in € thousands	Jan. 1, 2014	Change currency	Additions	Disposals	Reclas-sification	Dec. 31, 2014	Jan. 1, 2014	Change currency	Additions	Impairment in accordance with IAS 36/38	Disposals	Reclas-sification	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014
Intangible Assets															
Licenses, patents, software	20,071	0	298	0	54	20,423	18,106	0	770	0	0	0	18,876	1,965	1,547
Capitalized development costs	4,762	0	4,556	0	0	9,318	1,200	0	324	17	0	0	1,542	3,562	7,777
Advance payments made for intangible assets	75	0	95	0	- 54	115	0	0	0	0	0	0	0	75	115
Total intangible assets	**24,908**	**0**	**4,948**	**0**	**0**	**29,856**	**19,306**	**0**	**1,094**	**17**	**0**	**0**	**20,417**	**5,602**	**9,439**
Property, plant and equipment															
Land and buildings	14,303	0	1,800	0	52	16,155	6,720	0	757	0	0	0	7,477	7,583	8,678
Technical equipment and machinery	20,367	0	2,551	0	2,755	25,673	17,472	1	1,381	0	0	0	18,854	2,895	6,820
Other plant, office furniture and equipment	10,449	0	1,424	- 540	311	11,644	8,230	1	1,034	0	- 69	0	9,195	2,220	2,449
Payments on account	285	0	5,068	- 4	- 3,118	2,231	0	0	0	0	0	0	0	285	2,231
Total property, plant and equipment	**45,405**	**0**	**10,842**	**- 543**	**0**	**55,704**	**32,421**	**2**	**3,172**	**0**	**- 69**	**0**	**35,526**	**12,984**	**20,178**
Financial assets															
Equity investments	120	0	256	0	0	376	0	0	0	0	0	0	0	120	376
Total financial assets	**120**	**0**	**256**	**0**	**0**	**376**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**120**	**376**
Total	**70,433**	**0**	**16,047**	**- 543**	**0**	**85,936**	**51,727**	**2**	**4,265**	**17**	**- 69**	**0**	**55,943**	**18,705**	**29,993**

Note: Rounding differences of +/- one unit (€ 000s, %) may occur in the tables.

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

in € thousands	Dec. 31, 2014		Dec. 31, 2013	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	0	2,326	0	1,061
Property, plant and equipment	309	0	308	0
Receivables and other assets	308	341	311	541
Provisions for pensions	678	0	234	0
Bonds	0	180	0	188
Liabilities	0	61	0	0
Loss carryovers	827	0	0	0
Deferred tax assets and liabilities prior to offsetting	1,783	2,908	853	1,790
Offset	-1,783	-1,783	-853	-853
Deferred tax assets and liabilities after offsetting	0	1,125	0	937

The increase in deferred tax liabilities by € 1,118 thousand was primarily the result of capitalizations of development costs for intangible assets in the year under report (€ 1,265 thousand). This was opposed by a reduction in carrying amount differences for bonds (€ 9 thousand) and for trade receivables (€ 200 thousand).

This increase in deferred tax assets by € 931 thousand was primarily due to capitalizations of loss carryovers (€ 489 thousand) and of deferred taxes on provisions for pensions (€ 444 thousand). In Germany, loss carryovers may be used for an indefinite period, provided that minimum taxation requirements are complied with. The period in which the foreign loss carryovers in connection with Voltabox of Texas, Inc. may be used is limited to 20 years. Furthermore, carrying amount differences increased for provisions for pensions (€ 444 thousand) and property, plant and equipment (€ 1 thousand). This was opposed by a reduction in carrying amount differences for receivables and other assets (€ 4 thousand). In the period under report, an amount of € -144 thousand from the deferred tax assets for provisions for pensions was recognized directly in equity in the revaluation deficit (prior year: € 151 thousand). This also corresponds to the amount of deferred tax assets related to the OCI component.

Voltabox Deutschland GmbH has corporate income tax and trade tax loss carryovers amounting to € 1,189 thousand. No deferred taxes were recognized for these loss carryovers.

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

Pursuant to IAS 12.81 (c) the actual tax expense must be compared with the tax expense that would theoretically result from using the applicable tax rates on reported pre-tax earnings. The following statement reconciles theoretical tax expense with current tax expense.

in € thousands	Jan. 1 - Dec. 31, 2014	Jan. 1 - Dec. 31, 2013
Net income for the period before income taxes	4,287	6,434
Calculatory tax expense at a tax rate of 30.0% (prior year: 29.8%)	1,286	1,917
Non-period tax expenses	85	154
Non-deductible expenses and tax-free income	99	155
Non-recognition of deferred tax assets on loss carryovers	357	0
Tax effect from the partial transfer of pension obligations	-293	259
Other	-22	0
Current tax expense	1,512	2,485

(10) Earnings per share

Basic earnings per share are calculated by dividing net income for the period under report by the weighted average number of shares issued. The weighted average number of shares issued was 4,114,788 in the period under report (prior year: 4,114,788).

With net income of € 2,775 thousand in the year under report (prior year: € 3,949 thousand), basic earnings per share amount to € 0.67 (prior year: € 0.96).

To calculate diluted earnings per share, the number of all potentially dilutive shares is added to the weighted average number of shares issued.

Stock option plans generally result in a potential dilution of earnings per share. In the fiscal year from January 1 to December 31, 2014 there were no option rights to purchase paragon AG shares.

D. Notes on individual items of the consolidated balance sheet

The statement of non-current assets shows the change in and breakdown of intangible assets, property, plant and equipment, and financial assets. Notes on capital expenditure (investments) can be found in the management report.

(1) Intangible assets

Capitalized development costs

Development costs of € 7,755 thousand (prior year: € 3,562 thousand) have been capitalized under intangible assets. Total development costs for the period amounted to € 7,829 thousand (prior year: € 7,075 thousand). Of this amount, internal development costs of € 4,534 thousand were capitalized as intangible assets in the year under report (prior year: € 1,518 thousand).

Key focuses of development work include the communications division (Car Media Systems) and the areas of power train sensors and control and display instruments.

Amortization and impairment losses amounted to € 324 thousand in the year under report (prior year: € 215 thousand).

Pursuant to IAS 36, an impairment test was performed on capitalized development costs. For individual development projects, this revealed a maximum recoverable amount of € 0 thousand. The recoverable amount in each case reflects the fair value of the development projects determined based on new information concerning the realizability of the development projects. The impairment loss recognized pursuant to IAS 36 amounted to € 17 thousand in the year under report (prior year: € 268 thousand).

The recoverable amount for internally generated intangible assets is determined based on the calculation of their value in use by applying cash flow forecasts based on sales planning approved by the Managing Board. Sales plans cover a five-year planning period; the growth assumed for each product is established by reference to available market analyses. The risk-adjusted discount factor for cash flow forecasts is 4%.

