DIE ERFINDER-AG.

ANNUAL REPORT 2015

AT A GLANCE

Key Indicators

in € thousands	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2014	Change in %
Sales	94,990	79,037	20.2
EBITDA	14,212	10,531	35.0
EBITDA margin in %	15.0	13.3	
EBITDA (adjusted)*	18,647	13,527	37.9
EBITDA margin in % (adjusted)*	19.6	17.1	
EBIT	7,808	6,249	24.9
EBIT margin in %	8.2	7.9	
EBIT (adjusted)*	11,977	9,245	29.6
EBIT margin in % (adjusted)*	12.6	11.7	
Net income	3,403	2,775	22.6
Earnings per share in €	0.83	0.67	22.6
Total assets	92,551	62,424	48.3
Equity	19,402	17,199	12.8
Equity-Quota in %	21.0	27.6	
Available liquidity	13,840	15,791	- 12.4
Interest-bearing liabilities	47,868	30,205	58.5
Net debt	34,028	14,414	136.1
Operating cash flow	12,853	6,948	85.0

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

CONTENTS

DEAR SIR OR MADAM,

A really very eventful 2015 is now behind us, one in which paragon AG increased its sales by more than 20%, is now represented by its own productions plants in the US and China, could transact further big deals in the field of E-mobility, and with its product offensive at the international motor show IAA made the car manufacturers sit up and take notice – it seems we have hit the bull's eye with our new products.

All these promising activities showed that 2015 was another year of investment. The peak of this investment phase, which began with the issuance of our bond in 2013, has now been reached. In 2015 the focus shifted to business transactions, production, and delivery.

We have adopted a clear direction with our investments, our products, and our strategy. Everything we do is oriented towards the megatrends that determine the current and future situation of society, economic, and ultimate development of automobile industry. We have clearly identified the following megatrends as being of particular relevance to us:

HEALTH
INTERACTION
CO_2-REDUCTION

We will show you in this Annual Report why these trends are so important and how perfectly they are served by our business divisions, and our many products and systems. Above all, we will demonstrate how well positioned paragon AG is to continue to grow its profitability, not just in the present but also in the future.

Sincerely,

Klaus Dieter Frers
Chief Executive Officer

Die Erfinder-AG.
Driven by inventing the next big thing in automotive.

MEGATREND HEALTHY –
BUSINESS DIVISION SENSORS

A breath of fresh air in China

Staying healthy and becoming healthier is undoubtedly one of the current megatrends. While issues in the Western world have revolved around healthy eating, staying active into old age or minimizing stress, battling with massive environmental problems has been a part of the turbulent growth of developing countries in Asia. Of paramount importance in this area is the smog pollution in large agglomerations, which reached unprecedented levels in Chinese cities at the end of last year. An effective solution is imperative.

A few months ago, paragon took its business to China and there we came full circle. At our plant in Kunshan close to Shanghai, paragon is primarily focusing on our excellent air quality solutions for vehicle interiors. Starting with the world's leading and highly successful air quality sensor AQS, paragon also offers new comprehensive solutions including the innovative CO_2 sensors and particle sensors for air quality in automobiles. These form the center of production and sales in China and, in light of the environmental problems, provide extensive and long-term demand for our products. By the end of 2015 and even before the start of production, paragon had already gained the first local automobile manufacturer customers. We are currently in intensive discussions with other Chinese and international carmakers who manufacture locally.

paragon pursues a clear strategy as follows: based on megatrends such as health, we view internationalization as an essential component to developing new regions and customer groups. Even before the start of production in China the supply of paragon products to China was over 30%, so a local presence will further boost business both there and in the rest of Asia.

In addition to the main products from the sensors business division, the issue of E-mobility with the paragon brand "Voltabox" plays an important role in China. The main objective here is to provide battery packs for electric buses and commercial vehicles, together with starter packs for conventional cars and motorcycles to the Chinese market.

OVERALL, THE START OF PRODUCTION IN CHINA IS BOTH STRATEGICALLY AND OPERATIONALLY ANOTHER SUCCESS FOR PARAGON.

MEGATREND CO_2 – BUSINESS DIVISION: E-MOBILITY

Right now and in the future

CO_2 reduction has been discussed for decades and continues to be a highly topical issue, which has given rise to the ever-strengthening worldwide trend towards E-mobility. Away from the streets, where much in terms of automobiles is still loftily futuristic, innovative and environmentally friendly solutions are being desperately sought, for example, replacements for lead batteries in forklift trucks or lightweight starter batteries for vehicles.

paragon anticipated this trend a few years ago and launched its own business to focus exactly on the current needs of various industries. From the business and with great success the two subsidiaries of Voltabox Germany and Voltabox Texas, Inc., were founded in 2014. After an initial strategic partnership with Vossloh Kiepe from the electric bus sector, another partnership was founded in 2015 with Triathlon as worldwide intralogistics provider. The preliminary highlight of last year was a major contract to supply starter batteries for cars made by a high quality German manufacturer. The contract has a volume of 72 million Euros over 6 years. Voltabox batteries will already be on the streets around the world in 2016.

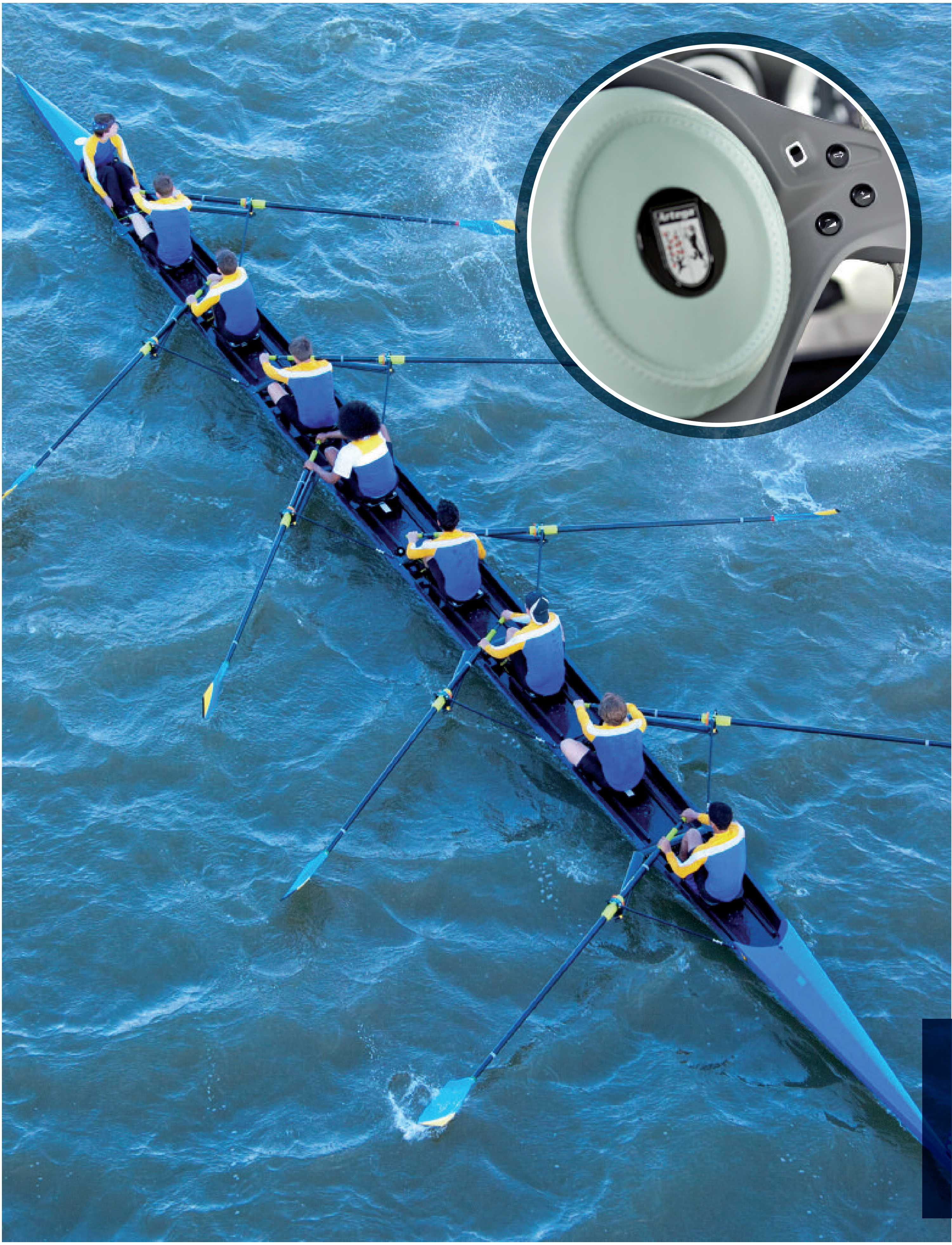
Even while all this was going on during negotiations of the sales contracts, Voltabox was working flat-out on developing new solutions in E-mobility and methodically expanding its portfolio. Consequently, paragon presented its advances in highly efficient electric motors and power electronics at the IAA. Voltabox equipped the new German electric sports car, Artega Scalo, with two highly efficient electric motors and demonstrated this new technology at the IAA. The aim is to corner more and more of the electrically powered vehicle market by providing solutions for the drive chain. A new generation of lithium-ion batteries tailored to customers' starter battery requirements, round off the portfolio of technical innovations and further developments.

While development is concentrated at the site in the German city of Delbrück, paragon aims to produce further in Germany, the US and in the foreseeable future also in Asia, in order to take advantage of the relative merits of each location. Being close to our customers is one of our most important maxims and Voltabox is now represented across three continents

IT IS HIGHLY LIKELY THAT NEW ORDERS WILL BE CREATED, TAKING PARAGON TO AN ALL-NEW LEVEL.

A second Voltabox plant was opened in 2015 in the USA which paragon sees as having the greatest market potential for the various solutions in this division. The start of production, the maintenance of the 'Buy American' stamp and test drives in various US cities were only a prelude to the ground-breaking orders which are currently in the pipeline.

From a strategic point of view, E-mobility provides paragon AG with a vital contribution toward its independence from the automotive industry and especially within the automotive sector. E-mobility creates huge opportunities for sustainable growth in corporate development, a sector of great importance currently and even more in the future.



MEGATREND INTERACTION – ACOUSTICS AND COCKPIT DIVISION

A Travelling Smartphone

Smartphones have become our constant companions with worldwide users online at any time. According to the Federal Office of Statistics, the mighty figure of 2 billion cell phone users will be exceed in 2016 and this will gradually rise to 3 billion over the coming years. Interaction is one, if not the biggest issue worldwide. Of course, this trend plays out under the buzzword of "connectivity" which also has a very important role in the automotive industry as we all want to stay connected, interact with people and get information even while we are driving. We want all this at maximum convenience – if my Smartphone can do it then my car, especially if it was expensive, should certainly be capable of it.

However, the current solutions in the majority of vehicles are not nearly as advanced as some drivers and users would like. Hence, optimum conditions have been provided for paragon to test its company innovations. Therefore, it seemed only logical that the paragon solutions presented at the IAA 2015 included a whole range of products centered on the topic of interaction from the Cockpit and Acoustics business divisions. Their full potential was demonstrated in their practical implementation in the Artega Scalo.

As an example, paragon's new "MirrorPilot®" allows for, among other things, a totally wireless connection to the vehicle display when connecting Smartphones and offers a complete infotainment system based solely on Smartphone apps. The spectrum of scalable platform ranges from simple systems to variants that provide a state-of-the art sound system. Keeping within the spirit of "in systems thinking", paragon uses its intuitive touch steering wheel operation not only as a pioneering vehicle controller, but also as an optimal connection to the "MirrorPilot®". As with other applications that are used like Smartphones, the driver can operate the various functions intuitively by touching, swiping or tapping. Initial discussions with automobile manufacturers at the IAA showed that paragon is spot on with this product range.

Together with SphereDesign, which was acquired in 2015 and is already fully integrated, paragon is providing trail-blazing solutions for the business Cockpit and in the field of Acoustics that perfectly enhance the already extensive range. Through the development partnership with Artega, the new Scalo represents an excellent flagship for the paragon group and it will be the first of many.

IT IS NOT FOR THE FIRST TIME THAT PARAGON HAS PROVIDED HIGH QUALITY, EXTRAORDINARY SOLUTIONS UNDER PRESSURE TO INNOVATE IN THE PREMIUM SECTOR.

INTERVIEW WITH THE MANAGING BOARD

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

MR. FRERS, HOW SATISFIED ARE YOU WITH THE 2015 FISCAL YEAR AT PARAGON AG?

FRERS: We are very satisfied with the results of the financial year, but mainly with how well we have mastered the challenges of the business environment, specifically, the events at Volkswagen, the situation in China and the strong dollar. We have had to think about these and other issues in order to be prepared for all eventualities. And we have succeeded without any great pain to ourselves as none of these issues really affected us.

When I think about everything we have done in 2015, from the factory openings in the USA and China, through the tremendous, ground-breaking progress in our E-mobility division, to our product offensive at the IAA in September, then we have accomplished enormous achievements in the past year. However, I always look forward to the future and see that the best is yet to come. The demand for our new solutions is growing on an almost daily basis and in the coming years, much of what we have already initiated will be paid back by a clear rise in sales and earnings.

WHAT, IN YOUR OWN PERSONAL VIEW, WERE THE HIGHLIGHTS OF 2015?

FRERS: Our product offensive at the IAA is definitely an absolute highlight. By contributing to the new Artega Scalo we could show how excellent our innovative solutions are, the significant added value they provide and how best they can be integrated. The innovative strength, of which we have talked about so often, was demonstrated in practice. Many features show their excellence in interplay and with the Scalo we were able to demonstrate that to optimum effect. It is, as it were, a perfect calling card for the paragon group.

THE PRODUCT OFFENSIVE IS CERTAINLY YOUR HOT TOPIC, DR. SCHWEHR. WHAT PRIORITIES HAVE YOU SET THERE?

SCHWEHR: Yes, I must emphasize the main features, together with our team. That was certainly the highlight of the year for me. The reason why I began at paragon was to create multiple ideas for automobile manufacturers, to develop them and finally bring them on to the market.

„WE HAVE ESPECIALLY IMPLEMENTED INNOVATIONS IN THE COCKPIT AND ACOUSTICS DIVISIONS IN THE SCALO."

For example, with our optimal controls we could demonstrate our intuitive touch wheel operation as much revolves around Smartphone integration into vehicles.

We are talking here about the primary trend of interaction, "Connectivity" that is transmitted to the motor vehicle. Or, more specifically, people who want to be connected everywhere all the time have grown used to operating their cell phones and want this facility in their cars too. They expect it to be simple and intuitive and take it for granted that it will be. Based on the principle that what my cell phone can do for less than 1,000 EUR, my vehicle, which is several times that price, should certainly be capable of. With our "MirrorPilot®" in the Scalo we have demonstrated a completely wireless Smartphone connection to the vehicle display, showing how well we at paragon AG can implement these requirements for the automotive manufacturers. I could go on with many further product innovations from all the divisions that were introduced by us last year and are now intensively distributed. We were very active here.

AND THE REACTION?

SCHWEHR: As expected, very good. The discussions that we had during and after the show with the automobile manufacturer development departments made it clear that we had hit the nail on the head. And, of course, we want to make sales.

WHAT HAPPENS NOW?

SCHWEHR: We are in discussions with practically every major automobile manufacturer concerning the specific design of products, the testing and so on. 2016 is going to be the Year of Selling so that in the following years we will be able to produce and deliver on a roll. I think by 2018 at the latest we will be able to expect significant sales growth.

WHAT ROLE DOES E-MOBILITY PLAY IN ARTEGA SCALO?

FRERS: If we look at the future of Voltabox, then we will be working with drive chain solutions and electric vehicles will be providing an increasingly large share, which will significantly expand our portfolio. We were able to show much of this already at the IAA, including highly efficient electric motors, inverters and a world's first battery pack with SuperCaps (super capacitors) and an improved life expectancy with noticeably better acceleration and increased range. Despite all the great tasks on the go at the moment, we are always thinking one step ahead, but the battery pack remains the focus.

BEFORE WE LOOK FORWARD, LET US HAVE A LOOK ONCE MORE AT 2015: 20% INCREASE IN SALES WHICH ALMOST CRACKED THE 100 MILLION EURO MARK, EBIT ROSE BY ALMOST 25% WITH PROFIT MARGINS ABOVE THE PREVIOUS YEAR – HOW CAN THESE FIGURES BE ASSESSED?

FRERS: Of course these are great numbers, but they could have been even better. At the beginning of the year we definitely expected a tad more in the E-mobility division, however one of our customers shifted a significant project forward to 2016. If that had gone according to plan, we would have cracked the 100 million Euro mark in 2015. Nevertheless, the Voltabox was very strong and our other divisions have produced revenues, in part, well above my expectations.

This is, indeed, sometimes forgotten but shows how well placed we are, not just on one or two levels but on all five of our divisions.

LET'S STAY WITH THE NUMBERS. NET DEBT HAS INCREASED SIGNIFICANTLY, WHY IS THAT AND HOW IS IT LIKELY TO PAN OUT FROM HERE?

FRERS: We have provided a fair view of our quantified investments and have ultimately narrowed them down to 25.5 million Euros.

These investments were mainly strategic in nature: expansion of the Body Kinematics and E-mobility divisions, acquisition of real estate at the headquarters in Delbru?ck and construction in Texas, opening of our plants in the USA and China and, of course, the product offensive.

