paragon®

Neue Kraft, bewegende Ideen

Annual Report
Jan. 1 to Dec. 31, 2009

Key Indicators for paragon AG

	2009	2008	Change in %
Sales in millions of EUR	67.3	112.0	- 39.9
EBITDA in millions of EUR	- 35.1	- 53.5	34.4
EBITDA margin in %	- 52.2	- 47.8	–
EBIT in millions of EUR	- 40.5	- 66.1	38.7
EBIT margin in proportion to sales in %	- 60.2	- 59.0	–
Net income in millions of EUR	- 46.7	- 71.8	35.0
Earnings per share in EUR	- 11.4	- 17.5	34.9
Employees (excluding temporary workers)	456	639	- 28.6

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Klaus Dieter Frers
(Chairman)

Dear Shareholders,

Fiscal 2009 was the most difficult year in the over 20-year history of paragon AG. The shock that rippled through the financial markets triggered a worldwide crisis not seen before in the history of the automotive industry. Manufacturers and suppliers alike faced enormous challenges in the past year that also tested our company's performance. Understandably, our shareholders, customers, suppliers and employees were dismayed by our willful decision to initiate insolvency proceedings on October 5, 2009. In retrospect, we think this move provided the opportunity the company needed to rise above future challenges.

We met the pervasive, global crisis head-on in 2009 with a comprehensive restructuring and cost reduction program that we had adopted in the fall of 2008. The program had two central objectives: Adapting our corporate structure to a new sales volume and establishing a new financing arrangement for paragon. It quickly became clear that our operational restructuring efforts were paying off. We were back to operating earnings as early as the second quarter of 2009.

Refinancing proved to be much more difficult. We were unable to come to an agreement with lenders, despite the fact that our rapid and effective response to the crisis led to a clear improvement in the company's financial figures. After months of negotiations and near-agreements that failed time and again on account of a few banks, we broke off the talks and initiated an insolvency plan.

In contrast with traditional insolvency proceedings, the seldom applied insolvency plan provided the opportunity to continue to operate the company in its present form. This also meant that our shares would retain value if the insolvency plan was a success.

In the wake of the crisis, the extent of which no one really foresaw, naturally our sales revenue fell significantly in fiscal 2009. The Automotive segment was forced to accept a decline of 38.4 % to EUR 56.9 million. The impact of the financial crisis was also felt in the Electronic Solutions segment, which saw sales drop 47.2 % to EUR 10.4 million.

Over the course of 2009, we had to make painful cuts – closing our foreign locations and parting with some of our employees – in order to sustain the company. Our broad cost reduction program led to a sustainable reduction in fixed costs. We adapted paragon's approach systematically to the new and very different market situation. As a result, we will be able to generate profits even at lower sales volumes in the future, giving us a solid foundation should the market become turbulent again. Now that we have streamlined our organization, we are able to concentrate on what's most important: being an innovative development partner in the automotive industry.

During the crisis, we always kept our eyes on the future despite the time and effort needed for the insolvency plan. We continued, for example, to develop our most promising products, such as a novel start/stop sensor. By developing these new products and focusing on new drives, we are playing a dynamic role today in the vehicles of tomorrow. We intend to focus in the future on remaining a pioneer in the industry, a quality that has made us strong since the Company's founding.

The extensive adjustments were necessary to equip paragon AG for a successful future. The successful insolvency process has provided the opportunity to cultivate a "new paragon" that is an even stronger partner for the automotive industry.

Sincerely,

General Stock Market Environment

Over the course of 2009, the stock markets recovered from the steep dive of 2008. In the wake of the global financial crisis, investors were initially very cautious in the first half of the year. By mid 2009 trading activity had increased as optimism grew for an economic recovery. In the end, this confidence led to double-digit percent growth in the relevant indices: The DAX, the German blue chip index, improved by 24 %; the European benchmark index, EURO STOXX, was up 21 %; and the Dow Jones Global Exchanges Index, the global benchmark index for all listed stock exchange organizations, rose 49 %. The TecDax, Germany's technology sector index, skyrocketed 61 %. The DAX closed 2009 at 5,957 points (prior year: 4,810); the TecDax ended the year at 818 points (prior year: 508).

Performance of the paragon Share

The performance of paragon shares in fiscal 2009 was heavily influenced by the effects of the crisis in the automotive industry. On January 2, our stock opened the year at an XETRA price of EUR 2.71. It then hovered around EUR 3.00 for a long time. A downward trend set in during the second quarter due to the lack of financial reporting as a result of the crisis. On July 14, our stock fell below EUR 2.00 for the first time in 2009, closing the day at EUR 1.97. Although prices above EUR 2.00 were again seen in August and September, the application to initiate insolvency proceedings on October 5 sent our stock down to EUR 0.91. Given the positive signs during the insolvency period, our stock price recovered to close the year at an XETRA price of EUR 1.09.

There were no significant changes to the shareholder structure vis-à-vis the prior year. At 48.65 %, free float, as defined by the Deutsche Börse AG, remained at a comparably high level.

Financial Market Communications

paragon AG maintains a continuous exchange of information with investors, analysts, journalists and the general public as a matter of course. Nevertheless, special circumstances in fiscal 2009 prevented us from providing financial market communications in the manner we have in all other years since the initial public offering (IPO). Because the Group's continuation as a going concern was in doubt, the external auditor was not able to certify the consolidated financial statements and the Group's management report for fiscal 2008 as intended. paragon provided the 2008 balance sheet as required; the provisional balance sheet was available internally on March 13, 2009. Without an audit certificate, paragon was unable to publish its results in the customary manner. At no point in 2009 could the Managing Board have been certain that the data they would publish would in fact be the final results at the time of publication.

In the end, the absence of the annual report meant that the scheduled Annual General Meeting had to be cancelled. The subsequent financial reports for fiscal 2009 were also affected by this. The situation changed once the application to initiate insolvency proceedings was submitted on October 5, 2009. By remaining in touch with all parties, particularly the Deutschen Börse AG, the paragon AG Managing Board explained the delays in order to keep its listing in the Prime Standard.

Corporate Governance

The Managing Board and Supervisory Board of paragon AG welcome the suggestions and recommendations of the German Corporate Governance Code. The Code promotes transparency and thereby strengthens the trust of international and domestic investors, customers and employees, as well as the financial community as a whole.

paragon AG fell into financial difficulties on account of the crisis in the automotive industry. As a result, the Company was no longer able to conform to the principles of the German Corporate Governance Code in fiscal 2009. Unfortunately, months of very intense negotiations with our lenders did not yield the result we had hoped for. Without a positive forecast as to the continuation of paragon as a going concern, the Company was unable to publish its financial statements, consolidated financial statements and the other required disclosures for fiscal 2008 nor take any further action in this regard.

Shareholders and Annual General Meeting

Due to the absence of documents such as certified financial statements, consolidated financial statements as well as the individual and Group management reports, paragon AG was not in a position to hold its regular Annual General Meeting for fiscal 2008. paragon AG decided to postpone the 2009 financial calendar after an agreement with lenders was within reach several times. After being unable to meet deadlines several times, the Managing Board intentionally initiated an insolvency plan on October 5, 2009, and thereby terminated negotiations. Thereafter, paragon AG reported on the important aspects of its successful insolvency proceedings by way of press releases and on its website.

Cooperation between the Managing Board and Supervisory Board

The Managing Board and Supervisory Board worked closely together in an atmosphere of trust in 2009 as they have in the past and, especially given the Company's financial trouble, regularly exchanged information and ideas. The Managing Board reported to the Supervisory Board on all subjects related to planning, business development, the risk situation, risk management and compliance. Furthermore, all Supervisory Board meetings took place with the attendance of the Managing Board.

Managing Board

The Managing Board of paragon AG consisted of three members as of December 31, 2009. The Managing Board's rules of procedure remained unchanged in 2009.

Compensation received by the Managing Board includes, in accordance with the provisions of the German Corporate Governance Code, components that are based on performance and components that are independent of performance. Both fixed and variable components of remuneration reflected market conditions and were reviewed by the Supervisory Board for their appropriateness and subsequently established.

Supervisory Board

The Supervisory Board of paragon AG had three members as in the previous year. The Supervisory Board monitored the work of the Managing Board on a regular basis and assisted the latter in a consulting capacity. No conflicts of interest arose among the members during the past fiscal year which would require disclosure to the Supervisory Board. The Supervisory Board conducts a self-assessment once a year to review its efficiency. No services were rendered on an individual basis in 2009.