(2) Property, plant and equipment

Depreciation amounted to € 3,172 thousand in the year under report (prior year: € 2,870 thousand). Land and buildings are encumbered with property charges as collateral for long-term bank loans.

Portions of movable fixed assets are financed by finance leases, often with terms of four to five years. The corresponding payment obligations for future lease installments are recognized as liabilities. The net carrying amount of assets capitalized under financial leases amounted to € 2,280 thousand as of December 31, 2014 (prior year: € 1,110 thousand). The corresponding payment obligations for future lease installments amounted to € 2,239 thousand (prior year: € 967 thousand) and are recognized as liabilities at their net present value. Capitalized assets under finance leases relate exclusively to technical plant and machinery. The predominant share of the leases include arrangements for the transfer of ownership without further payments after full settlement of all obligations during the basic lease period (full amortization). Otherwise, no firm agreements have been made concerning the further use of the leased assets following expiry of the basic lease period. paragon nevertheless assumes that the leased assets can be acquired at a favorable price after the basic lease period has expired or may continue to be used at a favorable leasing rate.

Advance payments made for machinery and equipment amounted to € 5,068 thousand in the year under report (prior year: € 1,442 thousand).

Retirement expenses of € 475 thousand were recognized for items of property, plant and equipment in the year under report (prior year: € 18 thousand).

(3) Financial assets

The company acquired shares in KarTec GmbH, Forchheim, at a price of € 1,036 thousand as of July 29, 2013 by exercising the put option set out in the purchase agreement subject to conditions precedent. The parties agreed that the purchase price would be offset against a receivable of paragon AG in connection with a loan granted. In the annual financial statements as of December 31, 2014, the company reported equity of € 0 thousand (prior year: € -22 thousand) and net income of € 22 thousand (prior year: € -32k).

paragon Automotive Technology Co. Ltd., Shanghai, commenced operations in 2013. The full license applied for under Chinese law was granted on January 3, 2014. In the annual financial statements as of December 31, 2014, the company reported equity of € 5 thousand (prior year: € 40 thousand) and net income of € -190 thousand (prior year: € -112 thousand).

In the course of the strategic alignment of business units, in the year under report the Electromobility segment was spun off to the existing company Voltabox Deutschland GmbH by notarized spin-off and takeover agreement dated April 23, 2014 and with retrospective effect as of January 1, 2014. The Managing Directors of Voltabox Deutschland GmbH are Klaus Dieter Frers and Mr. Jürgen Pampel.

paragon AG holds 100% of the shares in Voltabox Deutschland GmbH. In the annual financial statements as of December 31, 2014, the company reported equity of € -273 thousand and net income of € -815 thousand.

Voltabox of Texas, Inc., Austin, was founded on December 18, 2013. The CEO and President of this company is Klaus Dieter Frers. Since 2014, the company has produced and marketed electromobility business activities in the US market. paragon AG holds 100% of the shares in Voltabox of Texas, Inc. In the annual financial statements as of December 31, 2014, the company reported equity of € -924 thousand and net income of € -811 thousand.

Individual group companies are exclusively financed by the parent. Overall, paragon AG has assumed guarantees of € 1,468 thousand in connection with investment loans for Voltabox Deutschland GmbH (prior year: € 0 thousand).

paragon AG has assumed directly enforceable fixed liability guarantees of € 318 thousand and directly enforceable guarantees of € 1,150 thousand towards Voltabox Deutschland GmbH.

In view of the accounting insolvency of Voltabox Deutschland GmbH paragon AG has declared a qualified subordination for a claim of € 5,506 thousand. Furthermore, paragon AG holds a limited partnership interest with a capital share of € 100 thousand in the limited partnership Bilster Berg Drive Resort GmbH & Co. KG, whose registered office is in Bad Driburg, Germany. This was acquired on September 19, 2013 for a price of € 120 thousand.

(4) Inventories

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Raw materials and supplies	2,161	4,178
Work in process and finished goods and services	4,474	3,196
Advance payments on inventories	276	95
Inventories	**6,911**	**7,469**

No impairment losses were recognized for inventories either in the year under report or in the prior year. As in the prior year, no write-ups were recognized in the year under report. The carrying amount of inventories recognized at net realizable value (fair value less costs to sell) was € 289 thousand as of December 31, 2014 (prior year: € 427 thousand). Write-downs of € 407 thousand were recognized on inventories, mainly for salvage and spare parts storage, in the year under report (prior year: € 111k). At the balance sheet date, inventories of € 0 thousand served as collateral for liabilities (prior year: € 6,075 thousand).

(5) Trade receivables

The carrying amount of trade receivables is derived as follows:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Trade receivables, gross	9,830	6,049
less impairment losses	-67	-13
Trade receivables	**9,763**	**6,036**

The year-on-year increase in the level of receivables was primarily due to receivables from a customer not covered by the factoring agreement.

The Group had receivables according to the "PoC" method of € 1,511 thousand (prior year: € 3,743 thousand). Sales reductions of € -2,231 thousand (prior year: sales increases of € 2,509 thousand) were countered by cost reductions of € 1,394 thousand (prior year: € 2,329 thousand). Overall, the Group can report prepayments received of € 487 thousand for "PoC" projects (prior year: € 2,061 thousand).

The maturity structure of non-impaired trade receivables as of the balance sheet date is as follows:

in € thousands	Carrying amount	of which neither impaired nor past due	of which past due but not impaired, as follows			
Dec. 31, 2014			0 to 30 days	30 to 60 days	60 to 90 days	> 90 days
Trade receivables	9,594	4,933	3,389	45	28	1,199
Dec. 31, 2013			0 to 30 days	30 to 60 days	60 to 90 days	> 90 days
Trade receivables	6,035	4,932	347	159	59	538

With regard to receivables that have neither been written down nor are overdue, there were no indications as of the balance sheet date that the respective debtors would fail to meet their payment obligations.

Based on these findings, impaired receivables developed as follows:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Impaired receivables before allowances for losses	236	14
Allowances for losses	-67	-13
Impaired receivables after allowances for losses	**169**	**1**

Impairment losses and derecognition of trade receivables are reported under other operating expenses. Income from receipts for derecognized receivables is reported under other operating income. No write-downs or derecognition of other financial assets occurred during the period under report or in the prior year.