„WE HAVE, THEREFORE, CREATED CONDITIONS FOR FURTHER GROWTH OPPORTUNITIES.“

As far as net debt goes, the bond investment phase peak, which was initiated in 2013, has been exceeded. In 2016, we will only be counting on investments of around 14 million Euros. Thus, 2016 will have a positive free cash flow as near as possible to a rising equity ratio and we expect well over 20% together with a decline in the net debt ratio.

AND WHAT ARE THE STRATEGIC AND OPERATIONAL PRIORITIES IN 2016?

FRERS: Voltabox is in full swing in the USA. We are in negotiations with various customers for contracts on a magnitude of which would cast all our recent very reasonable jobs and partnerships into the shade. As a result of these contract initiations, we are preparing directly for an expansion of our plant in Texas in 2016. This was originally scheduled for 2017.

Demand for our NMC modules for applications in the logistics sector is increasing noticeably in various areas. Driverless transport systems are an integral part of almost all forms of Industry 4.0. We have expanded the Voltabox proprietary module to further variants and received a request for a batch of 36 large battery systems for vehicles used for mobile power supply in military and forestry use in the US. And those of you who know me, will know that won't be the last order.

IS VOLTABOX GERMANY AS SUCCESSFUL AS THE SUBSIDIARY IN TEXAS?

Frers: First of all, the two cannot really be separated from each other. The development of Voltabox will, indeed, take place exclusively in Germany with both subsidiaries operating with the same products and variants. On the sales side, it is certainly worth remembering once again the 72 million Euro order for starter batteries in 2015. This is not just a contract with extremely high volumes but also one, which represents the entry point for Voltabox into the motor vehicle industry, which we know so well.Moreover, following on from Vossloh Kiepe, we have arranged the next strategic partnership with Triathlon and can, therefore, open up another market. That is what makes Voltabox so exciting.

A COMPANY WITH MANY BRANCHES AND SECTORS: BUSES, TRUCKS, MINING VEHICLES AND MOTOR VEHICLES SUCH AS MOTORCYCLES. NOT BAD FOR A DIVISION THAT WAS ONLY LAUNCHED A FEW YEARS AGO.

WHICH TRADITIONAL DIVISION IS YOUR PARTICULAR FOCUS, DR. SCHWEHR?

SCHWEHR: As already mentioned, the Cockpit divsion with its product innovations and their distribution will play an essential role for me in the coming year. In addition, our Acoustics division has also developed an excellent audio system product, which was showcased at the IAA. We have created a tangibly live atmosphere in the car. Furthermore, our new sound system combines the high demands of audio excellence with significant economic benefits for car manufacturers mainly due to reduced weight and much simpler wiring. You can imagine that our many contacts at OEM are over the moon about this idea. Once again, we are now in intensive discussions with them. With our own long-standing expertise we are well placed to offer excellent solutions for the premium market.

And finally, to our Sensors division, whether they be the global market-leading air quality sensor AQS or our new products such as the particle sensor and the CO_2 sensors, we are at the moment particularly strong and innovative in this division. With these new products we are either in the pre-development or testing stages or, as with the CO_2 sensors, already starting production.

AIR QUALITY IS DEFINITELY A HOT TOPIC IN CHINA.

SCHWEHR: Among other things, yes. It stands to reason that with the current problems in Asia and particularly smog in China, our plant in China will mainly be producing air quality sensors to start off with. The demand is enormous, so much so that with Chinese carmakers we were able to sign contracts before the factory was opened. We think our position is no worse now everything is up and running and we expect further contracts. While we now have a delivery proportion of 30% to China, the deadline was extremely tight even with local manufacturing. That is why we have acted in record time.

MR. FRERS, IS E-MOBILITY GOING TO FIND ITS PLACE IN CHINA TOO?

FRERS: Yes, we are actively thinking about supplying battery packs for electric buses and commercial vehicles as well as starter batteries for conventional cars and motorcycles in the Chinese market.

SO, THAT MEANS A THIRD SITE FOR E-MOBILITY. HOW CAN THE DIVISION OF LABOR BE WORKED OUT THERE?

FRERS: As far as E-mobility and other divisions go, the focus of development will always be in Germany. We have the engineers with the right know-how here. We will, however, manufacture in the USA and China as well as Germany because there are different advantages such as the low costs in China. At the same time we also want to be near to our clients who are equally situated and manufacturing across all three continents.

WHERE DO YOU SEE THE BIGGEST MARKET IN E-MOBILITY?

FRERS: All markets are highly interesting: Europe, China and the USA, but if you are asking me who, from our current perspective, has the greatest potential for us, then it would definitely be the United States followed closely by China. These two markets are not onlyextremely important for the automotive industry, but are also the most interesting in terms of our various solutions for E-mobility.

VOLKSWAGEN IS AN ISSUE THAT WE NEED TO ADDRESS BECAUSE THERE ARE MANY PEOPLE HERE WHO ARE EXTREMELY CONCERNED ABOUT SHARES IN AUTOMOBILE MANUFACTURERS BEING NEGATIVELY AFFECTED. HOW DO YOU SEE THE DEVELOPMENT AT VOLKSWAGEN AND THE POSSIBLE IMPACT ON PARAGON?

FRERS: We have, of course, paid close attention to this situation but in reality things are not as dramatic as the media portrays them. The so-called exhaust gas scandal is not the first far-reaching problem to be had by an automobile manufacturer. In recent years there have been very serious problems at manufacturers, which did not impact negatively on sales figures. Some of these had fatal consequences and were, therefore, of a very different nature. From an economic point of view, even if we were to assume that sales figures went down in the long term (which is unlikely in my opinion), then we are only talking about a customer who represents less than 20% of our sales and with whom, as with all our other manufacturers, we are concurrently making ever more revenue per vehicle. If these manufacturers were to lose some percentage of sales, this would not reduce the revenue and earnings of paragon in the long term. As I said, I think it is an unlikely situation and we would rather see our revenue with VW in 2016 increasing over the coming years.

DR. SCHWEHR, ONE OF THE DIVISIONS THAT IS STILL SOMEWHAT LACKING IS THE RELATIVELY NEW FIELD OF BODY KINEMATICS. WHAT CAN WE EXPECT IN 2016? HOW SATISFIED ARE YOU WITH THE OVERALL DEVELOPMENT AND WHERE ARE THE BEST OPPORTUNITIES TO BE FOUND?

SCHWEHR: Sales already increased by 35% in 2015 and this greatly exceeded our expectations. In Research & Development we are currently focusing on the series development of a second-generation universal drive with its associated spoiler drive for a large German automobile company. We aim to start production in the first half of 2017. Furthermore, we are looking forward to the completion of the pre-development of the aerodynamic underbody system and a subsequent production contract. With this additional capacity in design and development it is then our goal to obtain more automobile manufacturers for our spoiler systems.

„THE DEVELOPMENT OF THIS DIVISION IS GOING VERY WELL. WE ARE SUCCESSIVELY INCREASING SALES WHILE AT THE SAME TIME BUILDING AN ADDITIONAL SECURE FOOTHOLD FOR THE ENTIRE COMPANY.“

Increasing aerodynamic efficiency is quite simply a high priority for our customers.

IF WE LOOK AT THE BIGGER PICTURE, YOU ARE CURRENTLY MAKING 95% OF SALES TO THE AUTOMOTIVE INDUSTRY – HOW MUCH IS THAT LIKELY TO BE IN FIVE YEARS' TIME?

FRERS: I cannot predict that exactly, but I can say this: in 2015 and 2016 respectively our turnover totaled around 100 million Euros. With regard to E-mobility, and not just relating to cars, the accumulated turnover generated between 2016 and 2020 will be between 320 and 400 million Euros. Without speaking in percentages, this shows at a glance that our independence from the automotive industry, especially from its characteristic business cycles, will undoubtedly increase.

THAT IS ALREADY PLAIN TO SEE. IN JANUARY, SHARES IN PARAGON AG STOOD AT OVER 30 EUROS, WHICH HAS TRIPLED IN LESS THAN TWO YEARS. HAVE YOU REACHED THE LIMIT?

FRERS: Firstly, I believe that our stock has already developed in a way over the past 12 to 24 months that justifies our operating business and our strategic market position. The aforementionedanticipated sales in E-mobility allow us to safely predict that 30 to 35 Euros is not the uppermost limit, but rather a very pleasant intermediate step. Anyone who knows me, also knows that I am utterly convinced of that. There is certainly room for improvement with our stock and in the medium term it can still go higher.

IF WE LOOK 3-5 YEARS INTO THE FUTURE – WHAT WILL HAVE CHANGED AT PARAGON?

FRERS: It is quite possible that in 3 or 5 years' time we will have 7 instead of 5 divisions. We will certainly have expanded our capacity abroad; perhaps we will have a second plant in China and will have extended the Texas plant. There may also be a plant in Mexico. On balance, our ultimate goal is to be a recognized systems supplier to the automotive industry and to serve an ever-increasing share of the supply chain. However, this is only the end result - the path to it will be crucial.

We are already a learning organization but we want paragon to be increasingly systemized. "Business as usual" is just as wrong as accepting a "Satisfactory" grade. At paragon we change things we simply do not want to accept; we are pioneers ready to welcome new challenges. We have a confident corporate culture with an agile organization that thinks for the long term and implements innovations quickly and efficiently. If we cultivate this DNA at paragon every day, we will continue to be successful and it is this sustainability that is the deciding factor for me.

SUPERVISORY BOARD REPORT

PROF. DR.-ING.
LUTZ ECKSTEIN

In fiscal year 2015, the Supervisory Board of paragon AG fulfilled its advising and monitoring obligations under the law, statutes and Corporate Governance Code with great care. The Supervisory Board continuously administered the management and can vouch for the legality, correctness, expediency and profitability of the corporate management. Furthermore, the Supervisory Board was consistently called upon to advise and has been involved in issues of fundamental importance, in discussions and decision-making. Thanks to the good cooperation of Supervisory Board members, short-term decisions could be made directly.

The Management and Supervisory Boards of paragon AG adhere to the objectives of the German Corporate Governance Code and are committed to good corporate governance within the company. There were no conflicts of interest between individual Board members in the 2015 financial year. A list of all mandates of Supervisory Board members is included in the notes to the accounts.

In February 2016 the Management Board and Supervisory Board issued an updated declaration of compliance with para. 161 of the German Stock Corporation Law which has been made permanently available on the Investor Relations section of paragon AG's website. Divergences from the Code together with explanatory information on corporate governance at paragon AG are also defined there.

WORK ON THE SUPERVISORY BOARD

The Management Board informs the Supervisory Board meetings both in writing and verbally about all significant events, general business and the current situation at the company. The focus is on issues of strategic planning, business development, risk status and risk management in particular. The Supervisory Board reviews the reports of the Management Board and explains them in depth to the panel. The Supervisory Board and the Management Board discuss important issues brought up at the Supervisory Board meetings and conference calls between members of both Boards if necessary. The Supervisory Board was fully informed about extraordinary events relevant to the assessment of the annual results.

In fiscal year 2015, the Supervisory Board held four regular and two extraordinary meetings in person. In addition, a resolution was passed by written circulation procedure. All meetings of the Supervisory Board were held in the presence of the Executive Board. The entire Supervisory Board was present with one absentee on the grounds of sick leave.

The focus of the first Supervisory Board meeting on 11 March 2015 in Delbrück was the examination and approval of the annual financial statements for fiscal year 2014 and the preparations for the AGM on 12 May 2015. In this context, the Supervisory Board dealt with the nomination for the auditor of fiscal year 2015, proposing Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, as the new auditor. In addition, the Supervisory Board was informed about current business developments.

A second ordinary meeting of the Supervisory Board took place on 11 May 2015 in Hövelhof to prepare the content of the AGM. In addition to information about the current business, the focus was mainly on the planning of business in China and the level of investment in the US. Dr. Schwehr reported on his balance sheet for the first year as Board Member at paragon AG.

The term of office of Supervisory Board members ended following the AGM on 12 May 2015. All members of the Board were re-proposed for office and elected by a large majority at the AGM. In the first extraordinary meeting immediately following the AGM, the Supervisory Board once again elected Prof. Dr.-Ing. Lutz Eckstein as the new Chairman with Hermann Börnemeier as his deputy.

The third ordinary meeting of the Supervisory Board was held at the opening of the new plant in Austin, Texas on 20 July. The major topics discussed here were considerations for the optimum medium-term financing structure of the company and the discussion about the benefits of outsourcing production at paragon AG.

The current state of the outsourcing production was on the agenda, amongst other things, of the second extraordinary meeting on 23 September. The Supervisory Board signaled agreement in principle. Moreover, in addition to information about the current business situation for the first half-year, a decision was taken as to the steps required by the current Code of Corporate Governance for women and established parameters.

In the fourth Supervisory Board meeting on 30 November, the Supervisory Board dealt with the current business development and planning for the forthcoming fiscal year 2016. In addition, the Management Board reported on the opening of the new paragon AG site in Kunshan, China.

As in the past, the three-member Supervisory Board relinquished all duties in fiscal year 2015 to the formation of committees for all pending issues to be dealt with by the entire Board.

Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed at the AGM of 14 May 2015 as auditor of the financial year from 1 January to 31 December 2015 and was commissioned by the Chairman of the Supervisory Board. A declaration of independence by the auditors pursuant to section 7.2.1 of the German Corporate Code of Governance was made available to the Supervisory Board. The scope of the annual audit is the consolidated financial statements and the annual financial statements to 31 December 2015 together with the Group and AG management report of paragon AG for fiscal year 2015. The conclusion of the examination by Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, of the consolidated financial statements, annual financial statements and the AG management report provided an unqualified auditor's report. The auditor also stated that the monitoring system installed by management meets all the legal requirements and can detect developments early on that could jeopardize the continued existence of the company. The audit provided documents relating to the consolidated financial statements, the management report, the annual financial statements, the AG management report and the report on the proposal for the appropriation of net income. The documents were discussed and verified in detail at the accounts meeting on 3 March 2016 in the presence of the auditor. At this meeting, in addition, the Supervisory Board discussed the use of net income with the Management Board.

On the basis of its own detailed examination and discussion of the consolidated financial statements, the consolidated management report, the financial statements and the AG management report, the Supervisory Board approved the findings of the auditor and approved the consolidated financial statements prepared by the Management Board. The financial statements of paragon AG are as of 31 December 2015.

The Supervisory Board has not exercised its right to inspect the books and records of the Company in the past fiscal year.

The Supervisory Board concurred with the proposal of the Management Board with regard to the appropriation of net income.

The Supervisory Board would like to thank all employees and Board Members of paragon AG for their commitment in the successful year, 2015.

Delbrück, 3 March 2016

Prof. Dr.-Ing. Lutz Eckstein

Supervisory Board Chairman

INVESTOR RELATIONS

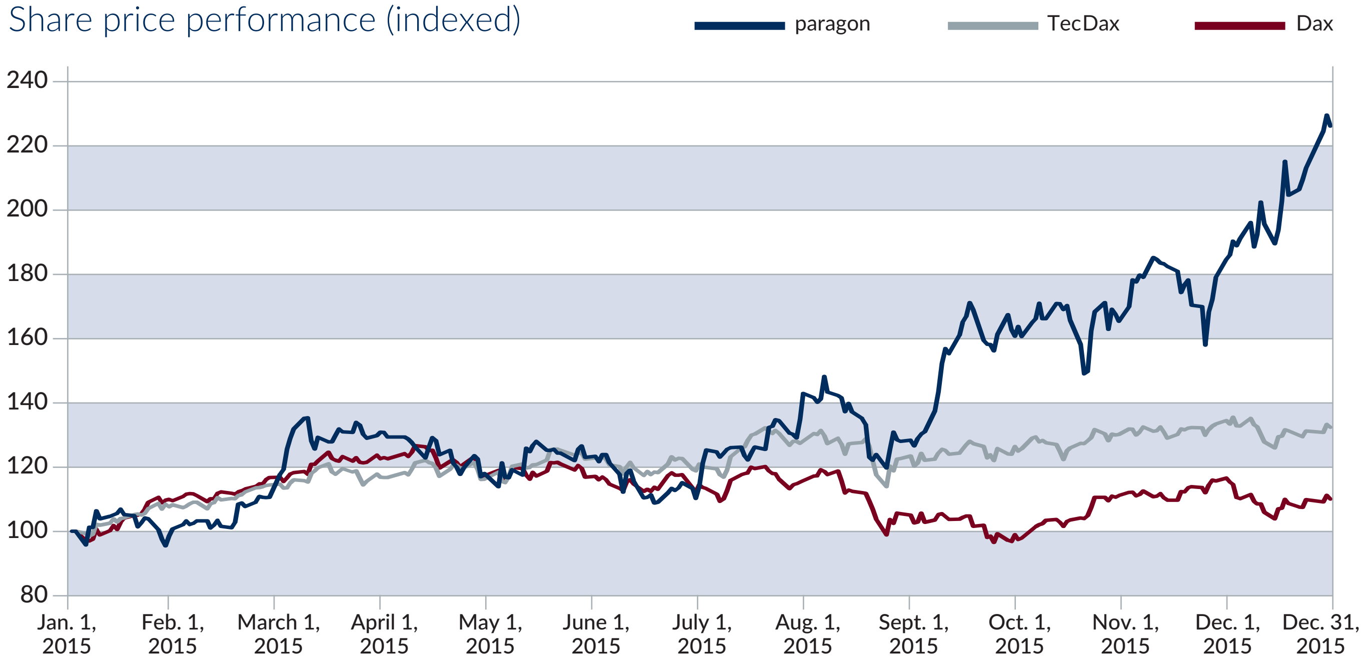
GENERAL STOCK MARKET ENVIRONMENT

After a very volatile period the German Stock Index (DAX) rallied with a strong final sprint and recorded a growth in the 2015 trading year. There was much interference from complex political and economic situations that contributed to uncertainty amongst investors time and again. Key factors included the Greek debt crisis, the interest rate policy of the central banks, the refugee crisis, terrorism, the VW diesel scandal, the economic slowdown in China and with that other related concerns about the world economy.