Transparency

paragon AG informed to the extent possible all capital market participants on the Group's financial situation on a regular and timely basis. We were unable to publish the customary financial reports due to the special circumstances we encountered as a result of the crisis in the automotive industry. Therefore, since the insolvency plan was initiated on October 5, 2009, we have provided information on all important events as well as targets for fiscal 2010.

Directors' Holdings

Members of the Managing Board held 51.32 % of shares, and Supervisory Board members 0.15 % of shares, as of the balance sheet date on December 31, 2009.

Accounting

paragon AG's consolidated financial statements are prepared in accordance with Section 315 a of the German Commercial Code in conjunction with Article 4 of (EC) Directive no. 1606/2002 in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as they are to be applied in the EU. Due to the financial problems that arose in connection with the financial crisis, the long-drawn-out negotiations with our lenders, and the ensuing insolvency application on October 5, 2009, the external auditor could not provide an audit certificate for the financial statements prepared by the Company. paragon AG was, therefore, unable to publish these documents within the deadlines stipulated by stock exchange regulations for the Prime Standard.

Because the Annual General Meeting for 2008 was postponed, it was not possible to select an external auditor for fiscal 2009, which is normally done by the Annual General Meeting. Pursuant to Section 318 (4) of the German Commercial Code, the district court of Paderborn, which has jurisdiction, upon request from the Managing Board on June 7, 2010, issued a court order in place of the absent Annual General Meeting resolution. This order was issued on July 5, 2010, after Rödl & Partner GmbH was contracted to audit the individual and consolidated financial statements.

In accordance with Section 161 of the German Stock Corporation Act (AktG), paragon AG submits the following declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code: The Managing Board and Supervisory Board of paragon AG welcome the suggestions and recommendations of the German Corporate Governance Code. They are committed to transparent and responsible Company management and control geared to value creation. paragon AG has conformed to and continues to conform to the recommendations of the German Corporate Governance Code in the version dated May 26, 2010 with the following exceptions: Since we could not prepare the 2009 annual report before 2010, we used the current status of the German Corporate Governance Code at the time of publication in order to simplify the explanation below. In order to explain which of the reported exceptions were not yet relevant in 2009, we added comments in square brackets where appropriate.

- A deductible has not been agreed in the directors' & officers' insurance policy that the Company has taken out for the Managing and Supervisory Boards. [Contracts were entered into prior to the relevant modification of the Code on June 18, 2009.] (Item 3.8).
- At the time of publication the Managing Board does not consist of several individuals. Restructuring and implementation of growth strategy requires rapid decisions. Such quick decisions can naturally be expected from a single member of the Managing Board, particularly since the new financing structure obviates the need for an in-house Chief Financial Officer. (Item 4.2.1).
- The Supervisory Board has not agreed on a cap for extraordinary, unforeseen developments, since it did not consider this necessary. [The current Managing Board contract was entered into prior to the relevant modification of the Code on June 18, 2009.] (Item 4.2.3).
- No limit on severance pay (severance cap) has been agreed with the Managing Board, since the Supervisory Board did not consider this necessary. (Item 4.2.3).
- Disclosures on the remuneration of the members of the Managing Board are not itemized. This was resolved by the Annual General Meeting of 2006. (Item 4.2.4).
- No compensation report is prepared as part of the Corporate Governance report, a consequence of the resolution of the Annual General Meeting of 2006. (Item 4.2.5 and item 7.1.3).
- The Supervisory Board has not formed any committees. This is unnecessary given the size of the Company and the fact that the Supervisory Board has only three members. (Item 5.3.1 to item 5.3.3).
- No age limit has been set for Supervisory Board and Managing Board members in accordance with items 5.1.2 and 5.4.1 of the Code, since the Supervisory Board deems this unnecessary.
- Disclosures on the remuneration of the Supervisory Board members are not itemized, a consequence of the resolution of the Annual General Meeting of 2006. (Item 5.4.6).
- The Company fulfills its obligation to publish the purchase and sale of Company shares and options by members of the Managing and Supervisory Boards. Separate information on such directors' dealings is not, however, provided in the Corporate Governance report in the consolidated financial statements. Such directors' dealings have not taken place for years at paragon. (Item 6.6).
- Due to special circumstances related to the crisis in the automotive industry and the insolvency period in 2009, the consolidated financial statements for fiscal 2008 and 2009 could not be made publicly accessible within 90 days of the end of the fiscal year and the interim reports for 2009 could not be made publicly accessible within 45 days of the end of the reporting period. The Company will comply with this item in fiscal 2010. (Item 7.1.2).

Delbrück, July 29, 2010
paragon AG

The Managing Board
The Supervisory Board

In fiscal 2009, the Supervisory Board performed the duties incumbent on it under German law and the Articles of Association. It monitored and reviewed the activities and work of the Managing Board on a regular basis with due diligence. The Supervisory Board also provided advice to paragon AG, especially in light of the effects of the crisis in the automotive industry. The Supervisory Board was furnished with both written and oral reports on current earnings developments in each segment, on adherence to corporate planning and on developments in the financial position. Moreover, the Managing Board informed the Supervisory Board in advance regarding important decisions and involved it in the decision-making process. Important events and developments were reported promptly to the Supervisory Board.

The Supervisory Board reviewed and discussed the documentation and the Managing Board reports prepared in detail during two sessions. The Supervisory Board also kept itself informed of the Company's state of affairs through several (incl. extraordinary) teleconferences. The Company's risks and opportunities were the main focus of the discussions and deliberations. At Supervisory Board meetings, resolutions are adopted for transactions requiring Supervisory Board approval based on the Articles of Association or German law. However, there were no resolutions of this nature in the past fiscal year.

By order of the district court of Paderborn on July 5, 2010, the audit firm Rödl & Partner GmbH, based in Nuremberg, Germany, was appointed to audit the individual and consolidated financial statements for fiscal 2009 and commissioned accordingly by the Supervisory Board. The audit involved the individual and consolidated financial statements as of December 31, 2009, as well as paragon AG's and the Group's management report for fiscal 2009. The audit firm provided each member of the Supervisory Board with documentation for review on the individual and consolidated financial statements, the individual and Group management reports, the proposal for the appropriation of net losses for the year, and the reports covering the audit itself. The Supervisory Board discussed the individual and consolidated financial statements, the individual and Group management reports, and the proposal for the appropriation of net losses for the year with the Managing Board and in the presence of the external auditor in a meeting on August 6, 2010.

The external auditor was able to answer all questions on the significant findings of the audit to the Board's complete satisfaction. The Supervisory Board approved the external auditor's report. The findings of the report reflect those of the Supervisory Board. The latter, therefore, endorsed the individual and consolidated financial statements prepared by the Managing Board in the Supervisory Board session of August 6, 2010, and joined in the recommendation on the appropriation of net losses.

The auditor has audited the financial statements and management report prepared by the Managing Board for fiscal 2009 and issued an unqualified auditor opinion. The financial statements of paragon AG as of December 31, 2009, are thereby confirmed.

The Supervisory Board of paragon AG wishes to thank all employees and the Managing Board for their personal commitment during fiscal 2009.

Delbrück, August 6, 2010
Chairman of the Supervisory Board

A. Events after the Balance Sheet Date

In fiscal 2009, the Managing Board of paragon AG continued the measures initiated in 2008 to cope with the sudden drop in orders in connection with the crisis in the automotive industry. In addition to improvements in logistical and technical production processes, our efforts focused primarily on adjustments in personnel capacities and on reducing materials usage and costs.

Furthermore, the Company endeavored from February to September of 2009 to achieve an amicable arrangement with creditors to forgive debt in order to reduce the debt-equity ratio and to preserve the ability of paragon AG and its subsidiaries to service loans and to assure the Company's continued existence as a going concern. As part of these efforts, we commissioned two management consulting firms – initially Helbling and then RölfsPartner – to provide expert restructuring opinions. In expert opinions issued on March 26 and June 25, 2009, Helbling certified the feasibility and ability of paragon to restructure. The expert opinion provided by RölfsPartner on September 25, 2009, also confirmed the feasibility and ability of paragon AG to restructure.