(6) Other current assets

Other current assets include:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Other current assets		
Purchase price retentions from factoring	644	721
Insurance damage payments	454	0
Prepaid expenses	119	263
Creditors with debit balances	74	165
Investment grant	71	0
Miscellaneous assets	403	298
Other current assets	**1,765**	**1,447**

The periods by which other current assets were overdue as of the balance sheet date are presented below:

in € thousands	Carrying amount	of which neither impaired nor past due	of which past due but not impaired, as follows			
Dec. 31, 2014			0 to 30 days	30 to 60 days	60 to 90 days	> 90 days
Other current assets	1.765	1,765	0	0	0	0
Dec. 31, 2013			0 to 30 days	30 to 60 days	60 to 90 days	> 90 days
Other current assets	1.447	1,447	0	0	0	0

There were no indications as of December 31, 2014 that any material payment defaults were likely to arise in the case of other current assets.

(7) Cash and cash equivalents

Cash on hand and bank deposits are recognized at nominal value. Cash and cash equivalents include € 17 thousand (prior year: € 6 thousand) in cash on hand and € 13,247 thousand (prior year: € 17,641 thousand) in bank deposits. Cash and cash equivalents also include an amount of € 500k on the insolvency escrow account (prior year: € 342 thousand) and an amount of € 973 thousand on the insolvency dividend payout account (prior year: € 971 thousand). Both accounts are under the sole power of disposal of the former insolvency administrator. Changes in cash and cash equivalents are presented in the consolidated cash flow statement.

(8) Equity

The changes in the individual components of equity for the fiscal year from January 1 to December 31, 2013 and for the reporting period from January 1 to December 31, 2014 are presented in the consolidated statement of changes in equity.

Share capital

paragon AG's share capital as of December 31, 2014 amounted to € 4,115 thousand (prior year: € 4,115 thousand) and was divided into 4,114,788 bearer shares with a notional share in capital of € 1.00 each. By resolution of the Annual General Meeting on May 9, 2012, the company's share capital was increased to € 5,143,485 pursuant to § 207 et seq. of the German Stock Corporation Act (AktG) related to capital increases from capital reserve by transferring an amount of € 1,028,697 from the capital reserve as reported in the balance sheet as of December 31, 2011. The increase in the share capital was made without new shares being issued, but instead by increasing the notional share in the company's share capital attributable to each share. Subsequently, for the purpose of repaying a portion of the share capital to the company's shareholders in the form of a cash distribution in the amount of € 0.25 per share currently in issue, the share capital was reduced pursuant to § 222 et seq. of the German Stock Corporation Act (AktG) related to ordinary capital reductions by € 1,028,697 from € 5,143,485, divided into 4,114,788 bearer shares with an imputed proportion in the share capital of € 1.25 each, to € 4,114,788. This capital reduction was effected by reducing the notional share in the company's share capital attributable to each share. The payout of the amount of the capital reduction totaling € 1,028,697 was carried out after registration of the capital reduction on January 3, 2013.

No increase in share capital due to the exercise of options under the company's stock option plan took place during the period under report.

Exchange rate differences arising from the translation of financial statements prepared in foreign currencies or during consolidation are charged to equity without impacting the income statement as stipulated in IAS 21.

Conditional capital

Conditional Capital 2012/I pursuant to the resolution by the Annual General Meeting on May 9, 2012

A conditional capital increase of € 410 thousand by issue of up to 410,000 new no par-value shares was resolved by the Annual General Meeting of May 9, 2012 (Conditional Capital 2012/I). Conditional Capital 2012/I serves exclusively to secure subscription rights issued to the members of the Managing Board and company employees, based on the authorization of the Annual General Meeting on May 9, 2012 within the context of the Stock Option Plan 2012 in the time period up to and including May 8, 2017. The conditional capital increase will only be implemented to the extent that subscription rights are issued and the holders of such subscription rights exercise their right to subscribe company shares and the company does not grant treasury shares or opt for cash settlement to service the subscription rights. The new shares participate in the company's profit from the beginning of the fiscal year in which they arise due to exercising of the related subscription rights. The Managing Board is authorized, with the approval of the Supervisory Board, to define the further details of the implementation of the capital increase. The Supervisory Board is authorized accordingly to the extent that members of the Managing Board are affected. The Supervisory Board is further authorized to revise the wording of the Articles of Incorporation in accordance with the utilization of conditional capital.

Conditional Capital 2012/II pursuant to the resolution by the Annual General Meeting on May 9, 2012

A conditional capital increase of € 1,647 thousand by issue of up to 1,647,394 new no par-value shares was resolved by the Annual General Meeting of May 9, 2012 (Conditional Capital 2012/II). Conditional Capital 2012/II serves exclusively to grant shares to holders or creditors of bonds with warrants and/or convertible bonds that are issued or guaranteed until May 8, 2017 by the company or by group companies as defined in § 18 of the German Stock Corporation Act (AktG) in which the company has a shareholding of at least 90% based on the authorization by the Annual General Meeting on May 9, 2012.

With the same resolution of the Annual General Meeting the Managing Board was authorized to issue, with the approval of the Supervisory Board, on one or more occasions until May 8, 2017 option bearer bonds and/or convertible bearer bonds at a total nominal value of up to € 100,000,000.00 and a term of up to 20 years and to grant or impose on the to the creditors or holders of the respective bonds option rights or conversion rights and/or conversion obligations, respectively, for up to an aggregate of 1,647,394 newly issued non-par value bearer shares (Stückaktie) of the company with a proportionate amount in the share capital of € 1,647,394.00 according to the specific terms and conditions of the respective bonds.

The new shares will be issued at an option or conversion price to be determined in accordance with the aforementioned authorization. The conditional capital increase is only executed to the extent that holders or creditors of bonds with warrants or convertible bonds, which are issued or guaranteed until May 8, 2017 by the company or by group companies as defined in § 18 of the German Stock Corporation Act (AktG) in which the has a direct or indirect shareholding of at least 90%, based on the authorization of the Managing Board by the Annual General Meeting on May 9, 2012, exercise their option or conversion rights or, to the extent that they are obliged to exercise their option or conversion rights, fulfill such obligation to exercise option or conversion rights, unless treasury shares are utilized to service bonds with option or conversion rights or obligations or a cash settlement is implemented. The new shares participate in the company's profit starting at the beginning of the fiscal year in which they are issued through the exercise of options or conversion rights or the fulfillment of conversion or option obligations. The Managing Board is authorized, with the approval of the Supervisory Board, to define the further details of the implementation of the conditional capital increase. The Supervisory Board is authorized to revise the wording of the Articles of Incorporation in accordance with the utilization of the conditional capital.