The DAX was up significantly at the beginning of the year, reaching a high point on 10 April 2015 (closing rate) of 12,375 points. However, as the year progressed uncertainty and jitters in the markets greatly increased so that the DAX only submitted its total annual earnings again at the end of the third quarter. The annual low point was reached on 24 September 2015 with 9,427 points. Thanks to a strong final spurt, especially in October and November, it stood at 10,743 points (prior year: 9,806 points) at the end of the year, which represented an overall gain of 9.6%.

ISIN:	DE0005558696
WKN:	555869
Ticker symbol:	PGN
Market Segments:	Regulated Market
Transparency Level:	Prime Standard
Sector:	Technology
Industry:	Automotive
Stock Exchange:	Frankfurt (XETRA)
Other Exchanges:	Berlin, Düsseldorf, Hamburg, Munich, Stuttgart
Number of stocks:	4,114,788
Share price on 31 December 2015:	31.73 Euro
Market capitalization at 31 December 2015:	130.56 Mio. Euro
Average trading volume (52 weeks) on 31 December 2015:	13,233 Shares per day
Designated Sponsor	ODDO Seydler Bank AG

Share price performance (indexed)



PARAGON SHARES

In view of the sustained and positive business developments, the paragon share was able to distance itself from the developments in the DAX, particularly in the second half of the year, and leave these far behind. After a rather slow start to the year, during which the annual low of € 13.38 was recorded on 28 January 2015, the stock benefited from the rather better than expected results of fiscal year 2014 from mid-February onwards and this positive trend continued for the rest of the ongoing financial year. In March the share price had already risen to € 18.98 but fell back again to € 15.45 at Half Year end, in line with the general market trend. The Second Half Year recorded a significant rise in the share price due to continuing good business results, further expansion, large order volumes, a positive outlook for the 2016 financial year and correspondingly positive media coverage raising the Company's profile.The annual high of € 32.22 was reached on 29 December 2015. At Year End this had only fallen slightly to € 31.73 which compared to the previous Year End of € 14.10 represents a considerable increase in value of 125.0%.

PARAGON BOND

The bond issued in July 2013 continued to be very stable in fiscal year 2015 and was quoted significantly higher than the issue price of 100%. After a brief period of weakness due to the Greek turmoil towards the end of First Half Year, the bond price stabilized again in the Second Half before closing at 108.00% on 30.12.2015. The Entry Corporate Bond Index (Price Index), as a benchmark, remained well below the 100% mark. Creditreform Rating AG lowered paragon AG's company rating from BBB- to BB+ on 22 May 2015, in the opinion of the Management Board without any particular cause. On 26 November 2015, Creditreform Rating AG announced paragon would retain this rating.

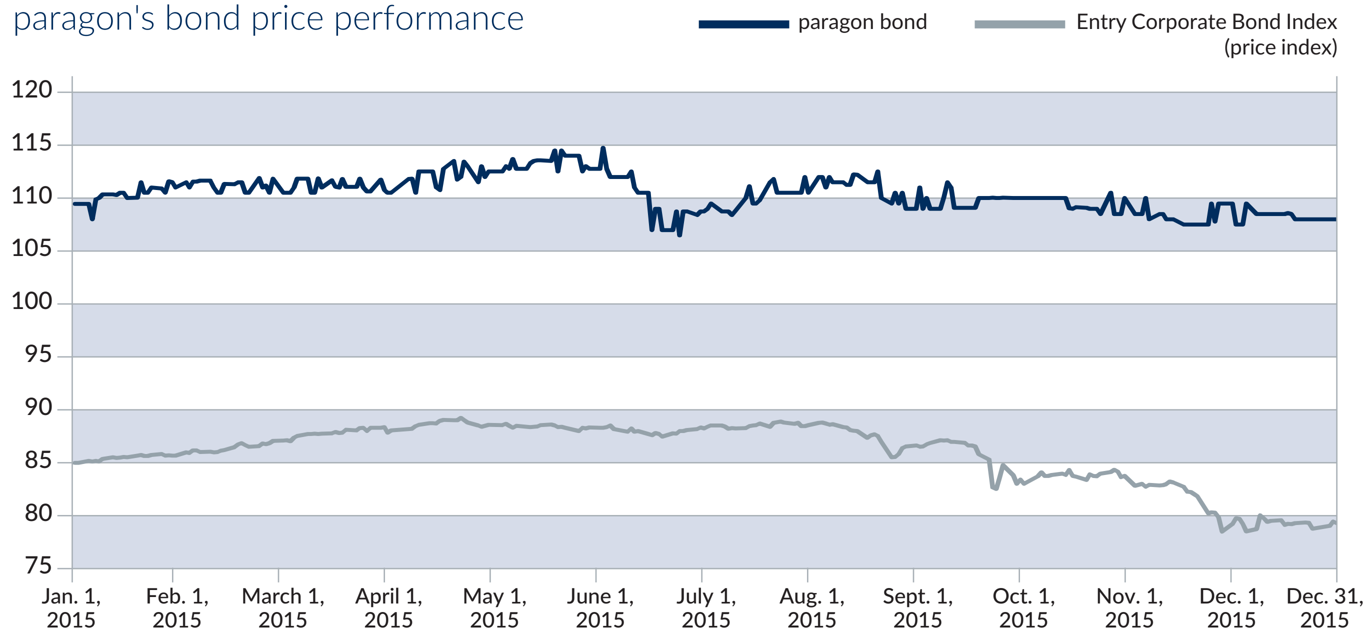
ISIN:	DE000A1TND93
WKN:	A1TND9
Ticker symbol:	PGNA
Market Segments:	Open Market
Transparency Level:	Entry Standard for Corporate Bonds
Stock Exchange:	Frankfurt
Other Exchanges:	Berlin, Hamburg, Hannover, Munich
Issue Volume:	Up to 20 Mio. Euro
Investment Volume (31 December 2015):	13 Mio. Euro
Dividend:	7.25 % p.a. (annual payout)
Issue Date:	2 July 2013
Maturity:	2 July 2018
Rating (26 November 2015):	BB+ (Creditreform Rating AG)
Bond price at 31 December 2015:	108.00
Average trading volume (52 weeks) to 31 December 2015:	9,443 Euro (nominal) per day

FINANCIAL COMMUNICATION

In fiscal year 2015 paragon engaged in active financial communications through a continuous exchange of information with shareholders, investors, analysts, journalists and other interested parties. The Company reported in various publications on current business developments and important news. Among these were ad hoc statements and press releases, personal conversations, interviews and articles on the Company's website, www.paragon.ag. The Company also published another edition of its corporate newspaper "paragon fakt" in August 2015 and a "fakt special edition" about the IAA 2015.

Key events of the first nine months of 2015 were the Annual Press Conference, which took place at the Company's own premises in Delbrück on 11 May 2015 and

paragon's bond price performance



paragon AG's 14th AGM which was held at the Town Hall in Delbrück on 12 May 2015. The resolutions proposed here were almost unanimously adopted by the attending shareholders. CEO, Klaus Dieter Frers, presented the Company to a wide public of investors, analysts and trade press as well as leading numerous individual discussions at the 6th DBFA Spring Conference (4 - 6 May 2015) held in Frankfurt, the 13th SCC Small Cap Conference (31 August – 1 September 2015) and the German Equity Form (23 - 25 November 2015). In addition, within the context of annual and quarterly financial reporting, numerous meetings and telephone conferences with representatives from capital markets for the business and economic development of the company, were held.

The Quarterly Report was the starting point for various analysts with regard to the paragon share. These studies are also available on the Company's website. In fiscal year 2015, paragon AG was notably covered by Steubing AG, Frankfurt/Main, Dr. Kalliwoda Research GmbH, Frankfurt/Main, Edison Investment Research, London and the quirin Bank AG, Frankfurt/Main.

FINANCIAL CALENDAR 2016

With the following events and appointments, paragon will be continuing its work in investor relations in 2016:

3 March 2016:	Press Conference on fiscal year 2015
3 March 2016:	Annual Report for fiscal year 2015
27 April 2016:	Interim Report 1st Quarter 2016
27 April 2016:	AGM
16 August 2016:	Half-Year Report 2016
18 November 2016:	Interim Report 3rd Quarter 2016

Group Management Report

GROUP MANAGEMENT REPORT FOR FISCAL YEAR 2015

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 branch offices in Nuremberg and Bexbach. The scope of consolidation of the paragon Group (hereinafter also: paragon) also includes the subsidiaries paragon Automotive Kunshan Co., Ltd., paragon Automotive Technology (Shanghai) Co., Ltd., Voltabox of Texas Inc., Voltabox Deutschland GmbH) SphereDesign GmbH (Bexbach) 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 and logistics industries. Its key focus is on offering solutions for automotive interiors and sensors. In addition, paragon develops solutions in the fields of E-mobility and Body Kinematics.

Paragon is active in the business segment of **Sensors, Acoustics, Cockpit and Body Kinematics**, which are nevertheless not managed as profit centers. The E-mobility business segment is managed by 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 solutions for optimizing drive train 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. A new sound system with a unique distributed power amplifier has also been introduced into the acoustics interiors.

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 the perfect integration of a tablet computer and more recently to a base-head unit with Smartphone wireless connectivity using accepted common standards such as Apple CarPlay amongst others.

The **E-mobility business segment**, represented by the two wholly owned subsidiaries Voltabox Deutschland GmbH and Voltabox of Texas, Inc., primarily develops and markets high performance Li-ion based battery systems for multiple purposes. These are deployed in a variety of areas from electric buses & commercial vehicles through internal logistics to starter batteries for conventionally powered vehicles.

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 electromechanical products

Nuremberg branch (Bayern)
Cockpit, Body Kinematics business segments

Bexbach Branch (Saarland)
Cockpit business segment

Voltabox Deutschland GmbH, Delbrück
Wholly-owned subsidiary
E-mobility business segment
Development and production of battery packs

Voltabox of Texas, Inc. (Austin, Texas/USA)
Wholly-owned subsidiary
Production of battery packs

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

SphereDesign GmbH (Bexbach, Saarland)
Wholly-owned subsidiary
Performance of development services

paragon Automotive Kunshan Co., Ltd. (Kunshan, China)
Wholly-owned subsidiary
Production of sensors

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

Directors & officers

Managing Board

In the reporting period, the Managing Board comprised Klaus Dieter Frers (Chief Executive Officer) and Dr. Stefan Schwehr (Chief Technology Officer).

Supervisory Board

In the reporting period, the Supervisory Board of paragon AG consistently comprised three members elected at the AGM. These are Prof. Dr.-Ing. Lutz Eckstein (Chairman), 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 Groups development. In discussions on corporate objectives held several times a year, the resultant follow-up activities are determined at management level and measures are introduced to optimize performance or make fundamental changes of direction.

The main focuses here in fiscal year 2015 included the following developments:

- The division of management duties at the helm of the company in 2014 made for tighter management and more transparency in 2015. The new Board network with OEMs (Original Equipment Manufacturer or OEM) and subcontractors showed marked success in particular. As a consequence a much closer relationship with a major German OEM was achieved for the sensors business segment and a corresponding development order series was obtained. Direct contact with major suppliers of Level 2 allows access to previously inaccessible pioneering technologies. The temporary takeover of the Cockpit business segment by the new Management Board led to a consistent realignment of the Cockpit product portfolio together with long-term strategies of the OEMs in this segment. Large sections of the product offensive started at the IAA 2015, have taken place.

- A progressive expansion of the management team (development, quality management, IT, controlling) below board level;

- Streamlining of the customer organization team and focusing on key customer relationship responsibilities in mass production;

- Continued implementation of the introduction of the new ERP system. Further measurable success can be seen here, for example, at Voltabox Texas and in the factory in China.

paragon has a comprehensive planning and control system in order to systematically safeguard its success. Its features include the continuous overview 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 target-performance 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 project status 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 the strategic objectives defined by the Managing Board. In fiscal year 2015, the steering committee under the direction of Dr. Schwehr and together with the experienced consulting company C3, further consolidated the breadth of implementation knowledge necessary through numerous workshops across many locations, distilling it into 8 work packages. Along with the increasingly corporatewide introduction of the new ERP system, the processes from the first quarter are gradually being put into action.

Compensation of the Managing Board and Supervisory 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 (24) in the notes to the consolidated financial statements.

The compensation of the Supervisory Board is governed by § 14 of paragon’s Articles of In corporation. 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 year 2015 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 built up its group equity from € 15.9 million from December 31, 2013 through € 17.2 million by December 31, 2014 to € 19.4 million as at December 31, 2015. Due to the growth in investing activities that took place in fiscal year 2015, total assets increased by 48%. Consequently, the Group obtained a consolidated equity ratio of 21.0% (previous year: 27.6%) in fiscal year 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.

Strategic long-term structured loans with banks amounted to € 32.5 million or 35.1% of total assets due to the extensive growth of investments in the reporting year. "Financial Covenants" were not 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, E-mobility, 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 year 2015 included the further development of the particle sensor for use in cars up to a presentable A pattern, especially aimed at markets with high concentrations of particle pollution as in China where it represents a useful supplement to the existing AQS air quality sensor and the air ionizer AQI. The 3rd and 4th Quarters in particular were characterized by a massive demand for the particle sensor for testing by several vehicle manufacturers.

The **Cockpit business segment** is focusing on its core competencies in developing dials / instrument displays, connectivity, wireless charging of Smartphones and selected control elements. 2015 was used to prepare for the product offensive that culminated in the presentation of various components and systems at the IAA in September 2015. On show here were the new Connectivity Platform MirrorPilot® for connection of Smartphones (including wireless), TFT-based displays (TFT = thin-film transistor) under the licensed brand Kienzle for motorcycles and quads, a touch wheel operation and a curved OLED central display (OLED = organic light emitting diode).

The priority in the **Acoustics business segment** was the nearing-production implementation of the 3D high-end sound system, which was also presented at the IAA 2015 as part of a collaboration with the Artega Scalo new electric sports car. This was developed under the same scalable acoustic bus technology as the In-Car communication system for live presentation to potential customers. First estimates of premium OEMs look promising.

In the field of **E-mobility**, the three existing battery modules were consistently extended and further developed. In addition, highly efficient lightweight starter batteries for mass-produced nitro vehicles were developed as a consistent evolution of the Voltabox modular philosophy. The first prototypes of starter batteries for the application and validation process in vehicles have already been delivered. In addition, the new Voltabox LTO (lithium titanium dioxide) modular series is in the transition phase to serial production. Development work on further variations of the NMC (lithium-nickel-manganese-cobalt oxide) module (additionally 36, 72, 80 and 100 volts, air and water cooled respectively) has been successfully completed. Add to that the validation of other cell types for use in Voltabox's round-cell modular system as well as the validation and system application of power electronics (inverter, charge controller, voltage transformer) and electric motors.

The **Body Kinematics business segment** obtained a significant series order for a universal spoiler drive on the basis of work done on this competence in the previous year which represents a major part of activities in 2015 and then also in 2016. The focus will be on the advanced development of an aerodynamic underbody system for at least one German sports car manufacturer. In addition, several paid pre-development orders were implemented in the field of aerodynamics; various OEMs will be involved early on in the development process. There were also several prototype orders for the convertible peripherals and the completion of the spoiler module for a leading premium manufacturer.

paragon spent a total of € 12.8 million on research and development activities in fiscal year 2015 (prior year: € 7.8 million). This corresponds to a 13.4% share of revenue (prior year: 9.9%). Capitalized development costs accounted for around 84% (prior year: 58%) of total research and development costs. Over the period from 2011 to 2015, the ratio of accumulated capitalized development costs amounted to 44%. The corresponding activation of internally produced contributions compares appropriately within the industry. The background for the one-off increase in 2015 relates to a number of newly developed products, which led to a rise in development expenditure by the various divisions and subsidiaries. There is already a very high demand for these products and, for the current year, orders are pleasingly high with sales plans as before which means that significant growth in sales can be expected over the coming years. The number of developers increased again by more than a third from 75 to 103 employees.

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 year 2015 included the following activities:

- Reducing specific electricity requirements by
  - Full utilization of the plants (in Suhl), implementation of new product lines at the site in St. Georgen,
  - Continuing with plant modernization measure (e.g. complete replacement of the air conditioning system in the whole building complex at Suhl), complete conversion to open loop-controlled pumps,
  - Reducing energy losses in individual process steps
  - Supply of electricity at charging station within the battery pack manufacturing facility and controlled charging / discharging (Delbrück);
- 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:
  - Paste production: replacement of tin tetrachloride by tin dioxide (reaching the production stage, planned for 2016).