An agreement was imminent on several occasions in the negotiations with our lenders. Unfortunately, despite the expert restructuring opinions, it failed to materialize due to disagreement among the banks, putting the continued existence of the individual companies and the Group in doubt. paragon AG's Managing Board filed immediately for insolvency on October 5, 2009; the district court of Paderborn opened the proceedings on January 1, 2010. On April 16, 2010, the insolvency plan submitted by the Company was approved by its creditors. The district court consequently resolved to suspend the proceedings effective June 1, 2010. This means that the period of insolvency was over at the time this Group management report was prepared.

The following German subsidiaries of paragon AG also petitioned for insolvency on October 7, 2009, at the district courts of Paderborn and Meiningen, respectively: paragon finesse GmbH, Delbrück, paragon facilio GmbH, Delbrück, and paragon fidelio GmbH, Suhl. The subsidiary paragon firstronic GmbH, Suhl, filed for insolvency with the district court of Meiningen on October 22, 2009. The district court of Paderborn opened insolvency proceedings regarding the assets of the subsidiaries paragon fidelio GmbH and paragon finesse GmbH on January 1, 2010. Insolvency proceedings regarding the assets of paragon firstronic GmbH were opened on February 1, 2010. The insolvency proceedings of the subsidiaries have not been concluded as of yet. The subsidiaries, paragon of North America Corp., Grand Rapids, paragon firstronic of North America Corp., Grand Rapids, Chipco Inc., Elkhart, and paragon of Japan Inc., Amagasaki-City, were liquidated in 2009.

The consolidated financial statements were prepared on the assumption of the continuation of the Company's business activities, since, after the successful conclusion of paragon AG's insolvency plan proceedings, the vast majority of the Group shall continue with a new organization. We refer to the notes for information on the impact this has on our reporting and valuation in the consolidated financial statements.

B. Business and Framework Conditions

paragon Aktiengesellschaft (paragon AG or paragon) is a duly incorporated company under German law headquartered in Delbrück, Germany. Shares of paragon AG have been traded since 2000 on the Frankfurt Stock Exchange in the Prime Standard segment of the regulated market. paragon develops and manufactures electronic components and sensors for the automotive industry.

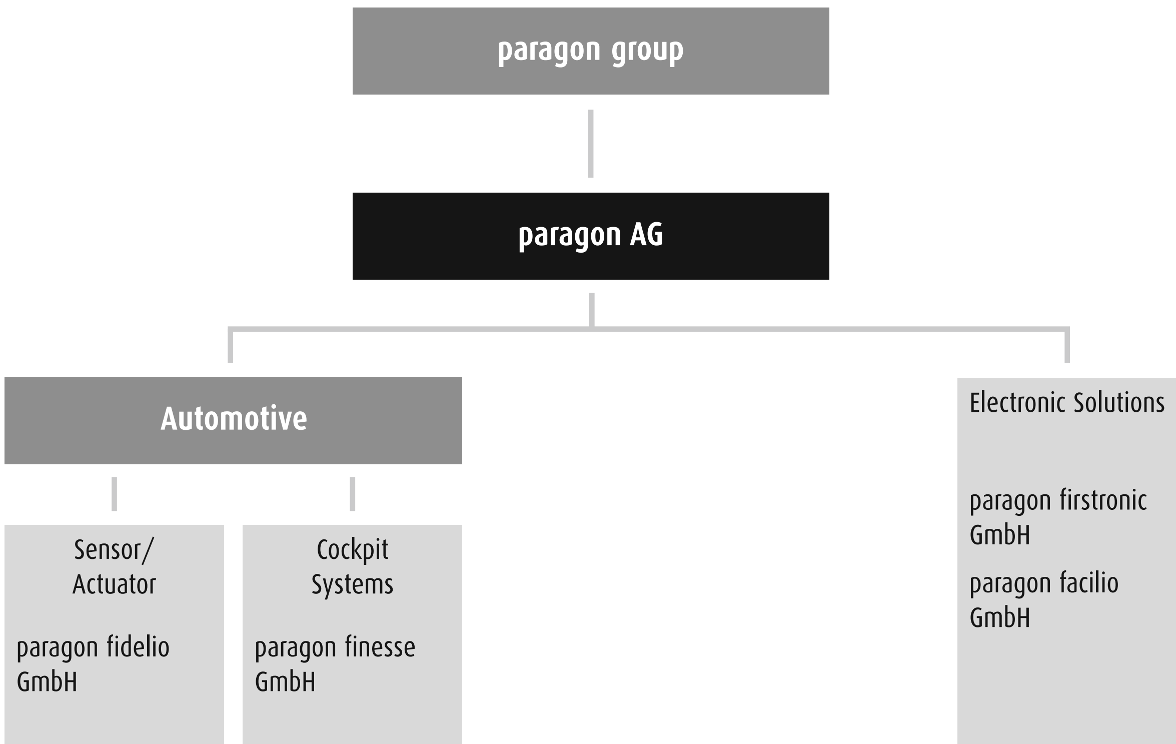
For paragon AG, fiscal 2009 was marked by the crisis in the automotive industry and the intentional initiation of insolvency proceedings. During the first quarter, the Company clearly felt the impact of the dramatic change in the release order behavior of automotive manufacturers. Thanks to the restructuring measures taken within the Group that began at the end of 2008, paragon AG returned to profitability as early as the second quarter of 2009 despite lower sales revenue. Despite the positive trend, the Managing Board initiated the insolvency proceedings on October 5, 2009, because negotiations with our lenders did not yield an agreement. During the provisional insolvency period in the fourth quarter, this positive trend continued thanks not least to the excellent working relationship with Dr. Kebekus, the appointed insolvency administrator. paragon AG achieved notable results in sales revenue and cash flow.

Group Structure

The paragon Group reduced its international presence considerably over the course of 2009. The assets of our production facility in the USA were sold on September 29, 2009, and the sales organization there was liquidated. Our sales branches in Italy, France and Japan were closed. We maintained our five German locations in Delbrück, Suhl, Cadolzburg, St. Georgen and Heidenheim. The paragon Group began the year 2009 comprising its parent company, paragon AG, and eight subsidiaries, four of which are based in Germany. Our subsidiaries in Germany were deconsolidated in October 2009 with the insolvency application and the appointment of an insolvency administrator. Our foreign subsidiaries were deconsolidated as part of the liquidation in September 2009.

Management Systems

The paragon Group's comprehensive planning and control system took on even greater significance in light of the crisis in the automotive industry. Our



weekly, monthly and annual planning had to be continuously modified in response to the release order behavior of manufacturers. While we were taking the appropriate measures, we also reviewed and analyzed the traditional financial and profitability indicators such as cash flow, expense ratios, EBIT margin and contribution margins of the segments.

The Managing Board and the Supervisory Board of paragon AG received regular risk reports on the segments based on the monthly, and therefore current, reports on business developments. The reports showed monthly target discrepancies in a target-performance comparison and were used as a basis to arrive at solutions in Managing and Supervisory Board meetings. In addition, the paragon Group's top management met on a regular basis to discuss the latest business developments, the outlook, and any business transactions of particular note in the current fiscal year. In light of the insolvency, weekly discussions regarding liquidity position have been added to the management system.

The Company uses financial performance indicators to manage its operating activities, including sales development in combination with the incoming order volume, as well as targets for the next fiscal year.

Economic Situation

For most of 2009, the global economy was in one of the deepest recessions since the Second World War. Triggered by the insolvency of Lehman Brothers in September 2008, the collapse was so severe that many states responded with broad measures to counteract the effects of the crisis.

With the help of measures to prop up the banking sector and expansive monetary and economic policies in many industrial and developing countries, the financial and capital markets stabilized over the course of 2009. The global economy recovered even faster than many experts had forecasted as a result of heavy government intervention and the actions of central banks. However, the upturn in 2009 was not experienced the same around the world. Asia was able to regain a foothold rather quickly, while the economies in the eurozone – especially Germany – remained in decline.