Authorized Capital 2012/I pursuant to the resolution by the Annual General Meeting on May 9, 2012

The Managing Board is authorized, with the approval of the Supervisory Board, to increase the company's share capital until May 8, 2017 by up to € 2,057,394.00 in total by issuing up to 2,057,394 new no par-value bearer shares on one or several occasions in return for cash contributions or contributions in kind (Authorized Capital 2012/I). Shareholders must generally be granted subscription rights. The statutory subscription right may also be granted by having the new shares taken over by a banking consortium with the obligation to offer the shares indirectly to shareholders for subscription pursuant to § 186 (5) of the German Stock Corporation Act (AktG). The Managing Board is nevertheless authorized, with the approval of the Supervisory Board, to exclude shareholders' statutory subscription rights in the cases listed in § 5 (6) of the Articles of Incorporation of the issuer in the version dated May 9, 2012.

Capital reserve

As of December 31, 2014, the capital reserve amounted to € 2,450 thousand (prior year: € 2,450 thousand). By transferring an amount of € 1,029 thousand from the capital reserve as reported in the balance sheet as of December 31, 2011, the company's share capital was increased pursuant to § 207 et seq. of the German Stock Corporation Act (AktG) related to capital increases from capital reserve, based on a resolution adopted by the Annual General Meeting on May 9, 2012.

Revaluation deficit

To comply with the requirement to recognize actuarial gains and losses from pension provisions directly in equity in accordance with the revised IAS 19 "Employee Benefits", amounts of € -426 thousand after deferred taxes recorded in profit or loss in the prior years were reclassified from profit/loss carried forward to the revaluation deficit in the 2012 financial statements. In the reporting period, an amount of € 335 thousand after deferred taxes (prior year: € 19 thousand) was recognized in the revaluation deficit.

Dividend

It will be proposed to the Annual General Meeting that a dividend of € 0.25 per share shall be paid out for the period under report as of December 31, 2014.

(9) Finance lease obligations

Liabilities under finance leases, which mainly relate to technical equipment, are recorded at their present value or amortized cost in accordance with IAS 17. The principal repayment portion reported here is derived as follows:

in € thousands	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2014	Dec. 31, 2013
Minimum lease payments	611	528	1,288	2,427	1,060
Future interest payments	-74	-55	-59	-188	-93
Finance lease obligations (reduction of principal)	537	473	1,229	2,239	967
of which reported under non-current liabilities				1,703	298
of which reported under current liabilities				536	669

(10) Bonds

To promote its further internationalization and expand its existing business fields, in the prior year the company completed a public offer for the subscription of bonds. Overall, a volume of € 10,000 thousand was placed with retail and institutional investors. The term of the bond term runs until July 2, 2018. In the year under report, the company placed a further tranche of € 3,000 thousand of the corporate bond already issued in the prior year. This tranche also has a term running until July 2, 2018. The transaction costs of € 790 thousand incurred in connection with the two placements are being amortized over the term of the bond using the effective interest method in accordance with IAS 39.47. An amount of € 135 thousand (prior year: € 57 thousand) was thus amortized in the year under report.

(11) Liabilities to banks

Current and non-current liabilities to banks totaled € 15,093 thousand (prior year: € 12,364 thousand); collateral for liabilities to banks existed in the amount of € 15,093 thousand (prior year: € 12,364 thousand).

Liabilities to banks are secured by property charges for loan liabilities in the amount of € 8,329 thousand (prior year: € 7,124 thousand) and by collateral assignment of property, plant and equipment of € 4,282 thousand (prior year: € 1,690 thousand) as well as collateral assignment of inventories in the amount of € 0 thousand (prior year: € 6,075 thousand). The collateralization of raw materials and supplies and of work in progress and finished products dated June 16, 2010 was ended in August 2014.

Liabilities to banks have the following maturity structure:

in € thousands	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2014	Dec. 31, 2013
Liabilities to banks	4,962	6,806	3,325	15,093	12,364
of which reported under non-current liabilities				10,131	10,178
of which reported under current liabilities				4,962	2,186

The interest rates for liabilities to banks range from 1.8 % to 6.0 % and are fixed for all loans. There is therefore no exposure to interest rate risk.

(12) Provisions for pensions

A provision for a defined benefit pension plan was recognized at paragon in accordance with the revised IAS 19 "Employee Benefits". This relates to a commitment of a fixed amount at age 65 based on an individual contract. In addition to this existing pension agreement, a new commitment was made in fiscal 2005. This involves a commitment at age 65 established under an individual contract that is based on length of employment and salary level. Pension provisions exist for pension commitments to members of the Managing Board. Based on a decision by the Supervisory Board on August 31, 2009, pension obligations in the amount of € 794 thousand and the corresponding plan assets of € 1,425 thousand were transferred to HDI Gerling Pensionsfonds in fiscal 2010. By resolution of the Supervisory Board on December 10, 2013, another partial transfer of pension obligations to Allianz Pensionsfonds AG was effected in the amount of € 1,453 thousand during fiscal 2013.

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

An actuarial loss of € 335 thousand (prior year: actuarial gain of € 357 thousand) was recognized in other comprehensive income.

The actuarial calculations have been based on the following assumptions:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Discount rate	2.00	3.75
Expected return on plan assets	0.00	0.00
Salary increase (recommitment based on individual contracts until 2009, 0% thereafter)	0.00	10.00
Pension increase	2.00	2.00
Fluctuation	0.00	0.00

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

Present value of defined benefit obligation:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Present value of defined benefit obligation at beginning of year	1,224	2,726
Service cost	151	85
Interest cost	28	109
Losses from settlements	0	265
Settlements	0	-1,453
Actuarial gains (-), losses (+)	479	-508
Present value of defined benefit obligation on balance sheet date	1,882	1,224

The actuarial losses incurred in fiscal 2014 were recognized directly in equity in the revaluation deficit in accordance with the revised IAS 19. Changes in demographic assumptions had no effect on the level of actuarial losses in the year under report.

Net amount of defined benefit obligation recognized and not countered by plan assets:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Present value of defined benefit obligation	1,882	1,224
less fair value of plan assets	0	0
Unfunded defined benefit obligation	1,882	1,224

The net amount changed as follows:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Unfunded defined benefit obligation at beginning of year	1,224	2,726
Pension expense	179	459
Actuarial gains (-), losses (+)	479	-508
Settlements	0	-1,453
Unfunded defined benefit obligation	1,882	1,224

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

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Service cost	151	85
Interest cost	28	109
Losses from settlements	0	266
Actuarial gains (-) / losses (+)	479	-508
Pension expense	658	-48

The actuarial gains and losses in the year under report and prior years were fully reclassified to other comprehensive income.