Through the environmental management system, the following improvements have been established:

- Maintaining that staff are aware of environmental aspects (various CIP projects (CIP = continuous improvement process) for energy-optimal processes in manufacturing);
- Successful energy conservation measures (electricity, natural gas, fuel oil);
- Prompt pursuit of activities relating to the environment and occupational safety action plan.

Applicable laws, standards and regulations are available in the Company their contents and relevance are regularly monitored.

B. Business report

Macroeconomic framework

Growth of the global economy according to the IMF (International Monetary Fund)[1] was worse than expected in 2015. Emerging markets and developing countries, in particular, had to contend with a slow-down in growth momentum. China, specifically, shocked the markets several times during the year with weak economic data and the ongoing sanctions proposed against Russia are clearly reflected in lower economic growth. Conversely, major industrialized nations showed stable development in the context of low energy prices and an expansionary monetary policy. Overall, therefore, current global economic growth was estimated at 3.1% (2014: 3.4%), which is weaker than the previous year.

As a supplier to the automotive industry, the paragon Group generated most of its revenue in fiscal year 2015 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 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

The passenger car market continued to develop positively in 2015 despite the difficult conditions, and according to the Association of the Automotive Industry (VDA)[2] rose by 1% to 76.9 million (prior year: 76.1 million) units. Key drivers of this growth[3] were China (+9.1%), West Europe (+9.0%) and the USA (+5.8%) which generated combined volume growth of more than 3.7 million vehicles of which almost 1.7 million were in China and almost 1.1 million in West Europe. Weaker developments were seen in particular in Russia (-35.7%), Brazil (-25.6%) and Japan (-10.3%) where a good 2.2 million vehicles less were sold. The bottom line is a total increase of 1.8 million vehicles, or just under 3.0% for the largest market countries.

1 World Economic Outlook Update January 19, 2016
2 VDA Press Release from December 1, 2015: German automotive industry increases sales, revenue, production, export and employment in 2015
3 VDA press release of 15 January 2016: Dynamics in Western Europe continues

Significantly more positive than the overall market was the development of business with German premium manufacturers who are among the major customers of the paragon Group. Well-known German brands such as Audi, BMW, Mercedes and Porsche all recorded record years with 5.81[4] million vehicles (prior year: 5.39 million) sold in total, a further increase of 7.6%.

Overall the paragon Group thus operated in a consistently positive economic climate in fiscal year 2015.

Group business performance and situation

With revenue growth from € 79.0 million to € 95.0 million, the paragon Group managed to maintain its previous growth course in fiscal year 2015. The earnings situation has continued to improve so that EBIT rose by 24.9% to € 7.8 million from € 6.2 million in the previous year. Taking into account a one-off additional expense of € 4.2 million for investment in the expansion of promising business areas, adjusted EBIT increased by 29.6% to € 12.0 million up from € 9.2 million in the previous year. The total adjustments in the amount of € 4.4 million, compared to last year, relate to the development of new future-oriented business. We refer you to our comments in the notes under C (4), C (5), C (6) and C (7) regarding effects from the overall adjustment.

This good performance was mainly due to a strong Q4 where the EBIT margin on 11.7% was much higher than the annual average of 8.2%. Operating business performance of the paragon Group was dominated by a strong performance in all business segments. At the forefront both strategically and operationally were investments in the expansion of business segments, a product offensive culminating in the IAA 2015, the opening of plants in the US and China as well as a significant development of the E-mobility business segment.

Breakdown of revenue by business segment (BS)

	2015 EUR	2014 EUR
Sensors business segment	34,622,590	31,273,012
Acoustics business segment	16,078,364	14,465,401
Cockpit business segment	31,925,243	27,501,032
Body Kinematics business segment	4,960,348	3,741,263
Voltabox Deutschland GmbH*	3,580,945	1,110,819
Voltabox of Texas, Inc.*	3,822,959	945,325
Total	**94,990,449**	**79,036,852**

* Calculated from the respective press releases of manufacturers

The operating business performance of the largest business segments, namely Sensors and Cockpit, benefited above all from strong existing trade with products for premium manufacturers. The Sensors business segment led negotiations for the innovative CO_2 in a series development contract. 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. In connection with the particle sensor, developed especially for the Chinese market, vehicle manufacturers are increasingly recognizing the benefits of effective interior air quality management, uniquely provided by paragon. 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 in high-quality dial manufacturers and displays. Indeed, a German sports car manufac-

4 Calculated from the respective press releases of manufacturers

turer could reinforce this with the next generation of its entire dial collection. Increased sales of rear-view cameras had a positive impact on sales too. There are also contracts in the Wireless Charging product segment, for example, with a pre-development order by a premium foreign manufacturer for a new display instrument and new electronic kinematics together with an increased demand for high quality interior comfort electronics in trucks. In addition, a large-scale product offensive took place at the IAA 2015. This was particularly notable for the market demand for simple and seamless connectivity solutions, which can now be operated by the new head unit platform, MirrorPilot®. SphereDesign GmbH was acquired by paragon AG in 01.01.2015 and has now been fully integrated in the Cockpit business segment. 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 year 2014 and was profitable in past years. Significant synergies through the use of common resources have already been achieved in fiscal year 2015.

The Acoustics business segment continued the positive sales trend of the previous year in 2015 due in large part to increased installation rates of speakerphones and increased sales numbers of suitably equipped cars. Following the successful production start of a high quality, new hands free microphone, the unscheduled order quantities for next year were revised sharply upward. Robots fully automatically produce the basic technology of these microphones, which allows a comprehensive deployment in vehicles and a wide range of other applications. Due to the delivery of another vehicle model, the numbers of belt-mic® seat belt microphones have increased significantly and the production plant was expanded accordingly. At the IAA in September 2015 the Body Kinematics business segment unveiled its scalable bus-based surround sound system to the global public, which was hailed as groundbreaking by professionals after the audio demonstration.

The Development of the Body Kinematics business segment in fiscal year 2015 was marked by the stabilization of the first series launches, the generation of sustainable sales and earnings contributions e.g. linkage outlet flaps, spoiler modules, continuously adjustable spoiler drive systems, gear motors etc. With our expertise in the area of universal drive trains, we won the production order for a spoiler drive chain of a large automotive group together with several concept developments for new kinematic systems. Sales from steering column paddle shifters have significantly increased in comparison with 2014 more positively than expected.

The E-mobility business segment, trading as Voltabox, continued its positive development in fiscal year 2015. Following a deliberate concentration on niche markets, this phase of the business has now been successfully realized with definite inquiries, projects and orders that can be achieved by mass production. In Q1 of 2015, Voltabox Deutschland GmbH completed a wide-ranging strategic partnership with Triathlon Batteries GmbH, a leading supplier of traction batteries for logistics applications. The key point to this exclusive agreement is that over the coming five years, sales volume is expected to increase to the double digit million zone with the supply of lithium-ion batteries in the intralogistics industry i.e. for electric forklift trucks, automated guided vehicle systems and so on. Following the strategic partnership with Vossloh-Kiepe, Voltabox can now tap into a second large market segment. Overall, Voltabox recorded a significant increase in specific own-initiative requests for high power battery systems of major vehicle OEMs and large system integrators. Specific tasks include battery packs for intralogistics vehicles, driverless transport vehicles, all terrain vehicles and electric supply buses. In Q4 2015, Voltabox received an order in the US for a first batch of 36 large battery systems for vehicles used for mobile power supply in military and forestry use. A leading manufacturer of rental vehicles is to be supplied in H2 2016 with special large battery packs as standard. Moreover, alongside the significant increase in mass delivery of NMC modules, prototypes for intralogistics applications will also be delivered. Following this, Voltabox received a project order from a leading American manufacturer of production logistics. At the IAA, the business segment had a very positive reception to the presentation of various Voltabox portfolio extensions (electric motors, power electronics and other starter batteries) for automotive applications. Voltabox was also able to present its battery systems successfully to trade visitors from around the world as part of the international annual meeting of the International Association of Public Transport (UITP).

Special highlights in this business segment were a major order for starter batteries and the inauguration of the Voltabox plant in Texas. Thus, the paragon subsidiary Voltabox received its first major mass production contract from a well-known German automotive producer for starter batteries in conventionally powered vehicles, and so achieved an important milestone. The manufacture and supply of starter batteries for installation verification and final validation in the vehicle network were carried out as planned. The contract has a term of six years, a sales volume of about € 72 million and start of production is scheduled for mid 2016. This order demonstrates the enormous range of possible applications of Voltabox technology and the advantages of a modular system.

Voltabox opened its new location with production and management in Austin, Texas. On around 2,000 square meters of space Voltabox now operates a fully automated assembly line for battery packs. paragon and Voltabox have therefore taken a further step in the internationalization strategy.

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. To this end, paragon opened its first production site in this important market in November 2015 and thus continued its internationalization strategy. The main focus at the production site in Kunshan will initially be on the Group's world-leading air quality sensors. paragon already won first customers and orders from the domestic automotive industry in advance of the opening. In addition, the subject of E-mobility with the paragon brand "Voltabox" will play an important role in China in the near future. The primary objective is to serve the Chinese market with battery packs for electric buses and commercial vehicles as well as starter batteries for conventional cars and motorcycles as a first step.

Employees

As of December 31, 2015, the paragon Group had a total of 482 permanent employees and 79 contract workers. The total number of employees grew by 18.9% compared with the previous year (December 31, 2014: 420 permanent employees, 52 contract workers), thus also reflecting the high volume of investment in the company's growth in the past year. Due to its production plant in Kunshan (3), sales office in Shanghai (5) and its US subsidiary Voltabox of Texas, Inc. (15), paragon had 23 (prior year: 15) employees abroad. As of December 31, 2015, the individual locations in Germany had the following employee totals (employees/contract workers): Delbrück (163/9), Suhl (209/64), Nuremberg (24/5), St. Georgen (42/0) and Bexbach (21/1). These figures include 47 (prior year: 28) permanent employees at Voltabox Deutschland GmbH and 4 contract workers (prior year: 0).

Personnel expenses amounted to € 26.3 million in the year under report (prior year: € 21.8 million). Of this total, € 20.1 million (prior year: € 17.0 million) related to salaries and wages, € 3.3 million to social security contributions and pension expenses (prior year: € 2.8 million), and € 2.9 million to expenses for contract workers (prior year: € 2.0 million).

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 year 2015 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.

Cost of materials totaled around € 55.5 million in fiscal year 2015 (prior year: € 41.8 million). This resulted in an increased cost of materials ratio (materials as a proportion of consolidated revenue) of 58.4%, up on the prior year's figure of 52.9%. This increase in the ratio is attributable to a change in the product mix, a one-off additional expense for material in the E-mobility segment, increased material procurements costs and lower development costs in 2015. This rate is expected to be lower in 2016 due to the product series launches.

Investments

The paragon Group made significant investments in fiscal year 2015 in the company's expansion. Around € 13.3 million were invested in intangible assets with around € 13.8 in land and buildings and around € 4.7 million in machinery and equipment. In addition, of the investment in the acquisition of SphereDesign GmbH approx. € 4.2 million was spent on intangible and tangible assets together with goodwill from capital consolidation in the amount of € 0.8 million. These investments will help secure the company's future and significantly increase its revenue and earnings potential.

The investment in fiscal year 2015 was mainly one-off in nature and exceeded the peak of the strategic investment phase. Investments of around € 14.0 million are planned for 2016 which is less than in 2015.

Net asset and financial position

The balance sheet of the paragon Group, driven above all by investments in long-term assets, grew by € 30.1 million to € 92.5 million (prior year: € 62.4 million) by December 31, 2015. Long-term assets increased from € 30.1 million to € 59.7 million a development chiefly attributable to the development of new business segment investments in fixed assets (€ 18.8 million) which benefited the overall development of the group, as well as the acquisition of tangible and intangible assets of SphereDesign GmbH. Investments in tangible fixed assets essentially amounted to the purchase of the building Artegastraße (€ 7.3 million) in Delbrück, the construction of the production building in the US (€ 6.3 million), the acquisition of tangible assets through the purchase of SphereDesign GmbH (€ 0.8 million) and major investments in different production facilities amounting to € 4.7 million. Capitalized development costs and other intangible assets increased in comparison with the previous year by € 15.3 million to € 24.7 million. This is due to a variety of projects in the individual segments, a substantial increase in personnel development capacity and the capitalized development costs incurred through the acquisition of SphereDesign GmbH (€ 1.3 million)

Current assets amounted to € 32.9 million (prior year: € 32.3 million) and thus remained virtually unchanged over the previous year. The slight increase in returns from goods and services was as a result of positive business development and increased inventory level caused by the reorganization of business segments which offset a reduction in cash and cash equivalents. It is expected that the associated inventories capital commitment will dissolve over the course of fiscal year 2016. 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 liquid assets of € 0.5 million at its immediate disposal (prior year: € 5.8 million). Interest on customary market terms is applied to the credit account.

In addition to current bank balances of € 8.5 million and credits from factoring (€ 5.9 million), also included is the insolvency escrow account of € 0.5 million (prior year: € 0.5 million) and the escrow account of € 1.6 million for the insolvency dividend payout (prior year: € 1.0 million). The former insolvency administrator has power of disposal of both accounts. The former insolvency administrator is used to pay any outstanding invoices still arising. The surplus amount is allocatable 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, 2015. Residual risks due to the former insolvency plan do not exist for paragon. In addition to cash and cash equivalents, paragon has an open credit facility of € 7.0 million (prior year: € 4.0 million).

The capital structure as of the balance sheet date showed a further rise in equity by € 2.2 million. Given the significant growth-driven 48.3% increase in total assets, this resulted in an equity ratio of 21.0% (prior year: 27.6%). In nominal terms, equity grew by 12.8% in the period under report. The dividend distribution of € 1.0 million approved by the Annual General Meeting in May 2015 was paid out on May 13, 2015.

Long-term provisions and liabilities increased during the reporting period to a total of € 17.0 million. This was mainly due to the financing of the buildings in Delbrück and in the USA. Another reason for the increase is a rise in deferred taxes due to capitalized development costs of € 2.4 million to € 3.5 million (prior year: € 1.1 million). Non-current loans relate exclusively to euro loans. Interest and principal payments are made by means of monthly or quarterly annuities.

Current provisions and liabilities increased year on year by € 10.9 million to € 27.1 million (prior year: € 16.2 million). The key factor here on the one hand was the increase in short term loans in 2015 for investment in land, building and machinery and on the other the increase in trade payables by € 4.6 million, a development that reflected the company's higher business volumes. The Group's net debt grew from € 14.4 million to € 34.0 million. Alongside the increase in liabilities, this was the result of a temporary reduction in free liquidity of € 13.8 million (prior year: € 15.8 million).

Cash flow from operating activities amounted to € 12.9 million as of December 31, 2015 (prior year: € 6.9 million). This development is mainly attributable to the constant demands of trade receivables in comparison with the previous year (CF – Effect: € +3.5 million) and an increase in trade payables (€ 5.2 million) due to the increased volume of business. Cash flow from investment activities was high due to one-off investments in buildings, plant and equipment for the expansion of new business areas and exceeded € -32.3 million which was significantly higher than in the previous year where the figure stood at € -15.7 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 € 14.7 million (prior year: € 4.3 million), the cash flow from financing activities largely reflects the financing of investments made in property and in tangible assets again. The financial resources of € 8.5 million as of December 31, 2015 include cash and cash equivalents and the trade receivables covered by the factoring agreement with GE Capital Bank AG.

Off-balance sheet commitments increased by € 4.0 million to €31.5 million due to increased obligations from purchase commitments.

Earnings performance

paragon AG generated consolidated revenue of € 95.0 million in fiscal year 2015 (prior year: € 79.0 million). This represents an increase of 20.2% compared with the previous year and is consistent with the sales growth forecast issued by the Managing Board in January 2015.

The cost of materials rose by 55.5% to € 13.7 million (prior year: € 41.8 million). The material ratio increased by 5.5 percentage points to 58.5% (Previous year: 52.9%). The increase in ratio is primarily due to a changed product mix and production start-ups of the E-mobility business segment together with one-off increased purchasing expenses. In the coming years, the development in the cost of materials ratio will be heavily dependent on the performance of the E-mobility and Body Kinematics business segments, as these have higher materials ratios in some cases. Personnel expenses increased due to a workforce expansion in the business segments of 20.9% from € 21.8 million in the previous year to € 26.3 million, thus developing in parallel with the increase in sales. The personnel expense ratio remained almost unchanged from the previous year at 27.7%. Other operating expenses rose by € 4.1 million to € 16.3 million overall in fiscal year 2015 (prior year: € 12.2 million). This was the result of increased development services, data processing fees, 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.

EBITDA rose from € 10.5 million to € 14.2 million, the EBITDA margin also increased to 15.0% compared with 13.3% last year. Despite an additional expenditure of € 4.4 million, this increase was achieved through the development of the forward-looking Body Kinematics, E-mobility and Acoustics business segments. One-time additional expenses in the promising field of E-mobility, with its subsidiaries Voltabox in Germany and the US, rose in 2015 by € 3.4 million in comparison with the previous year. Excluding this additional expenditure of € 4.4 million, EBITDA would have risen by 37.9% to € 18.6 million and the adjusted EBITDA margin would have reached 19.6%.