After the moderate increase of 1.3 % in 2008, the German economy saw its gross domestic product (GDP) drop to -5.0 %. The collapse in exports of -14.7 % (prior year: 2.9 %) was especially striking. Domestic demand experienced a much smaller decline of -1.8 % (prior year 1.7 %). A year-on-year comparison reveals a continuous drop in GDP: 3.0 % in 2006, 2.5 % in 2007, 1.3 % in 2008 and -5.0 % in 2009. Germany's highly export-based economy felt the global financial and economic crisis much more than other countries and regions. Cyclical industry sectors, in particular, such as automotive and industrial machinery, registered huge declines in demand right at the beginning of 2009, which also had a significant impact on suppliers.

The inflation rate in Germany rose only moderately as a result of major production cuts and falling capacity utilization. The annual inflation rate in 2009 was merely 0.4 % after rates above 2 % were reported in 2007 (2.3 %) and 2008 (2.6 %). This was Germany's lowest recorded inflation rate since reunification.

Economic Performance in the Eurozone

The effects of the weak global economy were felt very clearly in the eurozone. The recession that began in 2008 continued in the first half of 2009. Although conditions noticeably improved in the second half of the year, Eurostat put the year-on-year drop in fourth-quarter GDP in the eurozone at -2.1 %. Economic performance in the European Union sank overall by 4.0 % in 2009.

At -5.0 %, Germany was hit the hardest by the crisis, followed by Italy at -4.8 %. Autumn forecasts from economic institutions, however, indicated a recovery over the course of the year. German GDP fell -6.4 % in the first quarter and as much as -7.1 % in the second quarter. However, it improved in the third quarter to -4.9 % and in the fourth quarter to -1.7 %. It was encouraging to see that the labor market was hardly affected by the crisis as a result of government programs that included the extension of reduced working hours programs.

Developments in the Automotive Industry

The automobile market was experiencing double-digit declines as early as the fourth quarter of 2008. An unprecedented drop in new car registrations was seen worldwide, which led to drastic cuts in vehicle production. This trend not only continued in the first quarter of 2009, it increased. Manufacturers reduced their inventories during the crisis and some did not really restart production until the spring of 2009. Early forecasts of a 20 % collapse for the entire year, however, did not materialize. Government incentive programs around the world, including in Germany, bolstered the automotive industry in 2009.

Many countries stimulated new car sales with tax incentives and trade-in programs and succeeded in slowing the downward trend as the year went on. Nevertheless, the result was a moderate 3 % decline for full-year 2009. This comparatively modest outcome would not have been possible without the government incentive programs.

Many different trends were observed in 2009 in the individual markets. For instance, overall sales of new cars in Western Europe were up around 1 % to 13.6 million units. Germany's sales grew the most, rising 23 %, followed by France with 11 %. The Italian market was on par with the prior year at -0.2 %. The situation was much different in other countries. The markets in Spain and Great Britain both saw sharp drops (-18 % and -6 %, respectively), despite trade-in programs. The recession had an even greater impact on the markets in countries like Ireland (-62 %), Finland (-35 %) and Portugal (-25 %). The decline in new car registrations was also severe in the new EU countries. In the Baltic states alone it was -71 %.

The automotive industry in the USA was also buffeted by the economic storm. Only 4.8 million new light vehicles were registered in the first half of the year. The government's "cash for clunkers" program yielded a temporary rise in new car sales in mid 2009, but sales were down again by the end of the year. Overall, the US market was hit with a 21 % drop in 2009 (10.4 million vehicles). In Russia, where nearly 3 million new cars were registered in 2008, the decline was even greater. Only 1.5 million vehicles were sold – a 49 % drop.

The Asian market turned out to be the driving force behind the global automotive industry in 2009. China, in particular, was very robust, recording a 47 % increase to 8.4 million vehicles by the end of 2009. The reduction in the excise tax for small vehicles with up to 1.6-liter engines sparked the Chinese market. India also clearly exceeded the global trend according to the German Association of the Automotive Industry (VDA – Verband Deutsche Automobilindustrie), recording a 17 % increase to 1.8 million new car registrations.

In Germany, the government's incentive program got new vehicle registrations going after a weak start (-14.2 % in January). A year-on-year increase of 21.5 % was recorded already in February. With 3.8 million new vehicle registrations, the German market achieved a huge increase of 23.2 %. However, the trade-in program altered the market structure as the trend went clearly in the direction of small and compact car classes. This segment's share of the market grew by 65.7 % at the expense of mid- and full-size vehicles.

Production figures were down despite the much higher new vehicle registrations in Germany. Manufacturers only produced 5 million vehicles – a 10 % drop. If nothing else, Germany faired better than its neighbors in this segment as well. According to the VDA, new vehicle production fell 18 % overall in Europe.

C. Course of Business and the Situation of the paragon Group

As at the end of 2008, the crisis in the automotive industry had a severe impact on the performance of the paragon Group in the first quarter of 2009. Like many other suppliers, paragon suffered greatly from the sharp drop in release orders from automobile manufacturers. As a result of the diverse measures taken as part of our restructuring program, paragon was able to generate operating earnings again as early as the second quarter of 2009.

While the Company's operations were performing well and had been for some time, intense negotiations with our very diverse pool of creditors went on unsuccessfully for months. Consequently, the Managing Board intentionally initiated an insolvency plan on October 5, 2009, which ultimately gave the Company a new perspective. Despite the insolvency, our core automotive customers remained loyal and believed the outcome would be positive. As a result, the fourth quarter was the best quarter of fiscal 2009.

As the workforce was consistently reduced, paragon concentrated on overcoming the effects of the crisis in the automotive industry over the course of the year. Year-on-year sales sank 40 %, from EUR 112 million to EUR 67.3 million. The core Automotive segment generated EUR 56.9 million, down from EUR 92.3 million in 2008, a decline of 38.4 %. The share of total sales was 84.6 %. The Electronic Solutions business segment realized sales of EUR 10.4 million following on sales of EUR 19.7 million in 2008.

D. Automotive Segment

The Automotive segment remained the strongest segment in the paragon Group during the 2009 industry crisis. In particular, it was clear that the restructuring measures introduced in the late autumn of 2008 were quickly paying off. These measures allowed us to adjust our operations to the new situation in the automobile market. The program we initiated gradually took effect and already in the second quarter we were observing a significant upward trend.

In the Sensor/Actuator division, core product sales were down in line with the change in car manufacturers' release order behavior. This also affected core products like the Air Quality Sensor AQS®, stepper motors and steering wheel modules. By contrast, paragon saw growth in brand new solutions, such as our Air Quality Conditioner AQC® and embedded systems.

Performance in the Cockpit Systems division was similar. The lower automobile production volumes were felt in our sales volumes for cradles, media device interfaces and consoles. However, we were able to introduce new innovative solutions in the midst of the industry crisis. Examples include the Media Extender and Bluetooth Dongle multimedia applications. paragon also made significant gains in Car Media Systems. In fact, sales tripled to EUR 3 million.

Stepper motors and display instruments trended with the industry average, although indicators were very positive in the second half of the year. After a weak first quarter, capacity utilization in these two business areas, which are based at our St. Georgen location, was once again on the rise. We even saw a return to complete capacity utilization in stepper motors in the third quarter. Display instruments followed suit thanks to our launch of additional onboard clocks for premium manufacturers. As a result, we observed a very encouraging trend overall.

Over the course of fiscal 2009, it became clear that the separation of the Automotive segment into two divisions (Sensors/Actuators and Cockpit Systems), which is generally as it should be, was inconsistent with a now much smaller company as a result of the crisis. Furthermore, we identified redundancies between locations within the divisions in certain product lines that were disadvantageous. Given these circumstances, paragon reviewed its internal organization and laid the foundation for a new structure even before the insolvency plan was initiated.

Next to cost reduction, paragon placed high value in maintaining its innovative position, especially in the automotive sector. This drove the Company to create the building blocks necessary to expand our innovative leadership in a variety of market niches. As a result, we finalized the development of several new products in 2009 that are now market ready. paragon also won pilot orders from individual manufacturers for other new products.

The new products include our Air Quality Improver AQI® and Air Quality Conditioner AQC®, belt-mic®, position sensors for use in drive trains, dual stepper motors for display instruments and control units that can be integrated into electric vehicles. Added to the expanded versions of the Air Quality Sensor AQS®, paragon has a broad range of new products that present considerable revenue potential in the next few years. In the end, paragon was able to enhance the Automotive segment not only in terms of its organization but also its product portfolio despite the ongoing crisis in the industry.