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

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Present value of defined benefit obligation	1,882	1,224
less fair value of plan assets	0	0
Unfunded defined benefit obligation	1,882	1,224

Disclosures on sensitivities and risks:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
DBO as of Dec. 31, 2014, interest rate 1.75% (prior year: 3.50%)	1,968	1,275
DBO as of Dec. 31, 2014, interest rate 2.25% (prior year: 4.00%)	1,801	1,175
DBO as of Dec. 31, 2014, pension increase 1.75% (prior year: 1.75%)	1,816	1,187
DBO as of Dec. 31, 2014, pension increase 2.25% (prior year: 2.25%)	1,951	1,262

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

(13) Other liabilities

Other liabilities include the following items:

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Other current liabilities		
Financial liabilities		
Deferred income (accruals)	2,881	2,210
Liabilities from partial transfer of pensions	0	1,453
Old debt measured at insolvency ratio	973	971
Other current liabilities	0	57
	3,854	4,691
Liabilities from other taxes	587	1,165
Other current liabilities	4,441	5,856

Other liabilities have the following maturity structure:

in € thousands	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2014	Dec. 31, 2013
Other liabilities	4,441	0	0	4,441	5,856
of which reported under non-current liabilities				0	0
of which reported under current liabilities				4,441	5,856

(14) Special item for investment grants

This involves government investment grants, which are reported as liabilities in accordance with IAS 20. The company received government assistance of € 0 thousand in the year under report (prior year: € 70 thousand).

(15) Other provisions

Other provisions are all due within one year and developed as follows:

in € thousands	Jan. 1, 2014	Utilization	Reversal	Addition	Dec. 31, 2014
Pending losses	0	0	0	0	0
Guarantees and ex gratia payments	55	0	0	36	91
Litigation risks	0	0	0	0	0
Other provisions	55	0	0	36	91

(16) Income tax liabilities

This item relates exclusively to trade tax and corporate income tax for prior reporting periods.

(17) Additional disclosures on financial instruments

This section provides a summary of financial instruments employed by paragon AG. The tables below show the carrying amounts (CA) and fair values (FV) of financial assets and financial liabilities as of December 31, 2014 and December 31, 2013:

December 31, 2014

	Nominal amount		Amortized cost		Fair value			
	Cash reserve		Loans and receivables		Held for trading		Available for sale	
in € thousands	CA	FV	CA	FV	CA	FV	CA	FV
ASSETS								
Cash and cash equivalents	13,264	13,264						
Trade receivables			9,763	9,763				
Other assets			1,765	1,765				
Financial assets					0	0	0	0
Total assets	13,264	13,264	11,528	11,528	0	0	0	0
EQUITY AND LIABILITIES								
Bonds			12,873	12,873				
Liabilities to banks			15,093	16,952				
Finance leases			2,239	2,281				
Trade payables			6,119	6,119				
Other liabilities			4,441	4,441				
Total equity and liabilities	0	0	40,765	42,666	0	0	0	0

December 31, 2013

	Nominal amount		Amortized cost		Fair value			
	Cash reserve		Loans and receivables		Held for trading		Available for sale	
in € thousands	CA	FV	CA	FV	CA	FV	CA	FV
ASSETS								
Cash and cash equivalents	17,647	17,647						
Trade receivables			6,036	6,036				
Other assets			1,447	1,447				
Financial assets					0	0	0	0
Total assets	17,647	17,647	7,483	7,483	0	0	0	0
EQUITY AND LIABILITIES								
Bonds			9,730	9,730				
Liabilities to banks			12,364	14,413				
Finance leases			967	983				
Trade payables			3,357	3,357				
Other liabilities			5,856	5,856				
Total equity and liabilities	0	0	32,274	34,339	0	0	0	0

Determination of fair value

The fair value of cash and cash equivalents, current receivables and other assets, and trade payables and other liabilities roughly reflects the carrying amount due to the short term to maturity.

paragon measures non-current receivables and other assets based on specific parameters such as interest rates and the customer's credit standing and risk structure. Accordingly, paragon recognizes allowances for anticipated defaults on receivables.

paragon determines the fair value of liabilities under finance leases by discounting the anticipated future cash flows using the interest rates applicable for similar financial liabilities with a comparable term to maturity (Level 2).

paragon determines the fair value of liabilities to banks by discounting the anticipated future cash flows using the interest rates applicable for similar financial liabilities with a comparable term to maturity (Level 2). The difference of € 1,859 thousand between the carrying amount and the fair value of liabilities to banks results from interest rate differentials between the current market interest rates and the contractual interest rates to be paid and is purely for informational purposes. There is no future payment obligation arising from this difference.

A hierarchical classification was undertaken for measuring fair value in accordance with IFRS 13.75 et seq. The hierarchical fair value levels and their application to paragon's financial assets and liabilities are described below:

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

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

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

Net gains

Net gains from financial instruments have been realized as shown below:

in € thousands	Jan. 1 - Dec. 31, 2014	Jan. 1 - Dec. 31, 2013
Receivables	294	15
Net gains	**294**	**15**

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

Derivative financial instruments

In addition to primary financial instruments, paragon employs various derivative financial instruments as needed. As part of risk management, the company employs derivative financial instruments mainly to limit the risk from interest rate and exchange rate fluctuations. Further information on risk management strategies can be found in the section entitled "Management of risks arising from financial instruments." The company engages in the use of derivative financial instruments only with financial institutions of the very highest credit standing.

Derivative financial instruments for currency hedging

paragon is exposed to a number of financial risks due to its international activities. These include, in particular, the effects of changes in exchange rates. paragon takes an integrated approach in hedging the risks inherent in fluctuating exchange rates. Company-wide risks are centralized and hedged where appropriate using derivative financial instruments. If necessary, paragon enters into forward exchange contracts as part of the hedging process. As of December 31, 2014, the company had an exchange rate hedge for an amount of USD 250 thousand at a rate of USD/€ 1.35 and with a maturity running to June 30, 2015. The company had no other items in connection with forward exchange transactions at the end of the fiscal year.

Derivative financial instruments for interest rate hedging

Interest rate risk results from the sensitivity of financial liabilities to changes in the market interest rate. paragon generally hedges these risks by employing interest rate derivatives. The company uses over-the-counter interest rate swaps to hedge interest rates. The transactions are exclusively entered into with banks of impeccable creditworthiness. If the trade date and settlement date do not coincide, then initial recognition is based on the settlement date.

To hedge any interest rate risk, the company follows an approach geared to the variable interest rate of individual financial liabilities. Swap contracts are therefore tailored to the hedged variable-rate borrowings in terms of both amount and maturity. The company does not apply hedge accounting as defined in IAS 39.85. The company had no financial liabilities with variable interest rates or derivative financial instruments for interest rate hedging as of December 31, 2014 or in the prior year.

(18) Management of risks from financial instruments

Market price fluctuations involve substantial cash flow and profit risks for paragon. Changes in exchange rates and interest rates influence business operations as well as investing and financing activities. To optimize financial resources within the Company, the risks from changes in interest rates and exchange rates are continuously analyzed, and current business and financial market activities are thus controlled and monitored. These risks are managed with the assistance of derivative financial instruments.