EBIT increased from € 6.2 million to € 7.8 million in 2015. Adjusted for the aforementioned additional expenditure (excluding depreciation) of € 4.2 million, EBIT would have reached € 12.0 million, up by 29.6% on the previous year. The EBIT margin was 8.2% (prior year: 7.9%) and the adjusted value was 12.6%. In last year's Report an operational EBIT margin target of around 10% was still assumed; over the course of 2015, and as communicated on several occasions, there were unforeseen increased material costs particularly in the E-mobility business segment, thereby reiterating that the 2014 EBIT margin was no longer a target. In fact, the 2015 EBIT margin has, by contrast, improved slightly on the previous year and with adjustments has significantly exceeded expectations.

The financial result decreased by € 0.8 million to € -2.8 million (prior year: € -2.0 million). This was the result of higher financing costs for investments in building and tangible assets within the growth strategy. Income taxes amounted to € 1.6 million in fiscal year 2015 (prior year: € 1.5 million).

Overall, paragon AG generated consolidated net income of € 3.4 million as of December 2015 (prior year: € 2.8 million). This represents an increase of 22.6%. Based on 4,115 million shares, earnings per share (EPS) thus amounted to € 0.83 up from € 0.67 in the previous year.

Overall assessment of Group situation

The Group's performance in fiscal year 2015 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 € 1 billion. As in previous years, fiscal year 2015 was once again greatly influenced by the high volume of investments in new product fields. E-mobility and internationalization were particular highlights and the investment phase initiated in 2013 has now been exceeded. E-mobility continues its positive development and continues to remain a key growth driver of the Group. An increase in incoming orders was achieved in all Voltabox target markets (intralogistics, transportation and automotive). This trend is expected to significantly further strengthen. Fiscal year 2015 was thus successfully completed as expected.

C. Supplementary report

The Board affirms that 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.

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 (IDWPS 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. Opportunities for paragon in the automotive sector were anticipated due to the longstanding strategy pursued by the company of "more euros per car" i.e. increasing equipment rates for existing customers, the acquisition of new, largely international customers for existing products and the continued development of new and innovative products with a higher share of value added. Examples here are the new particle and CO_2- sensors, the AQS air quality sensor, the Ionizer system AQI or the unique seatbelt microphone "belt-mic", which are now being installed in growing numbers of vehicle models. In addition, the numerous products that were showcased in the product offensive of 2015 are now being marketed extensively.

Following the successful integration of SphereDesign and their products in the Cockpit business segment, the added impetus we expected can already clearly be seen. In the first place, production is planned for the display systems of a German car manufacturer. Added to this, impressive proof of their operational expertise was demonstrated at the presentation of the first display instruments for motorcycles and quads, which are licensed under the brand Kienzle, at the IAA 2015. Development in the Cockpit business segment will be boosted by the continued positive development of the sale of display instruments. paragon intends to further expand this area over the coming years in line with the trend for digital displays through targeted investment plans. At the IAA 2015 a product offensive was launched in the area of connectivity, with wireless charging of Smartphones and other operating devices. This is currently at the forefront of developments for the "connected car" and from 2017/18 sales of this system should push it up a level. Production start-ups for instrument displays and a wireless charging kit for motorcycles are already scheduled for fiscal year 2016. So, in spite of the discontinuation of several long-standing products with exceptionally high one-time returns, a slight increase in earnings can be expected. In the Sensors business segment, the CO_2 sensor will go into production for a premium German manufacturer for the first time. Demand for the particle sensor is enormous and production of various air quality products for completely new customers paves the way for further growth in the following years. Overall, despite the impact of long-term, industry standard discounts on many regular products, a slight increase in sales is also evident.

The Acoustics business segment continued to perform well with an increase in the production of belt-mic quantities and with another vehicle platform in preparation. The same manufacturer virtually doubled the number of high quality, hands-free microphones in the second half of 2015. A new era began again here with the presentation at the IAA of a new sound system including In-Car communication. However, a slight decline in revenue in 2016 is expected, due to longstanding previously scheduled discounts.

Production of spoiler systems and steering column paddle shifters in the Body Kinematics business division are developing in line with vehicle manufacturers' sales figures; they cannot, however, compensate for the end of production of a short-lived spoiler product. In general, the business segment will generate substantial recurring revenue 2016 from predevelopment of integral aerodynamic packages, for example. Overall, the Managing Board expects to see only slight revenue growth in paragon's four business segments.

Substantial opportunities present themselves for Voltabox products in the E-mobility business segment. In addition to the use of battery packs for buses, commercial vehicles and internal logistics, paragon now also sees great potential in the market for conventional vehicles having successfully entered the starter batteries market in fiscal year 2015. Demand for Voltabox products for different applications and new variations made itself felt across all regions. paragon sees great market and sales potential for both Voltabox Germany and Voltabox Texas Inc. For the period from 2016 to 2020, the Managing Board therefore expects Voltabox to generate cumulative revenue of between € 320 million and € 400 million. Alongside traditional business with the automotive industry, this business segment is gradually becoming an essential mainstay of the company allowing it to strategically separate itself from the more general automotive industry more than ever. This area is, however, still in its infancy despite its success in the fiscal year.

Risks

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. The three largest markets of China, Western Europe and the USA continued to grow in 2015 while in the rest of the world including Russia, Brazil and Japan amongst others, there was at times a dramatic slump in sales. In fiscal year 2016 the largest automotive markets continued to grow, albeit at a slower pace, further improving the world market. paragon has the advantage that the Group's primary customers were not only amongst the winners of the industry's development, but also have good prospects for the future. The globally-positioned German premium manufacturers of Audi, BMW, Daimler and Porsche consistently posted new record levels of turnover in fiscal year 2015 in spite of the recent difficult market conditions and are well-positioned to continue this development with a number of new models for fiscal year 2016. 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 E-mobility.

Due above all to its E-mobility 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 analyses 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. 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 year 2015 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 e change 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 year 2015. 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 E-mobility 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. The approval of the corporate income tax waiver has now been confirmed by a letter from the tax office in Paderborn, dated November 10, 2015. The local authorities entitled to determine trade tax multiplier rates have issued binding approval of the trade tax waiver. Accordingly, to date the question of the income tax waiver no longer presents a risk and the subject has been closed.

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

The IMF has predicted global growth in its forecast for 2016 at around 3.4% with current predictions of 3.6% for 2017. Reasons for a reduction in earlier forecasts are the reduced growth expectations of the Chinese economy and the unforeseen risks of the refugee crisis. Development in so-called emerging and developing countries slowed overall, according to the IMF. The IMF highlighted other risks as being the low price of oil and a possible end to the low interest rate policy of the US central bank FED.[5]

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 fairly positive for 2016 as well. The German Association of the Automotive Industry (VDA) has forecast further global market growth by 2% to € 78.1[6] million. The three largest markets of Western Europe, China and the US, should all continue to grow, albeit at a slower pace.

The second mainstay of the paragon Group is the E-mobility business sector. According to a research report by Navigant Research[7], the global market for lithium-ion batteries for use in vehicles reached $ 7.8 billion in 2015. The market is expected to grow to $30.6 billion by 2024, representing an average annual growth of more than 16%. Another report by Technavio[8] expects the use of lithium-ion batteries in vehicles to achieve an annual growth of more than 21% between 2015 and 2019.

At present, the economic climate for the paragon Group in fiscal year 2016 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 the paragon Group.

Company development

The paragon Group witnessed a very good start to fiscal year 2016. The Group achieved higher sales in comparison with January and February of the previous year. This trend is expected to continue in March so that Group sales in the first quarter of 2016 are highly likely to exceed those of the previous year.

Based on its highly competitive products and extensive investments in recent years, particularly in the development and expansion of the production facilities in Germany, the US and most recently, China, the Managing Board at paragon anticipates accelerated growth in the automobile market in fiscal year 2016.

The performance of the paragon Group in fiscal year 2015 has fully met the expectations of the Board. Revenue grew by 20.2% to € 95.0 million, while the unadjusted EBIT margin reached 8.2% and the adjusted 12.6%. paragon's Managing Board now expects to see a substantial surge in growth in fiscal year 2016. Accordingly, consolidated revenue should rise by around 8% thereby passing the € 100 million mark. A disproportionate increase in earnings is expected with an EBIT margin of about 9% of earnings. Key growth drivers include the sensors business, which continues to perform well, and especially Electromobility (Voltabox), which should contribute revenue of more than € 15 million and thus increasingly account for a significant

5 http://www.handelsblatt.com/politik/international/davos/iwf-prognose-weltwirtschaft-steht-vor-grossen-risiken/12859518.html
6 VDA Press release from December 1, 2015: German automotive industry increases 2015 sales, revenue, production, export and employment
7 Business Wire, August 25, 2015: "The Market for Lithium Ion Batteries for Vehicles is Expected to Reach $30.6 Billion in 2024, According to Navigant Research"
8 Technavio: "Global Li-ion Battery Market for Transportation Sector 2015-2019"

share of total revenue. More than 95% of the actual and expected customer orders underpinning this forecast had already been received as of December 31, 2015. Investments will now normalize once again, as the lively level of investment seen in recent years will no longer be necessary on this scale. paragon's Managing Board expects investments to total around € 14.0 million. The investments to be made in operating sites in 2016 will relate above all to locations in Germany.

The forecast for 2016 includes initial sales from a major order of Li-Ion starter batteries given in the course of the year with production due to start at the paragon subsidiary, Voltabox Germany, in mid-2016. Further high volume business is also being initiated and Voltabox expects a substantial expansion of sales in this product segment in 2017, allowing paragon to further strategically set itself apart from the general automotive industry. The Management Board assumes that the willingness to invest in the Voltabox target markets will continue to increase dramatically and expects a rise in orders and sales in all areas. In particular, the Management Board anticipates numerous trolleybus projects with sustainable orders from the field of logistics and increasingly from the automotive sector. Production ramp-ups in the newly opened plants in the US and China will contribute to this dynamic development. In addition to the battery systems in Texas, paragon will be taking its first steps in China with its leading air quality management solutions, which are in high demand, particularly in Asia to ensure clean air in the vehicle's interior. In China, however, the business segment of E-mobility will play a significant role in the production and sales side of business in the short to medium term.

Due to the dynamic growth of paragon's products, the delivery of higher-value systems, new international customers and new markets such as E-mobility, it is unlikely that what has been happening at VW will have any impact on future sales and earnings. Since becoming aware of the various problems in September 2015, so far as we can deduce our situation has not been compromised. With this in mind, the Board has been rather conservative with its expectations for 2016 and has thus already anticipated any possible future effects. However, increasing installation rates, even in the VW Group, mean that paragon still expects a rise in volumes. The Board sees further potential upsides in the many different existing orders in the E-mobility business segment. As yet, it is unclear in what proportions these will be in fiscal year 2016. This positive prognosis is also supported by a significant increase in the order backlog with orders on hand currently at 12.2% above the previous year. Based on lifetime analysis as at December 31, 2015, the Group expects orders on hand of more than € 1 billion.

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 ready to supply potential customers with its modular sound system, a scalable audio system, in-car communication system and sound design application for the E-mobility sector. Similarly, the Cockpit business segment has placed new products in the field of connectivity, steering wheel control, high quality dials / instrument displays with numerous, wide-ranging OEMs which should lead to 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 E-mobility, Voltabox will be further developing the modularity of existing battery solutions for decentralized and vertically arranged high-performance battery systems.

Based on forecast revenue paragon expects to generate an unadjusted EBIT margin of around 9%. Compared with unadjusted EBIT of € 7.8 million in 2015, the company thus aims to achieve substantial earnings growth in the coming year. One reason for this is the future investment activities of the paragon Group. With investments of € 14.0 million planned for 2016, expenditure will be brought back to an even lower level than in 2014. Culmination of the bond investment phase initiated in 2013 has now been exceeded, thus according to current plans, a positive free cash flow is possible. In light of this the Management Board expects to end 2016 with a recovery in equity ratio to around 24%, accompanied by a reduction in the net liability.

For Fiscal year 2017, the Managing Board at paragon currently expects a further jump in revenue from 15 to 20%, due in large part to new products.

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, 2015, 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 9, 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, 26. February 2016

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

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

Consolidated Balance Sheet of paragon AG, Delbrück, as of December 31, 2015, in accordance with IFRS

in € thousands	Notes	Dec. 31, 2015	Dec. 31, 2014
ASSETS			
Non-current assets			
Intangible assets	D (1)	23,959	9,439
Goodwill	D (2)	770	0
Property, plant and equipment	D (3)	34,551	20,178
Financial assets	D (4)	326	376
Other assets		86	89
Total non-current assets		**59,692**	**30,082**
Current assets			
Inventories	D (5)	11,216	6,911
Trade receivables	D (6)	10,377	9,763
Income tax claims		1,282	639
Other assets	D (7)	1,529	1,765
Cash and cash equivalents	D (8)	8,454	13,264
Total current assets		**32,858**	**32,342**
Total Assets		**92,550**	**62,424**

in € thousands	Notes	Dec. 31, 2015	Dec. 31, 2014
EQUITY AND LIABILITIES			
Equity			
Subscribed capital	D (9)	4,115	4,115
Capital reserve	D (9)	2,450	2,450
Revaluation deficit	D (9)	- 766	- 781
Profit carried forward		10,492	8,746
Net income		3,403	2,775
Currency translation differences		- 292	- 106
Total equity		**19,402**	**17,199**
Non-current provisions and liabilities			
Non-current lease obligations	D (10)	1,721	1,703
Non-current borrowings	D (12)	23,785	10,131
Non-current bonds	D (11)	13,023	12,873
Investment grants	D (15)	1,178	1,268
Deferred tax liabilities	C (9)	3,514	1,124
Pension provisions	D (13)	2,087	1,882
Other non-current liabilities		723	0
Total non-current provisions and liabilities		**46,031**	**28,981**
Current provisions and liabilities			
Current portion of lease obligations	D (10)	615	536
Current loans and current portion of non-current borrowings	D (12)	8,724	4,962
Trade payables		10,715	6,119
Other provisions	D (16)	21	91
Income tax liabilities	D (17)	85	95
Other current liabilities	D (14)	6,957	4,441
Total current provisions and liabilities		**27,117**	**16,244**
Total equity and liabilities		**92,550**	**62,424**

Consolidated Statement of Comprehensive Income of paragon AG, Delbrück, for the period from January 1, 2015 to December 31, 2015, in accordance with IFRS

in € thousands	Notes	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2014
Sales revenue	C (1), D (23)	**94,990**	**79,037**
Other operating income	C (2)	3,184	1,350
Increase or decrease in inventory of finished goods and work in progress		1,440	791
Other own work capitalized	C (3)	12,752	5,153
Total operating performance		**112,366**	**86,331**
Cost of materials	C (4)	- 55,516	- 41,849
Gross profit		**56,850**	**44,482**
Personnel expenses	C (5)	- 26,307	- 21,756
Depreciation of property, plant and equipment and amortization of intangible assets	C (7)	- 6,293	- 4,265
Impairment of property, plant and equipment and intangible assets	D (1)	- 111	- 17
Other operating expenses	C (6)	- 16,331	- 12,195
Earnings before interest and taxes (EBIT)		**7,808**	**6,249**
Financial income	C (8)	143	11
Financial costs	C (8)	- 2,930	- 1,973
Financial result		**- 2,787**	**- 1,962**
Earnings before taxes (EBT)		**5,021**	**4,287**
Income taxes	C (9)	- 1,618	- 1,512
Net income		**3,403**	**2,775**
Earnings per share (basic)	C (10)	0.83	0.67
Earnings per share (diluted)	C (10)	0.83	0.67
Average number of share outstanding (basic)	C (10)	4,114,788	4,114,788
Average number of share outstanding (diluted)	C (10)	4,114,788	4,114,788
Other comprehensive income			
Actuarial gains and losses	D (13)	15	- 336
Currency translation reserves		- 186	- 105
Overall result		**3,232**	**2,334**

Consolidated Cash Flow Statement of paragon AG, Delbrück, for the period from January 1, 2015 to December 31, 2015 in accordance with IFRS

in € thousands	Notes	Jan. 1 – Dec. 31, 2015		Jan. 1 – Dec. 31, 2014	
Earnings before income tax		5,021		4,287	
Depreciation / amortization of non-current assets		6,293		4,265	
Financial result		2,787		1,962	
Gains (-), losses (+) from the disposal of property, plant, equipment and financial assets		- 28		105	
Increase (+), decrease (-) in other provisions and pension provisions		165		359	
Income from the reversal of the special item for investment grants		- 88		- 228	
Other non-cash income and expense		64		- 131	
Increase (-), decrease (+) in trade receivables, other receivables and other assets		551		- 4,006	
Partial transfer of pension provisions		0		- 1,453	
Impairment of intangible assets		111		17	
Increase (-), Decrease (+) in inventories		- 3,695		558	
Increase (+), Decrease (-) in trade payables and other liabilities		5,253		4,581	
Interest paid		- 2,930		- 1,945	
Income taxes		- 651		- 1,423	
Cash flow from operating activities	D (22)		**12,853**		**6,948**
Cash receipts from disposals of property, plant and equipment		778		370	
Cash payments to acquire property, plant and equipment		- 19,609		- 10,840	
Cash payments to acquire intangible assets		- 12,342		- 4,948	
Cash payments for investments in financial assets		50		- 256	
Cash payments for acquisition of consolidated companies and other business entities		- 1,219		0	
Interest received		7		9	
Cash flow from investing activities	D (22)		**- 32,335**		**- 15,665**
Distribution to owners		- 1,029		- 1,029	
Cash repayments of borrowings		- 3,769		- 3,892	
Amounts paid on insolvency ratio		607		0	
Cash proceeds from issuing loans		19,466		6,621	
Cash repayments for liabilities from finance leases		- 602		- 266	
Net cash proceeds from the issuance of bonds		0		2,900	
Cash flow from financing activities	D (22)		**14,673**		**4,334**
Cash-effective change in liquidity		- 4,809		- 4,383	
Cash and cash equivalents at beginning of period		13,264		17,647	
Cash and cash equivalents at end of period	D (8), D (22)	8,454		13,264	

Consolidated Statement of Changes in Equity of paragon AG, Delbrück, for the period from January 1, 2015 to December 31, 2015 in accordance with IFRS

in € thousands	Subscribed capital	Capital reserve	Revaluation deficit	Reserve from currency translation	ACCUMULATED PROFIT Profit carried forward	ACCUMULATED PROFIT 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	- 440
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**

in € thousands	Subscribed capital	Capital reserve	Revaluation deficit	Reserve from currency translation	ACCUMULATED PROFIT Profit carried forward	ACCUMULATED PROFIT Net income	Total
January 1, 2015	**4,115**	**2,450**	**- 781**	**- 106**	**11,521**	**0**	**17,198**
Net income	0	0	0	0	0	3,403	3,403
Actuarial gains and losses	0	0	15	0	0	0	15
Currency translation	0	0	0	- 186	0	0	- 186
Other comprehensive income	0	0	15	- 186	0	0	- 171
Comprehensive income	0	0	15	- 186	0	3,403	3,232
Dividend payout	0	0	0	0	- 1,028	0	- 1,028
December 31, 2015	**4,115**	**2,450**	**- 766**	**- 292**	**10,493**	**3,403**	**19,402**

Shares held by members of the Managing and Supervisory Boards as of Dec. 31, 2015

Capital stock: 4,114,788 shares	Shares as of Dec. 31, 2015
Managing Board, total	2,113,205
Supervisory Board, total	8,000
Boards, total	2,121,205
as % of capital stock	51.55

Notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2015

A. Information on paragon AG

(1) 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, 2015 and the management report for the period from January 1 to December 31, 2015 to the Supervisory Board on February 26, 2016.