E. Electronic Solutions Segment

The Electronic Solutions segment is operated by our subsidiary paragon firstronic GmbH, which has its own independent competence center. In this segment, fiscal 2009 was also marked by the challenging economic environment. The year was particularly shaped by relatively long supplier lead times. As a result, paragon firstronic was forced to wait up to three months to receive PC boards in some cases. Despite this difficult supply situation, hardly any orders were cancelled. However, many orders were delayed, similar to the situation in the Automotive segment.

Given these circumstances, sales revenue at paragon firstronic were lower than anticipated in 2008. The impact of the delayed orders was clearly evident in these figures. Year-on-year sales revenue sank 48.2 %, from EUR 17.2 million to EUR 8.9 million. paragon firstronic GmbH applied for insolvency on October 22, 2009, as a result of the insolvency application of its parent company, paragon AG, and despite intense and extremely positive efforts in operations. The application was submitted to the district court of Meiningen, which has jurisdiction over Suhl, where the company is headquartered. paragon AG falls under the jurisdiction of the district court in Paderborn. In addition, a different insolvency administrator was appointed for paragon firstronic GmbH.

paragon firstronic is a leading supplier in the area of Electronic Manufacturing Service (EMS) in Germany. The company has many years of experience and expertise in the field and attractive potential, which will help it overcome the insolvency period and make it more appealing to a potential investor. paragon firstronic's customer base, which primarily consists of medium-sized companies in Germany and its neighbors, appreciate the flexibility, personal service and technological foundation of the company. They also value the company's extensive capabilities: paragon firstronic covers the entire added value chain in industrial electronics – from development to production and after sales service.

F. Net Assets, Financial Position and Results of Operations

Deconsolidation of all Subsidiaries

The net assets, financial position and results of operations of the paragon Group were shaped both by the deconsolidation of its subsidiaries in the fourth quarter of 2009 and the impact of the crisis in the automotive industry.

A comparison between the net assets and financial position, as of this year's and last year's balance sheet date, shows that the deconsolidation of all subsidiaries led to both a reduction in assets and liabilities. The results were as follows:

	2009 EUR millions
Assets	
• Intangible assets and property, plant and equipment	3,0
• Inventories	6,0
• Receivables and other assets	33,6
Liabilities	
• Provisions	1,4
• Liabilities	43,9

By contrast, the results of the Group's operations in fiscal 2008 compared with fiscal 2009 were only affected by the deconsolidation of the subsidiaries in that the sales revenue, earnings and expenses of the subsidiaries in the fourth quarter were no longer included in the Group's statement of comprehensive income. In this respect, the results of the Group's operations in 2009 were clearly worse than in 2008.

Net Assets and Financial Position

As of December 31, 2009, total assets were down by EUR 14.6 million to EUR 38.9 million (prior year: EUR 53.5 million). Non-current assets dropped year on year from EUR 26.6 million to EUR 20.3 million on the balance sheet date. In addition to the impact of deconsolidating the subsidiaries, this difference is primarily due to depreciation and amortization in the amount of EUR 5.4 million in the fiscal year. Additions in the amount of EUR 1.9 million in the fiscal year somewhat offset this figure.

Current assets were also down to EUR 18.6 million (prior year: EUR 27 million). Cash on hand and bank deposits were considerably higher, which can be attributed to the temporary elimination of personnel expenses during the insolvency period and an increase to the loan extended after the opening of insolvency proceedings by a total of EUR 7.1 million to EUR 9.4 million (prior year: EUR 2.3 million). By contrast, inventories were reduced on account of value adjustments made in fiscal 2009 in the amount of EUR 6.2 million, the deconsolidation of the subsidiaries and optimized portfolio management in the wake of the financial market crisis.

The Group is reporting negative equity in the amount of EUR 98.9 million (prior year EUR 54.2 million), a figure that increased as a result of the net loss of EUR 46.7 million in the fiscal year. The net loss in 2009 was mainly caused by deconsolidating the subsidiaries (EUR 22.9 million), inventory write-downs (EUR 6.2 million) and certainly by the losses incurred in operating activities as a result of the financial crisis. The negative equity in the consolidated financial statements has now been eliminated as a result of the successful end to the insolvency proceedings with the acceptance of the insolvency plan by the creditor's meeting on April 16, 2010 and the partial remission of debt that went with it.

Non-current provisions and liabilities were down in the reporting period by EUR 38 million to EUR 14.6 million (prior year: EUR 52.6 million). This can be attributed to a reclassification as a result of remaining terms in profit-sharing rights (EUR 22.8 million) and liabilities to banks (EUR 13.8 million) in current liabilities.

Current provisions and liabilities were up in fiscal 2009 by EUR 68.1 million to EUR 123.2 million (prior year: EUR 55.1 million). This can be attributed to a reclassification as a result of the remaining term in profit-sharing rights (EUR 22.8 million) and liabilities to banks (EUR 13.8 million) as well as a EUR 35.2 million increase in other liabilities. The rise in other liabilities resulted from liabilities to subsidiaries after the deconsolidation of these companies.

Cash flow from operating activities declined in fiscal 2009 by EUR 8.7 million to EUR 4.8 million caused by a downward trend in working capital. Cash flow from investing activities improved year on year by EUR 10 million as a result of lower investments in plant, property and equipment and intangible assets.

Cash flow from financing activities improved on the previous year by EUR 8.4 million. A consequence of insolvency was the suspension of contractually agreed principal payments as well as the addition of a loan extended after the opening of the insolvency period in the amount of EUR 2.5 million. Overall, our financial resources were up EUR 7.1 million to EUR 8.3 million on the balance sheet date.

Financial resources comprise exclusively cash and cash equivalents. However, the banks pledged the term deposits, which meant that all our financial resources were not available to meet the paragon Group's short-term payment obligations.

Results of Operations

The paragon Group's results of operations for fiscal 2009 were profoundly shaped by the sharp drop in sales revenues associated with the crisis in the automotive industry in addition to the expense resulting from the deconsolidation of the subsidiaries. As a result of this decline, total operating revenue of the paragon Group declined year on year 47.3 % from EUR 123.4 million to EUR 65 million. The cost of materials was unable to keep pace (EUR -26.8 million, -42.2 %),which led to a severe decline in gross profit (from EUR 59.9 million to EUR 28.3 million). The gross profit margin, i.e. the ratio of gross profit to sales revenues, declined from 53.5 % to 42 %. Personnel expenses fell considerably, by 26.8 % from EUR 27.9 million in 2008 to EUR 20.4 million in 2009, which was a result of the measures introduced by the Managing Board to reduce costs.

Due to lower financing expenses (2009: EUR -6.6 million, 2008: EUR -8.4 million), which resulted from reduced interest expenses for profit participation certificates and liabilities to banks, net financing costs improved by 21 % to EUR -6.5 million (2008: EUR -8.2 million). Because impairment losses had been accounted for as early as December 31, 2008, as part of the insolvency proceedings, the loss before tax (2009: EUR -47 million, 2008: EUR -74.3 million) and the consolidated net loss (2009: EUR -46.7 million, 2008: EUR -71.8 million) were less severe. Earnings per share (EPS) for fiscal 2009 was, therefore, EUR -11.35 with 4.115 million shares outstanding (as of December 31, 2009). This figure was EUR -17.46 as of December 31, 2008. Against this backdrop, paragon AG's Managing Board and Supervisory Board will recommend to the Annual General Meeting for fiscal 2009 that no dividend distribution be made.

Overall assessment of paragon AG's position

As a result of the successful conclusion of the insolvency plan proceedings effective June 1, 2010, and the related debt relief, the Group's financial situation can be seen in a significantly more positive light on the date that the consolidated financial statements are being prepared than was the case at the end of 2009. The new financing arrangement for paragon AG has created a healthy basis for the continuation of the Company's activities.

G. Employees

The paragon Group employed 456 individuals as of December 31, 2009, all of whom worked in Germany (previous year: 639). In addition, a total of 21 temporary workers were working for the Group as of the balance sheet date (prior year: 42). The paragon Group reduced its workforce considerably during fiscal 2009 in an effort to return to profitability despite the new circumstances in the automotive industry.