Price fluctuations in currencies and interest rates can entail significant profit and cash flow risks. Consequently, paragon centralizes these risks as far as possible and manages them with foresight by using derivative financial instruments. As part of the overall risk management system, management of these risks is a core task of paragon AG's Managing Board. The management of financial market risk is the responsibility of the Managing Board. The Managing Board bears full responsibility for the overall risk management process at the highest level.

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

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

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

Foreign currency risk

Because of its international orientation, paragon is exposed to foreign currency risk in connection with its ongoing business activities. The Company also employs derivative financial instruments to limit these risks. Exchange rate fluctuations can lead to undesirable earnings and liquidity fluctuations. Currency risk arises for paragon from foreign currency positions and possible changes in the relevant exchange rates. The uncertainty involved in future trends is referred to as exchange rate risk. paragon limits this risk by primarily settling purchases and sales of merchandise and services in the respective local currency.

paragon determines the sensitivity of foreign currency fluctuations by aggregating the net currency position of the operating business that is not reflected in the Group's functional currency. Sensitivity is calculated by simulating a 10 percent depreciation of the euro in relation to all foreign currencies. The simulated appreciation of the euro would have resulted in a change in future payment inflows in the amount of € 13 thousand as of December 31, 2014 (prior year: € 15 thousand). To the extent that future purchases are not hedged against currency risks, a depreciation of the euro against other currencies would have adverse impacts on financial position and financial performance due to the Company's foreign currency outflows exceeding its foreign currency inflows.

The following table provides an overview of the net foreign currency risk of the individual primary currencies as of December 31, 2014:

in € thousands	Dec. 31, 2014		Dec. 31, 2013	
	USD	Other	USD	Other
Transaction-related currency risk				
Currency risk from balance sheet items	126	4	136	10
Currency risk from pending transactions	0	0	0	0
	126	4	136	10
Items economically hedged through derivatives	0	0	0	0
Net exposure to currency risk	**126**	**4**	**136**	**10**
Change in currency exposure resulting from a 10 % appreciation of the euro	13	0	14	1

Interest rate risk

Interest rate risk applies to any change in interest rates that impacts the earnings, equity, or cash flows of current or future periods. Interest rate risk chiefly arises in connection with financial liabilities.

The interest-bearing financial liabilities chiefly have fixed interest rates. Changes in the interest rate would have an effect in such case only if the financial instruments were recorded at fair value. As this is not the case, the financial instruments with fixed interest rates are not subject to interest rate risks as defined in IFRS 7.

In the case of financial liabilities with floating interest rates, the interest rate risk is essentially measured by means of cash flow sensitivity. As the Company did not have any financial liabilities with floating interest rates at the end of the reporting period on December 31, 2014, changes in interest rates in subsequent fiscal years will not result in any cash flow risk.

Liquidity risk

Liquidity risk, i.e. the risk that paragon might not be able to meet its financial obligations, is limited by means of flexible cash management. As of December 31, 2014, paragon had cash and cash equivalents of € 13,246 thousand (prior year: € 17,647 thousand) at its disposal. Free current account credit lines of € 4,000 thousand were available as of December 31, 2014. In addition to the aforementioned instruments to secure liquidity, paragon continuously follows developments on the financial markets to enable it to take advantage of any beneficial financing options arising.

The following table shows the payments made for principal payments, repayments, and interest from recognized financial liabilities as of December 31, 2014:

in € thousands	2015	2016 - 2019	2020 and thereafter
Non-derivative financial liabilities			
Liabilities from bonds	943	15,465	0
Liabilities to banks	3,528	8,108	4,484
Liabilities from finance leases	537	1,702	0
Trade payables	6,119	0	0
Other financial liabilities	4,441	0	0
Total non-derivative financial liabilities	15,568	25,275	4,484
Derivative financial liabilities	0	0	0
Total:	15,568	25,275	4,484

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

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Cash and cash equivalents	13,264	17,647
Total liquidity	13,264	17,647
Current financial liabilities and current portion of non-current financial liabilities	5,498	2,855
Non-current financial liabilities	24,707	20,206
Total financial liabilities	30,205	23,061
Net debt	-16,941	-5,414

Credit risk

A credit risk is defined as a financial loss that arises when a contracting partner fails to meet its payment obligations. The maximum risk of default is therefore equal to the positive fair value of the interest rate instruments in question. Effective monitoring and control of credit risk is a core task of the risk management system. paragon reviews the creditworthiness of all customers with borrowing requirements that exceed specifically defined limits. The company continuously monitors credit risk.

(19) Capital management

The primary goal of capital management is to maintain a reasonable equity ratio. The capital structure is managed and adapted to changing economic conditions. In the fiscal year up to December 31, 2014, no fundamental changes in capital management goals, methods, or processes were introduced.

Capital management refers exclusively to the equity posted at paragon AG. Reference is made to the statement of changes in equity regarding any movements in this respect.

paragon was not required to comply with any financial covenants during the reporting period up to December 31, 2014 in association with financing provided by lending banks.

(20) Commitments, contingent assets and contingent liabilities as well as other financial obligations

As of December 31, 2014, the company had no commitments or off-balance sheet contingent assets or contingent liabilities. Other financial liabilities are structured as follows:

in € thousands	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2014	Dec. 31, 2013
Capital commitments	18,555	0	0	18,555	18,282
Lease obligations	934	3,267	3,581	7,782	9,221
Other liabilities	619	554	0	1,173	962
Other financial obligations	20,108	3,821	3,581	27,510	28,465

Reference is made to the comments in Section D (3) with regard to the purchase price payments still to be made for acquired pieces of land that are not included in the purchase commitment figure stated above.

(21) Notes to the consolidated cash flow statement

In accordance with IAS 7 “Cash Flow Statements”, the cash flows within a given fiscal year are recorded in the consolidated cash flow statement in order to present information about movements in the company's cash and cash equivalents. The consolidated cash flow statement has been prepared pursuant to the indirect method as defined in IAS 7.18b. Cash flows are broken down into cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities.

Since the 2012 reporting year, the current cash inflows and outflows resulting from the factoring agreement entered into in 2011 with GE Capital Bank have been allocated to the cash flow from operating activities.

The cash and cash equivalents shown in the consolidated cash flow statement comprise all cash and cash equivalents reported in the balance sheet to the extent that these are available at short notice.

in € thousands	Dec. 31, 2014	Dec. 31, 2013
Bank deposits	13,247	17,641
Cash on hand	17	6
Cash and cash equivalents	13,264	17,647

Cash and cash equivalents also include the insolvency escrow account with a balance of € 500 thousand (prior year: € 342 thousand) and the insolvency dividend payout account with a balance of € 973 thousand (prior year: € 971 thousand). Both accounts are under the sole power of disposal of the former insolvency administrator.