The consolidated financial statements and management report of paragon AG prepared for the period from January 1 to December 31, 2015 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, 2015 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, 2015 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, 2015 were authorized for issue by the Managing Board and submitted to the Supervisory Board for issue on February 26, 2016. All information available up to that date with regard to the circumstances on the balance sheet date must be taken into account.

No events of special significance occurred after the close of the fiscal year.

(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, 2015:

- 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. The company made no use of the possibility of premature application. IFRIC 21 has not resulted in any 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 were endorsed by the European Union on January 9, 2015. They require application in fiscal years beginning on or after July 1, 2014. The company made no use of the possibility of premature application. The amendment has not resulted in any implications for the consolidated financial statements.

Upon the preparation of the financial statements for the reporting period from January 1 to December 31, 2015, 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 the new standard IFRS 9 *Financial Instruments* concerning the classification and measurement of financial assets. This standard is the first of the three-part project intended to fully supersede IAS 39 *Financial Instruments: Recognition and Measurement*. Pursuant to the IFRS 9 methodology, financial assets must be measured either at amortized cost or at fair value. Allocation to one of the two measurement categories depends on how the entity manages its financial instruments ("business model") and which product characteristics the individual financial assets have. In October 2010, the IASB issued requirements governing the recognition of financial liabilities that supplement IFRS 9 *Financial Instruments* and complete the classification and measurement stage of the IASB project to supersede IAS 39 *Financial Instruments: Recognition and Measurement*. Under the new requirements, an entity that has selected the fair value option to recognize its financial liabilities must recognize that part of the change in fair value resulting from the change in its own credit risk under other comprehensive income within equity rather than in the income statement. Upon the amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments*: *Diclosures* issued in December 2011, the IASB postponed the date of mandatory first-time application for IFRS 9 from January 1, 2013 to January 1, 2015 and additionally introduced the obligation to disclose adjusted prior year figures upon first-time application of IFRS 9. Premature application is permitted. As a substitute, additional note disclosure obligations have been included in IFRS 7 that are intended to enable readers of financial statements to assess the effects resulting from first-time application of IFRS on the recognition and measurement of financial instruments. In November 2013, the IASB issued supplements to IFRS 9 *Financial Instruments* (Hedge Accounting and Amendments to IFRS 9; IFRS 7 and IAS 39). The supplements to IFRS 9 involve a fundamental revision of hedge accounting requirements intended to enable entities to improve the presentation of their risk management activities in their financial statements. Furthermore, extensive disclosure obligations are required. Moreover, the date of mandatory first-time application from January 1, 2015 previously included in IFRS 9 has been suspended. A new date of first-time application will only be set once the entire IFRS 9 project is about to be completed. In July

2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. The new version includes revised requirements concerning the classification and measurement of financial assets and for the first time also includes requirements concerning the impairment of financial instruments. The new expected loss model brings forward the recognition of losses by recognizing both those losses that have already arisen and those expected to arise in future. The new requirements require mandatory application in fiscal years beginning on or after January 1, 2018. First-time application must generally be retrospective and a variety of simplification options has been granted. Premature application is permitted. EU endorsement of these amendments is still outstanding. The company cannot yet conclusively evaluate the implications of first-time application of this standard for its consolidated financial statements, should the standard be adopted by the EU in its current form.

- 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. Upon their adoption into EU law, the date of mandatory application was postponed to fiscal years beginning after February 1, 2015 in the case of the 2010-2012 cycle and to fiscal years beginning after January 1, 2015 in the case of the 2011-2013 cycle. Premature application is permitted. The company currently does not expect the amendments to have any material influence on the presentation of its financial statements.

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 A*ggregation 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 still outstanding, 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 et seq.). Gains and losses from transactions with associates and joint ventures in respect of assets that constitute a business must now be fully recognized in the financial statements of the investor (IAS 28.31A). Enterprises must further review whether assets sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction (IAS 28.31B). In IFRS 10, an exception to the complete recognition through profit or loss of any loss of control over a subsidiary has therefore been included in Paragraph B99A. This applies to the extent that the assets 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 originally required application in fiscal years beginning on or after January 1, 2016. In August 2015, the IASB proposed postponing the date of first-time application indefinitely. The company assumes that the amendments will have no material 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)*. Due to the amendment to IFRS 15 published in September 2015, the date of first-time mandatory application has been postponed from January 1, 2017 to fiscal years beginning on or after January 1, 2018. First-time application must generally be retrospective and a variety of simplification options has been granted. Premature application is still permitted. EU endorsement of this standard, including the amendment, is still outstanding. The company cannot yet conclusively evaluate the implications of first-time application of this standard for its consolidated financial statements, should the standard be adopted by the EU in its current form.

- 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. In October 2015, EFRAG announced that the European Commission would not be proposing the interim standard IFRS for adoption into EU law. This amendment has therefore not had any 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. The amendments were endorsed by the EU on November 25, 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. The amendments were endorsed by the EU on December 3, 2015 and 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 measured 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	n/a	Parent	EUR	86,798,363.83
KarTec GmbH, Forchheim	100%	Full consolidation	EUR	345,333.00
Voltabox Deutschland GmbH	100%	Full consolidation	EUR	3,965,703.29
productronic GmbH, Delbrück	100%	Full consolidation	EUR	0.00
SphereDesign GmbH, Bexbach	100%	Full consolidation	EUR	5,133,517.59
China				
paragon Automotive Technology (Shanghai) Co., Ltd.	100%	Full consolidation	RMB	2,448,446.63
paragon Automotive (KunShan) Co., Ltd.	100%	Full consolidation	RMB	0
USA				
Voltabox of Texas, Inc.	100%	Full consolidation	USD	4,248,655.18

Alongside the parent company, paragon AG, Delbrück, seven subsidiaries are included by way of full consolidation, of which the company SphereDesign GmbH, Bexbach, was acquired in February 2015. The companies paragon Automotive (KunShan) Co. Ltd. and productronic GmbH, Delbrück, were newly founded in the 2015 year under report. 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.

Presentation of the acquisition of SphereDesign with economic effect as of January 1, 2015:

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 € thousands	Jan. 1, 2015 Carrying amount	Jan. 1, 2015 Fair value
Customer list	0	2,565
Capitalized development costs	1,434	1,434
Other intangible assets	2	2
Property, plant and equipment	206	206
Inventories	610	610
Trade receivables	892	892
Other current assets	34	34
Cash and cash equivalents	1	1
Deferred tax liabilities	- 37	- 806
Other current provisions	- 77	- 77
Income tax provisions	- 28	- 28
Liabilities to banks	- 1,719	- 1,719
Trade payables	- 621	- 621
Other current liabilities	- 248	- 248
Net assets acquired	449	2,245
Goodwill		770
Purchase price		3,015
of which already paid in 2015		1,219

The goodwill of € 770 thousand remaining after the purchase price allocation is attributable to various factors. These mainly relate to the development expertise acquired via SphereDesign. Furthermore, the acquisition has strengthened the market position of the paragon Group. Goodwill is not deductible for tax purposes.

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, 2015. The audited annual financial statements of paragon AG prepared in accordance with German commercial law as of December 31, 2015 formed the basis for the standardizing entries subsequently made to bring the statements in line with IFRS.

In addition, intragroup balances, transactions, income and expenses are eliminated. The differences arising from eliminating intragroup income and expenses were offset through 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 paragon's consolidated financial statements, 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 € 140 thousand (prior year: € 31 thousand) and exchange rate gains in the amount of € 1,628 thousand (prior year: € 378 thousand) are recognized in the consolidated statement of comprehensive income. These exchange rate differences are contained in other operating expenses or other operating income.

The exchange rates of the currencies most relevant to the paragon Group developed as follows:

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 2015		01–12 2014	
US dollar (USD)	1.0907	1.1103	1.2155	1.3293
Chinese renminbi yuan	7.0805	6.9149	7.4656	8.1659

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. Costs of production comprise 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.

(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, 2015. 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.

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.

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

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 regular 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 obtain 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 call-up orders from customers in relation to spare parts which are contractually required to be held in stock. The measurement deductions were adjusted by reference to the age of spare parts to suitable deductions of between 25% (older than 12 months) and 100% (older than 48 months) for spare parts inventories for raw materials and supplies, to 80% for spare parts inventories for finished products, and 100% for spare parts inventories for semi-finished products – in each case for stocks older than 12 months – resulting in an overall measurement deduction of around 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, 2015, the Group reported receivables of € 544 thousand (prior year: € 6,958 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”. The key change was the elimination of the possibility previously permitted to recognize actuarial gains and losses on an accrual basis, using the so-called corridor method, through to the full recognition directly in equity in the revaluation surplus.

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. Consistent with the agreements entered into with customers, this normally occurs upon shipment of the products. 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) Uses 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.

Goodwill

As outlined in the accounting principles, the Group tests goodwill for impairment once a year and when there are any indications of such. This involves estimating the recoverable amount of the cash-generating unit. This corresponds to the higher of fair value less cost to see and value in use. When determining the value in use, adjustments and estimates have to be made concerning the forecast and discounting of future cash flows. Although the Managing Board believes that the assumptions used to determine the recoverable amount are appropriate, unforeseeable changes in these assumptions could lead to an impairment loss that could have a sustainably negative influence on the Group’s financial position, financial performance, and cash flows.

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.

Information about the measurement discounts can be found in 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, 2015 at a combined income tax rate of 30.0% (prior year: 30.0%). This includes a corporate tax rate of 15% and a solidarity surcharge of 5.5%. The income tax rate also reflects trade 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.

In anticipation of the long-term trend in market interest rates, these items were measured as of December 31, 2015 using a discount rate of 2.00%, and thus unchanged on the prior year.

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

Other provisions

The recognition and measurement of other provisions was based on the estimated probability of the future outflow of benefits and on experience values and the circumstances known of at the balance sheet date. The outflow of benefits actually arising over time may therefore differ from the volume of other provisions recognized at the balance sheet date.

Recognition of revenue from construction contracts

Construction contracts are recognized using the percentage of completion (PoC) method. The percentage of completion to be recognized is determined using the cost-to-cost method. This method requires a precise estimate of the extent of the progress made with the contract. Further estimates refer to general contract-related risks. The controlling department at the operating company continually reviews all estimates required for construction contracts and adapts these where necessary.

Legal risks

In general, paragon group companies may become parties to legal disputes. The management regularly analyzes the latest information available for these cases and, where necessary, recognizes provisions to cover probable obligations, including estimated legal costs. External attorneys are referred to for this assessment. In determining the need for provisions, the Managing Board accounts for the probability of an unfavorable outcome and for the possibility of estimating the level of obligation with sufficient reliability. The filing of a lawsuit, formal assertion of a claim, or disclosure of a legal dispute in the notes does not automatically mean that a provision for the respective risk is appropriate.

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

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

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

Consolidated statement of non-current assets as of December 31, 2015

	ACQUISITION COST							DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES						CARRYING AMOUNTS	
in TEUR	Jan. 1, 2015	Change currency	Additions	Additions from acqisitions	Disposals	Re-classifications	Dec. 31, 2015	Jan. 1, 2015	Change currency	Additions	Impairment in accordance with IAS 36/38	Disposals	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015
Intangible Assets															
Licenses, patents, software	20,423	12	343	2,566	0	53	23,398	18,876	20	928	0	0	19,824	1,547	3,574
Capitalized development costs	9,318	3	11,893	1,434	0	0	22,648	1,542	0	951	111	0	2,604	7,777	20,044
Goodwill	0	0	779	0	0	0	779	0	0	0	0	0	0	0	779
Advance payments made for intangible assets	115	0	278	0	0	- 53	340	0	0	0	0	0	0	115	340
Total intangible assets	**29,856**	**15**	**13,294**	**4,001**	**0**	**0**	**47,165**	**20,418**	**20**	**1,879**	**111**	**0**	**22,427**	**9,439**	**24,738**
Property, plant and equipment															
Land and buildings	16,155	0	5,316	160	0	8,316	29,947	7,477	0	935	0	0	8,412	8,678	21,535
Technical equipment and machinery	25,673	14	1,146	2	974	1,922	27,783	18,854	1	2,346	0	974	20,227	6,820	7,556
Other plant, office furniture and equipment	11,644	8	1,060	40	401	573	12,923	9,195	2	1,133	0	212	10,117	2,449	2,806
Payments on account	2,231	163	10,987	83	0	- 10,810	2,653	0	0	0	0	0	0	2,231	2,653
Total property, plant and equipment	**55,704**	**184**	**18,509**	**285**	**1,375**	**0**	**73,307**	**35,525**	**2**	**4,414**	**0**	**1,186**	**38,756**	**20,178**	**34,551**
Financial assets															
Equity investments	376	0	0	0	50	0	326	0	0	0	0	0	0	376	326
Total financial assets	**376**	**0**	**0**	**0**	**50**	**0**	**326**	**0**	**0**	**0**	**0**	**0**	**0**	**376**	**326**
Total	**85,936**	**199**	**31,803**	**4,286**	**1,425**	**0**	**120,798**	**55,943**	**22**	**6,293**	**111**	**1,186**	**61,183**	**29,993**	**59,615**

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

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

(1) Revenue

Revenue includes sales of products and services less any sales reductions. Of the revenue of € 94,990 thousand (prior year: € 79,037 thousand) in the period under report, domestic revenue accounted for € 65,297 thousand (prior year: € 55,539 thousand) and foreign revenue for € 29,693 thousand (prior year: € 23,498 thousand).

In the period under report, other revenue generated in connection with development services came to € 5,487 thousand (prior year: € 3,184 thousand).

The revenue for the period under report includes contract revenue of € -925 thousand determined using the PoC method.

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 mainly includes income of € 1,628 thousand (prior year: € 378 thousand) from exchange rate differences, income of € 88 thousand (prior year: € 228 thousand) from the reversal of the special item for grants, income of € 318 thousand (prior year: € 263 thousand) from the use of company cars by employees, and income of € 52 thousand (prior year: € 128 thousand) from the reversal of specific valuation allowances. In addition, this item also includes other income from government assistance and government grants, from retired assets, and from other provisions.

(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 manufacturing test equipment.

in € thousands	Jan. 1 - Dec. 31, 2015	Jan. 1 - Dec. 31, 2014
Project-related development costs	11,847	4,534
Cost of test equipment	905	619
Other own work capitalized	**12,752**	**5,153**

(4) Cost of materials

in € thousands	Jan. 1 - Dec. 31, 2015	Jan. 1 - Dec. 31, 2014
Raw materials and supplies	53,233	39,956
Cost of purchase services	2,283	1,893
Cost of materials	**55,516**	**41,849**

The item to be eliminated from cost of materials in connection with investments in forward-looking business fields amounted to € 0.5 million.

(5) Personnel expenses

Personnel expenses amounted to € 26,307 thousand in the year under report (prior year: € 21,756 thousand) and are structured as follows:

in € thousands	Jan. 1 - Dec. 31, 2015	Jan. 1 - Dec. 31, 2014
Wages and salaries	20,117	16,980
Social security contributions / pension expenses	3,271	2,804
Expenses for temporary staff	2,919	1,972
Personnel expense	**26,307**	**21,756**

Personnel levels changed as follows compared to the previous year:

	Jan. 1 - Dec. 31, 2015	Jan. 1 - Dec. 31, 2014
Salaried employees	291	237
Wage-earning employees	270	235
Total number of employees	**561**	**472**

The item to be eliminated from personnel expenses in connection with investments in forward-looking business fields amounted to € 1.6 million.