Employees by location (not including temporary workers)	
Delbrück	65
Suhl	265
Nuremberg/Cadolzburg	49
St. Georgen	54
Heidenheim	2

Personnel expenses declined from EUR 27.9 million to EUR 20.4 million as a result of the cuts. EUR 16.5 million was due to salaries and wages (prior year: EUR 24.4 million), EUR 3.8 million to social security contributions (prior year: EUR 3.3 million) and EUR 0.04 million to retirement expenses (prior year: EUR 0.2 million). Costs for temporary workers were down sharply at EUR 0.7 million (prior year: EUR 3.4 million).

H. Remuneration of the Managing Board

paragon AG's Managing Board was composed as follows at the end of 2009: Mr. Klaus Dieter Frers, Chairman of the Board and CEO, Mr. Markus Werner CFO (since October 4, 2009), and Mr. Andrew Seidl, Chief Restructuring Officer (since October 1, 2009).

The Managing Board's remuneration was established by the Supervisory Board and was subject to continuous review. Remuneration is composed of components that are based on performance and components that are independent of performance. As in the previous year, no stock option benefits were realized. The performance-related bonus was geared to the Company's financial developments in the past fiscal year, in particular to EBIT (earnings before interest and taxes). Please refer to the information in the notes to the consolidated financial statements for the amount and breakdown of the Managing Board's remuneration.

I. Capital Expenditure

In 2009, the paragon Group invested considerably less than in previous years due to the crisis. Capital expenditure amounted to EUR 1.9 million (prior year: EUR 5.9 million). The largest investment projects involved replacing technical equipment and machinery, which amounted to more than EUR 1.2 million.

J. Research and Development

Despite the most severe crisis in the history of the Company, paragon continued its dynamic R&D projects within reason. R&D is absolutely crucial in the automotive industry. Our projects allowed the company to make important progress in the field of sensors and actuators, which will lead to new products with attractive sales potential. An example is our Air Quality Improver (AQI), which we were able to ready for production. Our developers also focused on developing a variety of multi-functional sensors (air quality, temperature, humidity and dew point) and readying them for production. Another important step was the development of an inductive sensor for start/stop systems, which is intended particularly for hybrid vehicles.

We also made significant advances in cockpit system product development. Major projects included a media extender to expand infotainment systems, a high-quality haptic remote control for a massaging seat, a control unit for the belt-mic and a Bluetooth handsfree system. Developers also worked on a variety of onboard clocks, microphones, cradles and consoles. During fiscal 2009, expenses for research and development totaled EUR 6.2 million (prior year: EUR 10.3 million).

K. Purchasing

Even during the crisis, the principles of paragon's purchasing philosophy remained quality, high-performance suppliers and innovative materials procurement. In order to ensure that we met our production goals, the Group's procurement process counted on close cooperation with strong partners. These principles proved indispensable during the provisional insolvency period.

Cost of materials in 2009 was approximately EUR 36.7 million; in 2008 this figure was EUR 63.5 million. As a result, cost of materials rose by 42.2 % in the reporting period. The ratio of the cost of materials to sales was 53.8 % (prior year: 56.7 %).

L. International

In fiscal 2009, paragon significantly trimmed down its international activities and concentrated over the course of the year more and more on its home markets in Germany and the neighboring countries in Europe.

At our subsidiary paragon firstronic of NA Corp. in the USA, we first scaled back activities and then sold its assets. Our US business generated sales of EUR 3.1 million up to its liquidation in September 2009.

We also closed our branch in Japan and the sales offices in France and Italy, which streamlined the paragon Group's organization significantly by the end of 2009. International activities are now handled from Germany and primarily involve long-term relationships with core automotive customers.

M. Report on Risks and Opportunities

The importance of the long-established risk management system in the paragon Group has increased with growing internationalization. Management is informed on the probability of occurrence and potential extent of damage by means of risk reports prepared on a regular basis by all business segments. Furthermore, the reports contain an estimate of risks and recommendations for countermeasures, in addition to opportunities in the market and in corporate developments. Please refer to the notes for risk management goals and methods as they relate to the use of financial derivatives.

Accounting-related Internal Control System
Internal control and risk management systems are not defined by law. Therefore, we rely on the definition of the Institute of Public Auditors in Germany (IDW – Institut der Wirtschaftsprüfer in Deutschland e.V.) in

Düsseldorf for our accounting-related internal control system (IDW PS 261). According to this definition, an internal control system is understood as the principles, procedures and measures introduced by the management of the company that govern the management's decision-making process and have the following objectives:

a) Ensuring the effectiveness and efficiency of business activities (incl. asset protection plus limiting exposure to financial losses)
b) Truth and fairness of internal and external financial accounting
c) Compliance with the applicable laws and regulations based on the Articles of Association.

The risk management system comprises all organizational regulations and measures to identify risk and to manage the risks of business activities.

The Managing Board of paragon AG bears total responsibility for the internal control and risk management system with respect to the Group's financial accounting process. All subsidiaries included in the consolidated financial statements were integrated into the established control and reporting structures until their deconsolidation in the fourth quarter of fiscal 2009. All strategic company divisions of paragon AG were also integrated into this system. The principles, procedural instructions, organizational structures and processes as well as the processes involved in the accounting-related internal control and risk management system of the Group's accounting department are stipulated in our accounting guidelines and other organizational instructions, which are regularly adapted to current internal and external developments.

Given the size and minimal complexity of the Group's financial accounting processes, we defined the scope and organization of the control activities and implemented them in this process. We also set up independent process monitoring. Our control activities address those control risks, which due to their probability of occurrence and implications could have a significant impact on the overall assessment in the consolidated balance sheet and financial statements as well as the Group management report. The significant principles, procedures, measures and control activities are as follows:

- Identification of the significant control risks that are relevant to the Group's financial accounting process
- Process-independent controls at the paragon AG Managing Board level to monitor the individual and consolidated financial accounting processes and their results
- Control activities in Accounting and Controlling at the paragon AG level, which provide the essential information for preparing the consolidated financial statements and Group management report, including separation of duties and approval processes.
- Measures to ensure information related to the consolidated financial statements is properly processed in computer-based systems.

Market and Industry

In the last few years, paragon has established itself as a recognized and innovative automotive supplier. The economic development of the automotive industry therefore has a sizable influence on the Company's sales and earnings situation. The massive collapse in the wake of the global financial crisis brought about a time lag in orders from a number of car manufacturers. Due to the fact that there is little turnover of customers, it is possible that these orders may materialize at a later date.

In general, paragon identifies sales opportunities and risks through its comprehensive sales control system. Market and competitor data is analyzed, rolling plans for the short and medium term are prepared and regularly scheduled meetings help coordinate sales, production and development activities. paragon continuously increases its independence from individual sub-markets and customers by expanding its product range and customer base. The loss of a major customer might, nonetheless, have an enormous impact. Due to lengthy contract terms in the case of vehicle series, however, this would be known early on. paragon counters this risk by means of in-depth development work, innovation and outstanding customer service.

As specialists in electronics, paragon focuses on innovation relevant to the end customer. In this respect paragon is reflective of the industry trend; roughly 60 % of key innovations are driven by electrics/electronics. The Company places significant emphasis in the area of human-machine interface: driver information, operation, health and safety. This orientation is a sign of paragon's focus on the megatrends in the automotive sector; by means of novel solutions it consistently penetrates into new markets with no direct competition.

paragon can boast market leadership primarily in the following product areas: air quality sensors (established in 1994, global market share of approx. 85 %), stepper motors (pioneered in 1993, no. 2 worldwide), onboard clocks and chronographs (established in 1925, no. 3 worldwide), and media interfaces, cradles & consoles and microphones (pioneered hands-free systems in 1997, no. 2 in Europe). These market positions imply considerable opportunities for additional sales and a meaningful complement to the existing product portfolio by using existing sales channels.

Research and Development

As an innovative supplier, paragon is involved in numerous development projects with customers. Major deviations from project goals in timing or money could entail cost and legal risks (contractual penalties). paragon counters these risks by means of ongoing development and project controls that include setting time and expense targets. The field of research and development taps into additional potential for paragon in the case of existing, as well as new, customers. By exploiting existing sales channels, additional business can be generated with new products that complement the previous portfolio. By investing around EUR 25 million between 2006 and 2009, the average age of our operating equipment is less than three years.