(22) Segment reporting

For performance measurement and management purposes pursuant to IFRS 8 “Operating Segments”, paragon's business activities are broken down into product-specific business fields to which the seven reportable segments of Air Quality, Power Train, Acoustics, Electromobility, Kinematics, Cockpit, and Media Interfaces are allocated. At paragon, short-term reporting, resource deployment and management, planning, and budgeting all take place via these segments. paragon's Managing Board is the chief operating decision maker and as such monitors the activities of the operating segments using performance indicators that are based on the same data used to prepare the IFRS financial statements.

Revenue of the business segments is monitored separately by the Managing Board in order to make decisions concerning the distribution of resources and to calculate the profitability of the subdivisions. The business performance of the segments is therefore measured on the basis of revenue and in line with revenue at the paragon AG level. All expenses, paragon AG's financing, and income tax charges are centrally managed for the entire company and not allocated to the individual segments. The Delbrück site functions as the core of the business and assumes the company-wide duties of finance, controlling, purchasing, corporate communications, and personnel management.

Revenues in € thousands	Jan. 1 - Dec. 31, 2014	Jan. 1 - Dec. 31, 2013
Sensors business segment	31,274	27,582
Cockpit business segment	27,501	27,287
Acoustics business segment	14,465	11,694
Body Works Kinematics business segment	3,741	3,540
Voltabox Deutschland GmbH*	1,111	3,777
Voltabox of Texas, Inc.*	945	0
Total	**79,037**	**73,880**
Reconciliation to total comprehensive income		
Income	7,294	3,241
Expense	-80,082	-69,182
Financial result	-1,962	-1,504
Income taxes	-1,512	-2,485
Net income	**2,775**	**3,950**

* Electromobility business segment

Information on geographical areas

The table below contains information concerning revenue from external clients and the non-current assets allocated to the geographical regions of the Group. The assignment of revenue from external clients to the individual geographical regions is based on the location of the registered head office of the respective external client.

in € thousands	Germany Jan. 1 - Dec. 31, 2014	Germany Jan. 1 - Dec. 31, 2013	EU Jan. 1 - Dec. 31, 2014	EU Jan. 1 - Dec. 31, 2013	Other countries 1Jan. 1 - Dec. 31, 2014	Other countries Jan. 1 - Dec. 31, 2013	Total Jan. 1 - Dec. 31, 2014	Total Jan. 1 - Dec. 31, 2013
Revenue	55,539	55,785	17,922	15,261	5,576	2,833	79,037	73,879
Non-current assets (property, plant and equipment and intangible assets)	27,899	18,705	0	0	1,718	0	29,617	18,705

Of revenue, 30.7 % (prior year: 31.4 %) or € 24,280 thousand (prior year: € 23,208 thousand) is attributable to one single customer and a further 16.2 % (prior year: 15.4 %) or € 12,803 thousand (prior year: € 11,380 thousand) to a second customer.

The product portfolio is derived from the operating segments. The product groups mentioned in the product portfolio are distinguished from one another in terms of value creation and area of application.

(23) Related party disclosures

Related parties as defined in IAS 24 “Related Parties” include members of the Managing Board and the Supervisory Board and their immediate families as well as affiliated companies.

Total compensation of the Managing Board includes salaries and non-recurring payments in the amount of € 1,112 thousand (fiscal 2013: € 876 thousand) and includes fixed (€ 756 thousand; fiscal 2013: € 514 thousand) and variable (€ 356 thousand; fiscal 2013: € 362 thousand) components. The key variable compensation components are geared to EBITDA and the company’s financial situation. No expenses were incurred in connection with share-based payments during the period under report (prior year: € 0 thousand). With regard to post-employment benefits, reference is made to the comments under “Provisions for pensions”.

Managing Board compensation table (earned):

Benefits granted (in €)	Frers, Klaus Dieter Chief Executive Officer Entry date: April 11, 1988		Schwehr, Dr. Stefan Chief Technology Officer Entry date: April 1, 2014	
	2013	2014	2013	2014
Fixed compensation	497,899.53	553,676.19	-	156,130.00
Fringe benefits	16,242.85	40,010.00	-	6,130.80
Total	**514,142.38**	**593,686.19**	**-**	**162,260.80**
Single-year variable compensation*	360,000.00	315,960.00	-	38,497.50
Multiyear variable compensation				
Plan designation (term of plan)				
Plan designation (term of plan)				
Total	**874,142.38**	**909,646.19**	**-**	**200,758.30**
Pension expenses	1,789.56	1,789.56	-	0.00
Total compensation	**875,931.94**	**911,435.75**	**-**	**200,758.30**

* no cap (minimum/maximum) stipulated

Managing Board compensation table (paid):

Allocation (in €)	Frers, Klaus Dieter Chief Executive Officer Entry date: April 11, 1988		Schwehr, Dr. Stefan Chief Technology Officer Entry date: April 1, 2014	
	2013	2014	2013	2014
Fixed compensation	497,899.53	553,676.19	-	156,130.00
Fringe benefits	16,242.85	40,010.00	-	6,130.80
Total	**514,142.38**	**593,686.19**	**-**	**162,260.80**
Single-year variable compensation*	353,884.59	375,036.58	-	0,00
Multiyear variable compensation				
Plan designation (term of plan)				
Plan designation (term of plan)				
Total	**868,026.97**	**968,722.77**	**-**	**162,260.80**
Pension expenses	1,789.56	1,789.56	-	0,00
Total compensation	**869,816.53**	**970,512.33**	**-**	**162,260.80**

* no cap (minimum/maximum) stipulated

Treu-Union Treuhandgesellschaft mbH, Steuerberatungsgesellschaft in Paderborn rendered services in the amount of € 88 thousand under an existing agreement in fiscal 2013 (prior year: € 78 thousand). Hermann Börnemeier, a member of the Supervisory Board of paragon AG, is also managing director of the aforementioned company.

Members of the Supervisory Board received fixed compensation in the past calendar year. Total Supervisory Board compensation amounted to € 120 thousand in the period under report (prior year: € 90 thousand), all of which involved fixed compensation. No expenses were incurred in connection with share-based payments during the period under report (prior year: € 0 thousand). The members of the Supervisory Board held 8,000 shares out of a total of 4,114,788 shares as of the balance sheet date (prior year: 7,000 thousand).

The members of the Managing Board held 2,114,680 shares out of a total of 4,114,788 shares as of the balance sheet date (prior year: 2,111,730 shares).