(6) Other operating expenses

Other operating expenses chiefly relate to building rental expenses and energy costs (€ 2,146 thousand, prior year: € 2,538 thousand), IT and telephone costs (€ 1,247 thousand, prior year: € 1,005 thousand), vehicle costs (€ 866 thousand, prior year: € 738 thousand), maintenance costs (€ 807 thousand, prior year: € 644 thousand), third-party development costs (€ 3,619 thousand, prior year: € 1,250 thousand), legal and consulting costs (€ 962 thousand, prior year: € 811 thousand), advertising and marketing costs (€ 694 thousand, prior year: € 450 thousand), and plant insurance and leasing costs (€ 400 thousand, prior year: € 382 thousand). Other taxes recognized under other operating expenses during the period under report amounted to € 39 thousand (prior year: € 58 thousand).

The item to be eliminated from other operating expenses in connection with investments in forward-looking business fields amounted to € 2.1 million.

(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.

The item to be eliminated from depreciation, amortization and impairment losses in connection with investments in forward-looking business fields amounted to € 0.2 million.

(8) Financial result

in € thousands	Jan. 1 - Dec. 31, 2015	Jan. 1 - Dec. 31, 2014
Financial income	143	11
Interest income	143	11
Financial expenses	- 2,930	- 1,973
Other financial and interest income	- 2,930	- 1,973
Financial result	- 2,787	- 1,962

Other financial and interest expenses include interest expenses to banks of € 2,239 thousand (prior year: € 1,533 thousand).

(9) Income taxes

in € thousands	Jan. 1 - Dec. 31, 2015	Jan. 1 - Dec. 31, 2014
Current taxes	5	1,182
Current domestic taxes	5	1,182
Deferred taxes	1,613	330
Deferred domestic taxes	2,397	420
Deferred foreign taxes	- 784	- 90
Income taxes	1,618	1,512

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

Of the deferred tax assets of € 2,946 thousand (prior year: € 1,783 thousand), at the end of the year under report € 1,590 thousand related to domestic taxes (prior year: € 1,294 thousand) and € 1,356 thousand to foreign taxes (prior year: € 489 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 € 6,460 thousand (prior year: € 2,908 thousand), at the end of the year under report € 6,317 thousand related to domestic taxes (prior year: € 2,847 thousand) and € 143 thousand to foreign taxes (prior year: € 61 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.

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

in € thousands	Dec. 31, 2015		Dec. 31, 2014	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	0	6,005	0	2,326
Property, plant and equipment	295	0	309	0
Receivables and other assets	127	157	307	341
Provisions for pensions	655	0	678	0
Bonds	0	135	0	180
Liabilities	0	163	0	61
Loss carryovers	1,869	0	489	0
Deferred tax assets and liabilities prior to offsetting	2,946	6,460	1,783	2,908
Offseting	- 2,946	- 2,946	- 1,783	- 1,783
Deferred tax assets and liabilities after offsetting	0	3,514	0	1,125

The increase in deferred tax liabilities by € 3,552 thousand was primarily the result of capitalizations of development costs for intangible assets in the year under report (€ 3,019 thousand) and of the allocation in the year under report of intangible assets from the acquisition of SphereDesign GmbH (€ 660 thousand). This was opposed by a reduction in carrying amount differences for bonds (€ 45 thousand) and for trade receivables (€ 184 thousand).

This increase in deferred tax assets by € 1,163 thousand was primarily due to capitalizations of loss carryovers (€ 1,380 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. By contrast, carrying amount differences reduced for provisions for pensions (€ 23 thousand), property, plant and equipment (€ 14 thousand), and receivables (€ 180 thousand). In the period under report, an amount of € 6 thousand from the deferred tax assets for provisions for pensions was recognized directly in equity in the revaluation surplus (prior year: € -144 thousand). This also corresponds to the amount of deferred tax assets related to the other comprehensive income component.

Voltabox Deutschland GmbH has corporate income tax and trade tax loss carryovers amounting to € 1,189 thousand from the period prior to consolidation. No deferred taxes have been 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, 2015	Jan. 1 - Dec. 31, 2014
Net income for the period before income taxes	5,021	4,287
Calculatory tax expense at a tax rate of 30.0 % (prior year: 30.0 %)	1,506	1,286
Non-period tax expenses	4	85
Non-deductible expenses and tax-free income	0	99
Non-recognition of deferred tax assets on loss carryovers	78	357
Tax effect from the partial transfer of pension obligations	0	- 293
Other	30	- 22
Current tax expense	1,618	1,512

(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 € 3,403 thousand in the year under report (prior year: € 2,775 thousand), basic earnings per share amount to € 0.83 (prior year: € 0.67).

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, 2015 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 € 17,819 thousand (prior year: € 7,755 thousand) have been capitalized under intangible assets. Total development costs for the period amounted to € 12,816 thousand (prior year: € 7,829 thousand). Of this amount, internal development costs of € 11,893 thousand were capitalized as intangible assets in the year under report (prior year: € 4,534 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 € 614 thousand in the year under report (prior year: € 324 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 € 111 thousand in the year under report (prior year: € 17 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 revenue planning approved by the Managing Board. Revenue 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%.

Customer list

In the course of the business combination with SphereDesign GmbH as of January 1, 2015, the company also identified a customer base as an intangible asset. This involves contractually agreed customer relationships that meet the criteria for recognition pursuant to IAS 38.8 et seq. The acquisition costs for the customer base of SphereDesign GmbH amount to € 2,565 thousand. This item is recognized under “Licenses, patents, software/customer lists”. In conformity with IAS 38, this customer list has been classified as an intangible asset with a limited useful life of 7 years.

Development in the customer list:

in € thousands	
Customer list at Jan. 1, 2015	2,565
Amortization in fiscal year	- 366
Carrying amount at Dec. 31, 2015	**2,199**

(2) Goodwill

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

This involves goodwill and internally generated intangible assets whose production is not yet complete being tested for potential impairment once a year. Should any events or changes in circumstances indicate potential impairment, then the impairment test is also performed more frequently.

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

Costs of capital are calculated as the weighted average of equity and debt capital costs (WACC = Weighted Average Cost of Capital). Equity costs are derived from a peer group analysis of the relevant market, and thus from available capital market information. To account for the different return and risk profiles of our different fields of activity, we calculate individual cost of capital rates for our companies (CGUs). The weighted average cost of capital, i.e. WACC before taxes, used to discount cash flows amount to 4.0 percent (prior year: 4.0 percent).

(3) Property, plant and equipment

Depreciation amounted to € 4,414 thousand in the year under report (prior year: € 3,172 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 € 2,286 thousand as of December 31, 2015 (prior year: € 2,280 thousand). The corresponding payment obligations for future lease installments amounted to € 2,335 thousand (prior year: € 2,239 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 € 2,653 thousand in the year under report (prior year: € 2,231 thousand).

Retirement expenses of € 722 thousand were recognized for items of property, plant and equipment in the year under report (prior year: € 475 thousand).

(4) Financial assets

By purchase and assignment agreement dated February 18, 2015, paragon AG acquired all of the shares in SphereDesign GmbH, Bexbach, at a price of € 3,015 thousand and with economic effect as of January 1, 2015. This company is an established development service provider and system supplier to the automotive industry in the fields of control and display elements. A portion of the total purchase price amounting to € 1,796 thousand will mature in stages in the following two years and has therefore been recognized under other liabilities. A profit and loss transfer agreement effective as of January 1, 2016 was signed between paragon AG and SphereDesign GmbH on March 20, 2015. In the annual financial statements as of December 31, 2015, the company reported equity of € 274 thousand (prior year: € 450 thousand) and net income of € -176 thousand (prior year: € -32 thousand).

The revenue of the paragon Group for the year under report includes revenue of € 5,134 thousand at SphereDesign GmbH. Since the date of initial consolidation (January 1, 2015), the company thereby acquired, including the impact on earnings of the amortization of intangible assets (€ -691 thousand) acquired in the context of the business combination and of allocable deferred taxes (€ 110 thousand), contributed a net loss of € -433 thousand to the paragon Group.

productronic GmbH, Delbrück, was founded on November 25, 2015. This company has as its object the production of electronic and mechanical modules, particularly for use in automobile production. paragon AG holds 100 % of the shares in productronic GmbH. In the annual financial statements as of December 31, 2015, the company reported equity of € 24 thousand and net income of € -1 thousand. productronic GmbH did not yet have any active business operations in fiscal year 2015.

paragon Automotive (KunShan) Co., Ltd. was founded on September 15, 2015. This company has as its object the production and marketing of paragon products for the Chinese market. Production activities at the new plant in the “German Industrial Park” were launched on November 4, 2015. paragon AG holds 100 % of the shares in paragon Automotive (KunShan) Co., Ltd. In the annual financial statements as of December 31, 2015, the company reported equity of € 513 thousand and net income of € -186 thousand.

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, 2015, the company reported equity of € 27 thousand (prior year: € 0 thousand) and net income of € 27 thousand (prior year: € 22 thousand).

paragon Automotive Technology Co. Ltd., Shanghai, commenced operations in 2013. The full license applied for under Chinese law was granted on January 3, 2014. In the annual financial statements as of December 31, 2015, the company reported equity of € 31 thousand (prior year: € 5 thousand) and net income of € 26 thousand (prior year: € -190 thousand).

In the course of the strategic alignment of business units, in the prior year the E-mobility 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. paragon AG holds 100% of the shares in Voltabox Deutschland GmbH. A profit and loss transfer agreement was signed between paragon AG and Voltabox Deutschland GmbH taking effect as of January 1, 2015 was signed on April 23, 2014. In the annual financial statements as of December 31, 2015, paragon AG assumed the annual net deficit for 2015 amounting to € 4,962 thousand. The company reported equity of € -595 thousand as of December 31, 2015 (prior year: € -595 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, 2015, the company reported equity of € -3,627 thousand and net income of € -2,093 thousand.

paragon AG has assumed directly enforceable fixed liability guarantees of € 318 thousand and directly enforceable guarantees of € 1,816 thousand towards Voltabox Deutschland GmbH. Given the accounting insolvency of Voltabox Deutschland GmbH, paragon AG declared a qualified subordinated claim for an amount of € 5,506 thousand for fiscal year 2014. From fiscal year 2015, a profit and loss transfer agreement has been in place between paragon AG and Voltabox Deutschland GmbH.

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.

(5) Inventories

Inventories are structured as follows:

in € thousands	Dec. 31, 2015	Dec. 31, 2014
Raw materials and supplies	4,493	2,161
Work in progress and finished goods and services	6,263	4,474
Advance payments on inventories	460	276
Inventories	11,216	6,911

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. Write-downs of € 274 thousand were recognized on inventories, mainly for salvage and spare parts storage, in the year under report (prior year: € 289 thousand). At the balance sheet date, inventories of € 0 thousand served as collateral for liabilities (prior year: € 0 thousand).

(6) Trade receivables

The carrying amount of trade receivables is derived as follows:

in € thousands	Dec. 31, 2015	Dec. 31, 2014
Trade receivables, gross	10,467	9,830
less impairment losses	- 90	- 67
Trade receivables	10,377	9,763

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 company had PoC receivables of € 586 thousand (prior year: € 1,511 thousand). Sales reductions of € -924 thousand (prior year: € -2,231 thousand) were countered by cost reductions of € 1,126 thousand (prior year: € 1,394 thousand). Overall, the company can report prepayments received of € 165 thousand for PoC projects (prior year: € 487 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, 2015			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Trade receivables	10,304	7,350	962	144	79	1,769
Dec. 31, 2014			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Trade receivables	9,594	4,933	3,389	45	28	1,199

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, 2015	Dec. 31, 2014
Impaired receivables before allowances for losses	163	236
Allowances for losses	- 90	- 67
Impaired receivables after allowances for losses	73	169

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.

(7) Other current assets

Other current assets include:

in € thousands	Dec. 31, 2015	Dec. 31, 2014
Other current assets		
Purchase price retentions from factoring	676	644
Insurance damage payments	0	454
Prepaid expenses	342	119
Creditors with debit balances	224	74
Investment grant	0	71
Miscellaneous assets	288	403
Other current assets	**1,529**	**1,765**

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, 2015			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Other current assets	1,529	1,529	0	0	0	0
Dec. 31, 2014			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Other current assets	1,765	1,765	0	0	0	0

There were no indications as of December 31, 2015 that any material payment defaults were likely to arise in the case of other current assets.

(8) Cash and cash equivalents

Cash on hand and bank deposits are recognized at nominal value. Cash and cash equivalents include € 15 thousand (prior year: € 17 thousand) in cash on hand and € 8,439 thousand (prior year: € 13,247 thousand) in bank deposits. Cash and cash equivalents also include an amount of € 500 thousand on the insolvency escrow account (prior year: € 500 thousand) and an amount of € 1,580 thousand on the insolvency dividend payout account (prior year: € 973 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.

(9) Equity

The changes in the individual components of equity for the fiscal year from January 1 to December 31, 2014 and for the reporting period from January 1 to December 31, 2015 are presented in the consolidated statement of changes in equity.

Share capital

paragon AG's share capital as of December 31, 2015 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 the provisions of German stock corporation law governing capital increases from capital funds (§ 207 et seq. of the German Stock Corporation Act [AktG]) by transferring to share capital 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 were 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.

The same resolution adopted by the Annual General Meeting authorized the Managing Board, with the approval of the Supervisory Board, to issue bearer bonds with warrants or convertible bonds with a total nominal amount of up to € 100,000,000.00 and a term of up to 20 years on one or several occasions up to and including May 8, 2017 and to grant or impose warrant or conversion rights and/or obligations to a total of up to 1,647,394 par-value bearer shares in the company with a prorated amount of share capital totaling € 1,647,394.00 to or on the holders or creditors of the respective bonds in accordance with the requirements 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 company 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, 2015, 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 surplus

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 surplus in the 2012 financial statements. In the reporting period, an amount of € 15 thousand after deferred taxes (prior year: € -335 thousand) was recognized in the revaluation surplus.

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, 2015.

(10) 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, 2015	Dec. 31, 2014
Minimum lease payments	691	1,808	0	2,499	2,427
Future interest payments	- 76	- 88	0	- 164	- 188
Finance lease obligations (reduction of principal)	**615**	**1,720**	**0**	**2,335**	**2,239**
of which reported under non-current liabilities				1,721	1,703
of which reported under current liabilities				614	536

(11) Bonds

To promote its further internationalization and expand its existing business fields, in 2013 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 runs until July 2, 2018. In 2014, the company placed a further tranche of € 3,000 thousand of the corporate bond already issued in 2013. 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 € 149 thousand (prior year: € 135 thousand) was thus amortized in the year under report.

(12) Liabilities to banks

Current and non-current liabilities to banks totaled € 32,508 thousand (prior year: € 15,093 thousand); collateral for liabilities to banks existed in the amount of € 32,508 thousand (prior year: € 15,093 thousand).

Liabilities to banks are secured by property charges for loan liabilities in the amount of € 14,801 thousand (prior year: € 8,329 thousand) and by collateral assignment of property, plant and equipment of € 5,860 thousand (prior year: € 4,282 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, 2015	Dec. 31, 2014
Liabilities to banks	**4,637**	**22,550**	**5,321**	**32,508**	**15,093**
of which reported under non-current liabilities				23,784	10,131
of which reported under current liabilities				8,724	4,962

The interest rates for liabilities to banks range from 1.55% to 6.0% and are fixed for all loans but one. There is therefore no exposure to interest rate risk for the loans with fixed interest rates. Loans with floating interest rates (€ 3,741 thousand) are subject to interest rate risk (c.f. Note 18 Interest rate risk).

(13) 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 year 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 year 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 year 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 year 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 prior years were reclassified from profit/loss carried forward to the revaluation surplus.

An actuarial gain of € 15 thousand (prior year: actuarial loss of € 335 thousand) was recognized in other comprehensive income.

The actuarial calculations have been based on the following assumptions:

in %	Dec. 31, 2015	Dec. 31, 2014
Discount rate	2.00	2.00
Expected return on plan assets	0.00	0.00
Salary increase (recommitment based on individual contracts until 2009, 0% thereafter)	0.00	0.00
Pension increase	2.00	2.00
Fluctuation	0.00	0.00

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, 2015	Dec. 31, 2014
Present value of defined benefit obligation at beginning of year	1,882	1,224
Service cost	188	151
Interest cost	38	28
Actuarial gains (-) / losses (+)	- 21	479
Present value of defined benefit obligation at balance sheet date	**2,087**	**1,882**

The actuarial losses incurred in fiscal year 2015 were recognized directly in equity in the revaluation surplus 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 that is not countered by any plan assets:

in € thousands	Dec. 31, 2015	Dec. 31, 2014
Present value of defined benefit obligation	2,087	1,882
less fair value of plan assets	0	0
Unfunded defined benefit obligation	**2,087**	**1,882**

The net amount changed as follows:

in € thousands	Dec. 31, 2015	Dec. 31, 2014
Unfunded defined benefit obligation at beginning of year	1,882	1,224
Pension expense	226	179
Actuarial gains (-) / losses (+)	- 21	479
Settlements	0	0
Unfunded defined benefit obligation at end of year	2,087	1,882

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

in € thousands	Dec. 31, 2015	Dec. 31, 2014
Service cost	188	151
Interest cost	38	28
Losses from settlements	0	0
Actuarial gains (-) / losses (+)	- 21	479
Pension expense	205	658

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, 2015	Dec. 31, 2014
Present value of defined benefit obligation	2,087	1,882
less fair value of plan assets	0	0
Unfunded defined benefit obligation	2,087	1,882

Disclosures on sensitivities and risks:

in € thousands	Dec. 31, 2015	Dec. 31, 2014
DBO as of Dec. 31, 2015, interest rate 1.75% (prior year: 1.75%)	2,178	1,968
DBO as of Dec. 31, 2015, interest rate 2.25% (prior year: 2.25%)	2,001	1,801
DBO as of Dec. 31, 2015, pension increase 1.75% (prior year: 1.75%)	2,013	1,816
DBO as of Dec. 31, 2015, pension increase 2.25% (prior year: 2.25%)	2,164	1,951

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.