Procurement and Production

A number of raw materials became more expensive over the course of 2009. Global competition in the segments of relevance to paragon, as well as master contracts, annual agreements and long-term supplier relations, enable paragon to assure guaranteed prices for a major portion of procurement. More than 80 % of all goods purchased come from Europe; the remaining goods come from the US and Asia. Payment terms are those common to the industry. The major purchasing currency is the euro, with a small share also in US dollars. Furthermore, paragon uses continuous improvements to optimize the production and logistics structures, thereby improving the efficiency of the production process.

Information Technology

The ever increasing use of computers and the Internet in all areas of the Company has increased information technology risks, such as that of computer failure or unauthorized access to hardware and software, to the same degree. To prevent possible risks, paragon has collaborated with professional service providers to develop modern security solutions ranging from prevention to intervention in order to protect data and IT infrastructure. paragon also invests in modern information technology on an ongoing basis, so that processes in the Company become yet more stable.

Liquidity and Financing

The paragon Group operates internationally; as a result, currency risks cannot be entirely ruled out in purchasing and sales. Risks are hedged with appropriate financing instruments as required, based on exchange rate expectations that are reviewed on an ongoing basis. paragon safeguards its solvency through comprehensive liquidity planning and control. Plans are prepared on a long, medium and short term basis. In addition, the Company conducts consistent accounts receivable management in order to ensure timely cash inflows. A major share of receivables is also guaranteed by trade credit insurance. The risk of interest-rate fluctuations to paragon is insignificant, because the majority of long-term liabilities are covered by agreed fixed interest rates or through derivatives.

To finance the paragon Group through bank credits, hedging covenants were agreed to comply with certain financial covenants. Non-compliance with these financial covenants entitles the financial institutions to extraordinary termination. The Company was unable to meet the financial covenants agreed to in the loan agreements in fiscal 2009. Up to the initiation of insolvency proceedings for paragon AG on October 5, 2009, and those for all German subsidiaries that followed, no extraordinary terminations were claimed for the loan liabilities recognized as of December 31, 2009. After the insolvency proceedings were initiated, the extraordinary terminations could no longer be claimed.

Overall Risk

paragon AG's Managing Board always assesses risks in close coordination with the Supervisory Board. On November 4, 2008, the Company was able to report an increase in sales of 11.0 %, as well as significantly high EBITDA (+16.2 %) and EBIT (+ 27.3 %) figures, in its financial report for the first three quarters of fiscal 2008. After the dramatic change in the release order behavior of car manufacturers during the course of the fourth quarter of 2008, the pervasive effects of the industry crisis on individual manufacturers and suppliers were not initially clear.

During the course of 2009 the situation came to a head due to the lack of agreement among the banks to the extent that the Managing Board initiated insolvency proceedings for paragon AG. The following German subsidiaries of paragon AG also petitioned for insolvency on October 7, 2009, at the district courts of Paderborn and Meiningen, respectively: paragon finesse GmbH, Delbrück, paragon facilio GmbH, Delbrück, and paragon fidelio GmbH, Suhl. The subsidiary paragon firstronic GmbH, Suhl, filed for insolvency with the district court of Meiningen on October 22, 2009. The district court of Paderborn opened insolvency proceedings regarding the assets of the subsidiaries paragon fidelio GmbH and paragon finesse GmbH on January 1, 2010. Insolvency proceedings regarding the assets of paragon firstronic GmbH were opened on February 1, 2010. The insolvency proceedings of the subsidiaries have not been concluded as of yet. The assets of the subsidiary paragon of North America Corp., Grand Rapids, were sold on September 29, 2009; the subsidiary paragon firstronic of North America Corp., Grand Rapids, Chipco Inc., Elkhart, and paragon of Japan Inc., Amagasaki-City, were liquidated in 2009.

After the successful conclusion of the paragon AG insolvency proceedings by acceptance of the insolvency plan on April 16, 2010, and the suspension of the insolvency effective June 1, 2010, paragon AG has, in the opinion of the Managing Board, a very good chance of developing positively after the most difficult crisis in company history, given the changed structure, rising demand from car manufacturers and considerably lower debt.

At the time of publication of this report, no additional risks have been identified that might jeopardize the Company's continued existence. This includes possible risks, such as risks of an incorrect product mix or the threat of credit withdrawal. Rather, paragon has the opportunity, in the event of a sustained recovery in the automotive industry, of stabilizing and expanding the customer relationships it has nurtured for so many years. There are major opportunities for the future in this, particularly since other suppliers have abandoned individual business fields or even suspended operations altogether in connection with the automotive crisis, which is now behind us.

N. Capital Structure, Managing Board and Change of Control

Pursuant to the provisions of section 289 (4) and 315 (4) of the German Civil Code, paragon AG provides the following comments:

Capital
paragon AG's equity capital was composed of 4,114,788 common shares as of December 31, 2009, which were entitled to dividends as of January 1, 2007, with a par value of EUR 1.00. Subscribed capital amounted to EUR 4,114,788. According to the information provided by the Managing Board no restrictions on transfer or voting rights existed for the past year to its knowledge.

An authorization to repurchase treasury stock in amounts of up to 10 % of equity capital and to increase capital up to 2 million shares (authorized capital) was in force. Furthermore, capital was conditionally increased by up to 2,149,874 shares (conditional capital I, II and III).

There are no shares with special rights that grant control authorities. Klaus Dieter Frers owns direct holdings in paragon AG in excess of 10 % (52 %).

Employees of the Company or the paragon Group do not participate in such a way in the Company's capital that they are in a position to exercise control rights directly.

Managing Board
The Managing Board of paragon AG consisted of three appointed members as of December 31, 2009: Mr. Klaus Dieter Frers, Chief Executive Officer, Mr. Markus Werner (Chief Financial Officer, since October 4, 2009), and Mr. Andrew Seidl, (Chief Restructuring Officer, since October 1, 2009). In other respects, the provisions of sections 84 and 85 of the German Stock Corporation Act applied.

paragon AG's Managing Board was constantly committed to the Company's interests and to enhancing shareholder value. During fiscal 2009 no conflicts of interest arose on the part of the Managing Board that required disclosure to the Supervisory Board. Furthermore, no member of the Managing Board occupied a position in a Supervisory Board. Subject to the condition of a change of control resulting from a takeover bid, agreements were included in paragon AG's Managing Board contracts that they be indemnified under certain conditions.

O. Corporate Governance Declaration

The Corporate Governance Declaration pursuant to Section 289a of the German Civil Code along with the declaration pursuant to Section 161 of the German Stock Corporation Act can be viewed at all times on paragon's website at www.paragon-online.de/Investor Relations/ Corporate Governance. It is also found in the "Corporate Governance" chapter of this annual report.

P. Environmental Protection and Occupational Safety

The paragon Group is committed to environmental protection and occupational safety. With a view to financial success under the best possible conditions, paragon implemented comprehensive measures and training sessions in the area of occupational safety in work processes as early as several years ago. These measures resulted in improved employee working conditions, less work-force stress and thus reduced absenteeism due to illness and lower risk of accidents.

Furthermore, paragon was actively involved in environmental protection efforts through its regular reviews of manufacturing processes, and it guaranteed compliance with legal provisions by means of stringent controls. Production subsidiaries in Germany were certified in accordance with the environmental standard DIN EN ISO 140001:2005. At the same time paragon assured that raw materials and energy resources were handled carefully by using state-of-the-art manufacturing techniques. Environmental management was a fixed part of our workflows and, with the help of a well-grounded quality management system, contributed significantly to the Group's financial success.

Q. Report on Anticipated Developments

The paragon Group's business planning is based on long-term sales planning, specified per customer down to the product part level. Key cost components are planned over a time period of two to three years using individual planning models and then extrapolated in proportion to sales developments. Significant parameters, such as price changes in purchasing or vis-à-vis customers, as well as possible salary increases or tax changes, are incorporated into planning. The risk management system, updated on a continuous basis, permits the Company to identify risks early on and counteract them appropriately.

Overall Economic and Industry Development

The Kiel Institute for the World Economy (IfW – Institut für Weltwirtschaft) forecasts an economic recovery in 2010, but only at a moderate rate. Although the financial and economic crisis of 2008 and 2009 is gradually being overcome, the pace of expansion varies greatly across the regions of the world. While in some emerging markets there is even a risk of the economy overheating, the utilization of economic capacities on the whole continues to be low in industrial countries. Due to the sharp increase in government debt, economic policy, especially in smaller industrialized countries, is likely to be focused on budget consolidation in the medium term. The IfW believes that the financial and property sectors are in structural crisis. For this reason as well, the IfW anticipates a slow recovery from the huge losses suffered. In this context, the risks for the global economy remain high.