In line with the respective contractual agreements, payments of € 626 thousand (prior year: € 665 thousand) were made, chiefly for building rents, to Frers Grundstückverwaltungs GmbH & Co. KG, Delbrück, and to Artega GmbH & Co. KG in 2014. Of these, € 572 thousand related to the company building in Delbrück (prior year: € 637 thousand).

Frers Grundstückverwaltungs GmbH & Co. KG, Delbrück, acquired the property at Bösendamm 11, including the building on that property, for a purchase price of € 1,700 thousand as of February 21, 2014.

As of the balance sheet date, a fixed liability guarantee with a maximum amount of € 153 thousand had been provided by Klaus Dieter Frers with respect to paragon AG's liabilities to banks (prior year: € 153 thousand).

There is an employment relationship on arm's-length terms with Mrs. Brigitte Frers.

For transactions between paragon and its affiliated companies, reference is made to our disclosures in Section D.3 "Financial assets".

(24) Directors and officers

In the period from January 1 to December 31, 2014, the Managing Board of paragon AG comprised the Chief Executive Officer, Klaus D. Frers, and the Chief Technology Officer, Dr. Schwehr (since April 2014).

The company's Supervisory Board comprises the following members:

Name	Profession	Membership in supervisory boards and other supervisory bodies
Prof. Dr. Lutz Eckstein	Director of Institute for Automotive Engineering (ika) at RWTH Aachen University Chairman from May 14, 2014	Supervisory Board positions: • ATC GmbH, Aldenhoven (Member) Further positions: • fka mbH, Aachen (Chairman of Advisory Board) • VOSS Holding GmbH & Co. KG, Wipperfürth (Member of Advisory Board)
Hans J. Zimmermann	Businessman /Senior Consultant Chairman until May 13, 2014	Supervisory Board positions: • Schaltbau AG, München (Chairman) • Merkur Bank KGaA, Munich (Chairman until June 19, 2013) • GARANT Schuh + Mode AG, Düsseldorf (Chairman until December 12, 2013) • Anur Garant International AG (December 21, 2012 to April 25, 2013) Further positions: • ante-holz GmbH, Bromskirchen-Somplar (Chairman of Advisory Board)) • Rheinzink GmbH & Co. KG, Datteln (Member of the Board of Directors))
Hermann Börnemeier	Graduate in Finance and Tax Advisor, Managing Director of Treu-Union Treuhandgesellschaft mbH	None
Walter Schäfers	Attorney, Partner in Societät Schäfers Rechtsanwälte und Notare	None

(25) Share-based payments

Stock Option Plan 2012

By resolution adopted at the Annual General Meeting on May 9, 2012, the Managing Board was authorized, subject to the approval of the Supervisory Board, to issue subscription rights for up to 410,000 shares of the company on one or more occasions up to and including May 8, 2017 in accordance with the following rules. The Supervisory Board is correspondingly authorized where members of the company's Managing Board are concerned.

Group of beneficiaries

The group of beneficiaries includes members of the Managing Board and employees of the company. The precise group of beneficiaries and the scope of the relevant offer are determined by the Managing Board, subject to the approval of the Supervisory Board. The Supervisory Board determines the group of beneficiaries where members of the Managing Board are concerned.

Allocation of subscription rights

The allocation of subscription rights to individual groups of beneficiaries is as follows:

- Members of the company's Managing Board: up to a total of 250,000 subscription rights
- Company employees: up to a total of 160,000 subscription rights.

New subscription rights may be issued in lieu of subscription rights that have expired or have not yet been exercised

Purchase period

The subscription rights may be issued to the beneficiaries on one or more occasions during a period of one month after an Annual General Meeting or after the publication of a financial report (annual report, half-year financial report or quarterly report/ interim management statement). These periods constitute the "purchase period".

Term

The term of the subscription rights amounts to seven years, starting on the first day after their issue date. After that, the subscription rights will lapse without compensation. The issue date is the last day of the purchase period in which the subscription rights were issued.

Holding period

The subscription rights may be exercised for the first time after a period of four years after their issue date.

No options rights were issued under the Stock Option Plan 2012 in the year under report.

(26) Auditor's fee

Expenses of € 64 thousand were recognized in the period under report from January 1 to December 31, 2014 as fees for the audit of paragon AG's separate financial statements prepared in accordance with the German Commercial Code (HGB) and for the audit of paragon AG's separate financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, which were conducted by Baker Tilly Roelfs AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft (prior year: € 59 thousand). Expenses of € 0 thousand were recognized for other certification services (prior year: € 109 thousand).

(27) Risk management

The company's risk management is presented in the management report.

(28) Declaration pursuant to § 160 (1) No. 8 AktG

In the year under report, there were no notifications pursuant to § 26 (1) of the German Securities Trading Act (WpHG) that required disclosure by the company in accordance with § 160 (1) No. 8 of the German Stock Corporation Act (AktG).

(29) Declaration of Conformity with the German Corporate Governance Code

The Declaration of Conformity with the German Corporate Governance Code required under § 161 of the German Stock Corporation Act (AktG) was most recently submitted on February 19, 2015 and is permanently available to shareholders on the company's website (www.paragon.ag).

Delbrück, February 25, 2015

paragon AG
The Managing Board

Klaus Dieter Frers Dr. Stefan Schwehr

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements – comprising the balance sheet, the statement of comprehensive income, the statements of changes in equity and cash flows and the notes to the financial statements – and the Group management report prepared by paragon AG for the financial year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as it is to be applied in the EU, and with the provisions given after section 315a (1) of the German Commercial Code (HGB) also to be applied as well as the supplementary provisions of the Articles of Association, is the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report, based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of inaccuracies and irregularities, which have a considerable impact on the image of the net assets, financial position and results of operations conveyed in the consolidated financial statements in accordance with the accounting standards to be applied and in the Group management report. Knowledge of the business activities and the economic and the legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal financial reporting control systems and evidence supporting the amounts and disclosures in the consolidated financial statements and Group management report are examined primarily on a sample test basis within the framework of the audit. The audit includes assessing the annual financial statements of companies included in the consolidated financial statements, the delimitation of the consolidated group, the accounting principles and principles of consolidation used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

Following our assessment and based on our findings from the audit, the consolidated financial statements are in accordance with IFRS, as it is to be applied in the EU, and with the provisions given after section 315a (1) HGB also to be applied as well as the supplementary provisions of the Articles of Association, and in our opinion give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The Group management report is in accordance with the consolidated financial statements and provides a suitable understanding of the position of the Group and suitably presents the risks and opportunities of future development.

Düsseldorf, March 2, 2015

Baker Tilly Roelfs AG
Wirtschaftsprüfungsgesellschaft

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