(14) Other liabilities

Other liabilities include the following items:

in € thousands	Dec. 31, 2015	Dec. 31, 2014
Other current liabilities		
Financial liabilities		
Deferred income (accruals)	3,183	2,881
Purchase price liability for company acquisition (discounted)	1,728	0
Old debt measured at insolvency ratio	1,580	973
Other current liabilities	196	0
	6,686	3,854
Liabilities from other taxes	994	587
Other current liabilities	7,680	4,441

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, 2015	Dec. 31, 2014
Other liabilities	6,957	723	0	7,680	4,441
of which reported under non-current liabilities				723	0
of which reported under current liabilities				6,957	4,441

(15) Special item for investment grants

This involves government investment grants, which are reported as liabilities in accordance with IAS 20. An amount of € 90 thousand was written down in the year under report (prior year: € 228 thousand). The company received government assistance of € 30 thousand in the year under report (prior year: € 0 thousand).

(16) Other provisions

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

in € thousands	Jan. 1, 2015	Utilization	Reversal	Addition	Dec. 31, 2015
Pending losses	0	0	0	0	0
Guarantees and ex gratia payments	91	0	70	0	21
Litigation risks	0	0	0	0	0
Other provisions	**91**	**0**	**70**	**0**	**21**

(17) Income tax liabilities

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

(18) 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, 2015 and December 31, 2014:

December 31, 2015

	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	8,454	8,454						
Trade receivables			10,377	10,377				
Other assets			1,529	1,529				
Financial assets					0	0	0	0
Total assets	**8,454**	**8,454**	**11,906**	**11,906**	**0**	**0**	**0**	**0**
EQUITY AND LIABILITIES								
Bonds			13,023	13,023				
Liabilities to banks			32,508	35,359				
Finance leases			2,335	2,366				
Trade payables			10,715	10,715				
Other liabilities			7,680	7,680				
Total equity and liabilities	**0**	**0**	**66,261**	**69,143**	**0**	**0**	**0**	**0**

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**

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.

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.

A hierarchical classification was undertaken for measuring fair value in accordance with IAS 39.A71 et seq. The hierarchical fair value levels and their application to paragon's financial assets and liabilities are 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 TEUR	01.01. - 31.12.2015	01.01. - 31.12.2014
Receivables	470	294
Net gains	**470**	**294**

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, 2015, the company had an exchange rate hedge for an amount of USD 2,235 thousand at a rate of USD/€ 1.1177 and with a maturity running to January 15, 2016. 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 derivative financial instruments for interest rate hedging as of December 31, 2015 or in the prior year.

(19) 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 € -177 thousand as of December 31, 2015 (prior year: € 13 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, 2015:

in € thousands	Dec. 31, 2015		Dec. 31, 2014	
	USD	Other	USD	Other
Transaction-related currency risk				
Currency risk from balance sheet item	- 1,575	- 20	126	4
Currency risk from pending transactions	0	0	0	0
	- 1,575	- 20	126	4
Items economically hedged through derivatives	0	0	0	0
Net exposure to currency risk	**- 1,575**	**- 20**	**126**	**4**
Change in currency exposure resulting from 10% appreciation in euro	- 175	- 2	13	0

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. At paragon Group had financial liabilities of € 3,741 thousand with floating interest rates at the end of the reporting period on December 31, 2015. A change in the interest rate (+1 % / -1%) would result in the following 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, 2015, paragon had cash and cash equivalents of € 8,454 thousand (prior year: € 13,246 thousand) at its disposal. Free cash credit lines of € 6,966 thousand were available as of December 31, 2015. 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.

in TEUR	Dec. 31, 2015		Dec. 31, 2014	
	+ 1%	- 1%	+ 1%	- 1%
Cashflow risk				
from financial instruments with floating interest rates	- 37	37	0	0

The following table shows the payments made for principal payments, repayments, and interest from recognized financial liabilities as of December 31, 2015:

in € thousands	2016	2017 – 2020	2021 and later
Non-derivative financial liabilities			
Liabilities from bonds	943	14,523	0
Liabilities to banks	5,800	21,428	6,467
Liabilities from finance leases	690	1,758	51
Trade payables	10,718	0	0
Other financial liabilities	6,837	0	0
Total non-derivative financial liabilities	**24,988**	**37,709**	**6,518**
Derivative financial liabilities	**57**	**0**	**0**
Total:	**25,045**	**37,709**	**6,518**

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, 2015	Dec. 31, 2014
Cash and cash equivalents	8,454	13,264
Total liquidity	**8,454**	**13,264**
Current financial liabilities and current portion of non-current financial liabilities	9,339	5,498
Non-current financial liabilities	38,529	24,707
Total financial liabilities	**47,868**	**30,205**
Net debt	**- 39,414**	**- 16,941**

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.

(20) 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, 2015, 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, 2015 in association with financing provided by lending banks.

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

As of December 31, 2015, 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, 2015	Dec. 31, 2014
Capital commitments	27,401	0	0	27,401	18,555
Lease obligations	648	1,817	0	2,465	7,782
Other liabilities	707	819	80	1,606	1,173
Other financial obligations	**28,756**	**2,636**	**80**	**31,472**	**27,510**

(22) 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 7.18 b. 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, 2015	Dec. 31, 2014
Bank deposits	8,439	13,247
Cash on hand	15	17
Cash and cash equivalents	**8,454**	**13,264**

Cash and cash equivalents also include the insolvency escrow account with a balance of € 500 thousand (prior year: € 500 thousand) and the insolvency dividend payout account with a balance of € 1,580 thousand (prior year: € 973 thousand). Both accounts are under the sole power of disposal of the former insolvency administrator.

(23) 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, E-mobility, 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, 2015	Jan. 1-Dec. 31, 2014
Sensors business segment	34,623	31,274
Cockpit business segment	31,925	27,501
Acoustics business segment	16,078	14,465
Body Kinematics business segment	4,960	3,741
Voltabox Deutschland GmbH	3,581	1,111
Voltabox of Texas, Inc.	3,823	945
Total revenue	**94,990**	**79,073**
Reconciliation to total comprehensive income		
Income	17,376	7,294
Expense	- 104,558	- 80,082
Financial result	- 2,787	-1,962
Income taxes	- 1,618	- 1,512
Net income	**3,403**	**2,775**

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, 2015	Germany Jan. 1 - Dec. 31, 2014	EU Jan. 1 - Dec. 31, 2015	EU Jan. 1 - Dec. 31, 2014	Other countries 1Jan. 1 - Dec. 31, 2015	Other countries Jan. 1 - Dec. 31, 2014	Total Jan. 1 - Dec. 31, 2015	Total Jan. 1 - Dec. 31, 2014
Revenue	65,297	55,539	23,312	17,922	6,381	5,576	94,990	79,037
Non-current assets (property, plant and equipment and intangible assets)	52,611	27,899	0	0	6,994	1,718	59,605	29,617

Of revenue, 24.6% (prior year: 30.7%) or € 23,331 thousand (prior year: € 24,280 thousand) is attributable to one single customer and a further 17.1% (prior year: 16.2%) or € 16,241 thousand (prior year: € 12,803 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.

(24) Related party disclosures

Related parties as defined in IAS 24 "Related party disclosure" 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 € 1,342 thousand (fiscal year 2014: € 1,112 thousand) and includes fixed (€ 851 thousand; fiscal 2014: € 756 thousand) and variable (€ 489 thousand; fiscal year 2014: € 355 thousand) components. The key variable compensation components are geared to EBITDA (based on IFRS) 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 paid	Frers, Klaus Dieter Chief Executive Office Entry date: April 11, 1988		Schwehr, Dr. Stefan Chief Technology Officer Entry date: April 1, 2014	
	2014	2015	2014	2015
Fixed compensation	553,676.19	600,037.56	156,130.00	200,000.00
Fringe benefits	40,010.00	42,421.00	6,130.80	8,687.87
Total	**593,686.19**	**642,458.56**	**162,260.80**	**208,687.67**
Single-year variable compensation*	315,960.00	429,000.00	38,497.50	60,530.00
Multiyear variable compensation				
Plan designation (term of plan)				
Plan designation (term of plan)				
Total	909,646.19	1,071,458.56	200,758.30	269,217.67
Pension expenses	1,789.56	1,789.56	-	0.00
Total compensation	911,435.75	1,073,248.12	200,758.30	269,217.67

* no cap (minimum/maximum) stipulated

Managing Board compensation table (paid):

Benefits paid	Frers, Klaus Dieter Chief Executive Office Entry date: April 11, 1988		Schwehr, Dr. Stefan Chief Technology Officer Entry date: April 1, 2014	
	2014	2015	2014	2015
Fixed compensation	553,676.19	600,037.56	156,130.00	200,000.00
Fringe benefits	40,010.00	42,421.00	6,130.80	8,687.67
Total	**593,686.19**	**642,458.56**	**162,260.80**	**208,687.67**
Single-year variable compensation*	375,036.58	315,960.00	0.00	38,497.50
Multiyear variable compensation				
Plan designation (term of plan)				
Plan designation (term of plan)				
Total	**968,722.77**	**958,418.56**	**162,260.80**	**247,185.17**
Pension expenses	1,789.56	1,789.56	0.00	0.00
Total compensation	**970,512.33**	**960,208.12**	**162,260.80**	**247,185.17**

* no cap (minimum/maximum) stipulated

Treu-Union Treuhandgesellschaft mbH, Steuerberatungsgesellschaft in Paderborn rendered services in the amount of € 62 thousand under an existing agreement in fiscal year 2015 (prior year: € 88 thousand). Hermann Börnemeier, a member of the Supervisory Board of paragon AG, is also managing director of the aforementioned company.

Services of € 1 thousand were performed in fiscal year 2015 by Societät Schäfers, Rechtsanwälte & Notare, in Paderborn (prior year: € 0 thousand). Walter Schäfers, a member of the Supervisory Board at paragon AG, is also a partner in this company.

The research company Kraftfahrwesen mbH Aachen performed development services of € 129 thousand in fiscal 2015 (prior year: € 0 thousand). Professor Dr. Lutz Eckstein, a member of the Supervisory Board at paragon AG, is the Chairman of the Advisory Board of this company.

Members of the Supervisory Board received fixed compensation in the past calendar year. Total Supervisory Board compensation amounted to € 120 thousand in the period under report (prior year: € 120 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: 8,000 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: 2,114,680 shares).

In line with the respective contractual agreements, payments of € 321 thousand (prior year: € 626 thousand) were made, chiefly for building rents, to Frers Grundstückverwaltungs GmbH & Co. KG, Delbrück, and to Artega GmbH & Co. KG in 2015. Of these, € 294 thousand related to the company building in Delbrück (prior year: € 572 thousand).

As of the balance sheet date, fixed liability guarantees 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).

An employment relationship based on customary market terms is in place with Brigitte Frers.

For transactions between paragon and its affiliated companies, reference is made to our disclosures in Section D.4 "Financial assets".

(25) Directors and officers

In the period from January 1 to December 31, 2015, the Managing Board of paragon AG comprised the Chief Executive Officer, Klaus Dieter Frers and the Chief Technology Officer Dr. Stefan Schwehr.

The company's Supervisory Board comprises the following members:

Name	Profession	Membership in supervisory boards and other supervisory bodies
Prof. Dr. Lutz Eckstein Chairman	Director of Institute for Automotive Engineering (ika) at RWTH Aachen University	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)
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

(26) 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.

(27) Auditor’s fee

Expenses of € 95 thousand were recognized in the period under report from January 1 to December 31, 2015 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 consolidated 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: € 64 thousand). Of this sum, € 64 thousand relates to auditing services and € 31 thousand to other services.

(28) Risk management

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

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

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

paragon AG, Delbrück
WKN 555869,
Publication pursuant to § 26 (1) WpHG

On September 17, 2015, we received the following voting right notification pursuant to § 21 (1) WpHG from Otus Capital Management LP, London, UK:

`Otus Capital Management LP, London, UK, notified us pursuant to § 21 (1) WpHG on September 17, 2015 that its share of the voting rights in paragon AG, Delbrück, Germany, exceeded the 3% threshold on September 9, 2015 and on this day amounted to 3.01% (corresponding to 123,861 voting rights).

3.01% of the voting rights (corresponding to 123,861 voting rights) are attributable to the company pursuant to § 22 (1) Sentence 1, No. 6 in conjunction with Sentence 2 WpHG.`

paragon AG, Delbrück
WKN 555869,
Publication pursuant to § 26 (1) WpHG

On September 17, 2015, we received the following voting right notification pursuant to § 21 (1) WpHG from Otus Capital Management LP, London, UK:

´Otus Capital Management LP, London, UK, notified us pursuant to § 21 (1) WpHG on September 17, 2015 that its share of the voting rights in paragon AG, Delbrück, Germany, exceeded the 3% threshold on September 9, 2015 and on this day amounted to 3.01% (corresponding to 123,861 voting rights).

3.01% of the voting rights (corresponding to 123,861 voting rights) are attributable to the company pursuant to § 22 (1) Sentence 1, No. 6 in conjunction with Sentence 2 WpHG.´

paragon AG, Delbrück
WKN 555869,
Publication pursuant to § 26 (1) WpHG

On September 17, 2015, we received the following voting right notification pursuant to § 21 (1) WpHG from Mr. Andrew Gibbs, UK:

´Mr. Andrew Gibbs, UK, notified us pursuant to § 21 (1) WpHG on September 17, 2015 that his share of the voting rights in paragon AG, Delbrück, Germany, exceeded the 3% threshold on September 9, 2015 and on this day amounted to 3.01% (corresponding to 123,861 voting rights).

3.01% of the voting rights (corresponding to 123,861 voting rights) are attributable to Mr. Gibbs pursuant to § 22 (1) Sentence 1, No. 6 in conjunction with Sentence 2 WpHG.´

paragon AG, Delbrück
WKN 555869,
Publication pursuant to § 26 (1) WpHG

On October 5, 2015, we received the following voting right notification pursuant to § 21 (1) WpHG from Mr. Andrew Gibbs, UK:

´Mr. Andrew Gibbs, UK, notified us pursuant to § 21 (1) WpHG on September 25, 2015 that its share of the voting rights in paragon AG, Delbrück, Germany, exceeded the 5% threshold on September 21, 2015 and on this day amounted to 5.10% (corresponding to 209,827 voting rights).

5.10% of the voting rights (corresponding to 209,827 voting rights) are attributable to Mr. Gibbs pursuant to § 22 (1) Sentence 1, No. 6 in conjunction with Sentence 2 WpHG.´

paragon AG, Delbrück
WKN 555869,
Publication pursuant to § 26 (1) WpHG

On October 5, 2015, we received the following voting right notification pursuant to § 21 (1) WpHG from Otus Capital Management LP, London, UK:

´Otus Capital Management LP, London, UK, notified us pursuant to § 21 (1) WpHG on September 25, 2015 that its share of the voting rights in paragon AG, Delbrück, Germany, exceeded the 5% threshold on September 21, 2015 and on this day amounted to 5.10% (corresponding to 209,827 voting rights).

5.10% of the voting rights (corresponding to 209,827 voting rights) are attributable to the company pursuant to § 22 (1) Sentence 1, No. 6 in conjunction with Sentence 2 WpHG.´

paragon AG, Delbrück
WKN 555869,
Publication pursuant to § 26 (1) WpHG

On October 5, 2015, we received the following voting right notification pursuant to § 21 (1) WpHG from Otus Capital Management Limited, London, UK:

´Otus Capital Management Limited, London, UK, notified us pursuant to § 21 (1) WpHG on September 25, 2015 that its share of the voting rights in paragon AG, Delbrück, Germany, exceeded the 5% threshold on September 21, 2015 and on this day amounted to 5.10% (corresponding to 209,827 voting rights).

5.10% of the voting rights (corresponding to 209,827 voting rights) are attributable to the company pursuant to § 22 (1) Sentence 1, No. 6 WpHG in conjunction with Sentence 2 WpHG.´

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 23, 2016 and is permanently available to shareholders on the company's website (www.paragon.ag).

Delbrück, February 26, 2016

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 2015. 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, February 26, 2016

Baker Tilly Roelfs AG
Wirtschaftsprüfungsgesellschaft

Thomas Gloth	Nicole Endler
German public accountant	German public accountant

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