The German Association of the Automotive Industry (VDA – Verband der Deutschen Automobilindustrie) assesses the developments in the international markets and economy as positive. The global automobile market is expected to increase by approximately 4 % to over 57 million passenger cars in 2010. China will play a decisive role, although it is unlikely that the country can maintain the high growth rates of the first quarter, which saw a more than three quarter rise to nearly 2.8 million units, throughout the whole year. German manufacturers are superbly positioned in the growth markets of China and the US. The majority of automotive suppliers can anticipate double-digit growth rates this year according to VDA information.

Corporate Development

Now that insolvency has been suspended, the Managing Board believes its future business prospects are excellent. These forecasts are bolstered not only by significantly lower debt, but especially by the encouraging operational developments in the Company. During the first quarter of 2010, paragon was able to continuously improve the sales and the earnings indicators, EBITDA and EBT. Cash flow, too, was on an upward trend, so a good foundation has been laid. This satisfactory development also carried on in the following months of the insolvency period.

The Managing Board expects positive financial data for 2010. Our sales revenue target in 2010 is EUR 58 million and we aim to have clearly positive operating cash flow. Operating earnings (EBITDA adjusted for the costs of restructuring and the insolvency) of EUR 7.5 million are anticipated. According to the Managing Board's estimates, positive EBIT may be possible as early as 2010.

The departure from the divisional structure and the new breakdown into product groups minimizes complexity and increases clarity. In future paragon will be active in the product groups Air Quality (including its global market leading Air Quality Sensor AQS), drive train, acoustics, stepper motors, media interfaces and cockpit. Business activities take place in four German locations: headquarters, administration and portions of development in Delbrück, North-Rhine Westphalia, main manufacturing location in Suhl, Thuringia, plant for instrumentation and stepper motors in St. Georgen, Baden-Württemberg, and development of media interfaces and cockpit in Nuremberg, Bavaria.

paragon also sees opportunities in the field of new drives in addition to its tried and true product portfolio. In this field, electronic solutions play a key role in hybrid cars and, in particular, in electric mobility, which is currently in high demand. In 2010 paragon expects to realize sales primarily with products installed in cars with conventional drives. Our entry into the innovative future market of new drives will leave a considerable mark over the next few years in terms of sales.

The new orientation in the areas of development, sales and production is already bearing fruit, not least in terms of cost. The number of employees, which as of May 31, 2010 was 247, should be increased selectively based on healthy order levels, especially at the Delbrück and Nuremberg locations. This will create the conditions for paragon to optimally exploit the opportunities offered in the automotive industry.

A big advantage for the Company is the longevity of its customer relationships in the automotive industry, some of which have existed for more than ten years. paragon did not experience any order cancellations during the insolvency period. In fact, the Company was actually able to attract new orders during this period. The sales plan is underpinned by high-grade and long-term orders. Orders, which are documented by appropriate 'nomination letters' are at 97.9 % of sales plan for 2010. The business plan shows corresponding stability in this area for the following years, 2011 (91.3 %) and 2012 (86.8 %).

R. Disclaimer

The Group's Management Report contains certain forward-looking statements. These statements are based on current estimates and are, by their very nature, subject to risks and uncertainties. Events that actually occur may differ from the statements made here.

Delbrück, July 30, 2010

Klaus Dieter Frers
Chairman of the Managing Board

Consolidated Financial Statements

Consolidated Balance Sheet of paragon AG, Delbrück, as of December 31, 2009

in EUR thousands	Notes	Dec. 31, 2009	Dec. 31, 2008
Assets			
Non-current assets			
Intangible assets	(1)	4,539	6,061
Property, plant and equipment	(2)	14,943	19,898
Financial assets	(3)	180	180
Deferred taxes	(9)	653	447
Total non-current assets		**20,315**	**26,586**
Current assets			
Inventories	(4)	4,427	19,224
Trade receivables	(5)	4,307	4,375
Income tax assets		36	219
Other assets	(6)	457	849
Cash and cash equivalents	(7)	9,360	2,262
Total current assets		18,587	**26,929**
Total assets		**38,902**	**53,515**

in EUR thousands	Notes	Dec. 31, 2009	Dec. 31, 2008
Liabilities			
Equity	(8)		
Subscribed capital		4,115	4,115
Capital reserve		7,753	7,753
Profit carried forward		- 64,141	7,695
Consolidated net income/loss		- 46,687	- 71,836
Currency translation reserve		0	- 1,905
Total equity		**- 98,960**	**- 54,178**
Non-current provisions and liabilities			
Non-current finance lease obligations	(9)	673	947
Non-current borrowings	(10)	7,840	21,659
Profit-participation certificates	(13)	0	22,610
Special item for investment grants	(14)	4,731	6,432
Deferred taxes	(9)	141	359
Pension provisions	(11)	1,259	623
Total non-current provisions and liabilities		**14,644**	**52,630**
Current provisions and liabilities			
Current portion of finance lease obligations	(9)	315	470
Current borrowings and current portion of non-current borrowings	(10)	40,396	26,550
Profit participation rights	(13)	22,807	0
Trade payables		8,958	13,895
Other provisions	(15)	4,192	3,277
Income tax liabilities		2,228	1,778
Other current liabilities	(12)	44,322	9,093
Total current provisions and liabilities		**123,218**	**55,063**
Total equity and liabilities		**38,902**	**53,515**

Consolidated Income Statement of paragon AG, Delbrück, for the period from January 1 to December 31, 2009

in EUR thousands	Notes	2009	2008
Sales revenue	(1)	**67,349**	**112,003**
Other operating income	(2)	3,156	5,118
Increase or decrease in finished goods and work in progress		- 5,853	1,079
Other own work capitalized	(3)	328	5,218
Total operating performance		**64,980**	**123,418**
Cost of materials	(4)	- 36,704	- 63,513
Gross profit		**28,276**	**59,905**
Staff costs	(5)	- 20,421	- 27,891
Depreciation and amortization of property, plant and equipment and intangible assets		- 5,392	- 12,591
Goodwill impairment		0	- 27,431
Impairment of property, plant and equipment and intangible assets		- 337	- 34,986
Impairment of financial assets		0	- 86
Other operating expenses	(6)	- 42,642	- 23,052
Earnings before interest and taxes (EBIT)		**- 40,516**	**- 66,132**
Financial income		123	211
Finance costs		- 6,568	- 8,423
Net financing costs	(8)	**- 6,445**	**- 8,212**
Earnings before taxes		**- 46,961**	**- 74,344**
Income taxes	(9)	274	2,508
Consolidated net income/loss		**- 46,687**	**- 71,836**
Earnings per share (basic)	(10)	- 11.35	- 17.46
Earnings per share (diluted)		- 11.35	- 17.43
Average number of shares outstanding (basic)		4,114,788	4,114,788
Average number of shares outstanding (diluted)		4,114,788	4,121,085
Other comprehensive income			
Currency translation of foreign subsidiaries		2,284	- 81
Total comprehensive income		**- 44,403**	**- 71,917**

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

in EUR thousands	Notes	2009		2008	
Cash flow from operating activities					
Earnings before income taxes and deferred taxes		**- 46 961**		**- 74,344**	
Depreciation and write-ups of property, plant and equipment		5,316		12,591	
Net financing costs		5,798		8,212	
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets		228		- 68	
Increase (+), decrease (-) in other provisions and pension provisions		2,933		1,929	
Income from the reversal of the special item for investment grants		- 1,401		- 2,923	
Income from the reversal of the special item for investment grants		- 753		0	
Increase (-), decrease (+) in trade receivables, other receivables and other assets		460		10,628	
Goodwill impairment		0		27,431	
Impairment of intangible assets and property, plant and equipment		0		34,986	
Impairment of financial assets		0		86	
Increase (-), decrease (+) in inventories		7,322		- 1,515	
Decrease (+), Increase (-) in trade payables and other liabilities		8,934		5,745	
Interest paid		- 477		- 8,423	
Income taxes/deferred taxes paid		881		- 873	
Non-cash expenses due to deconsolidation of subsidiaries		22,499		0	
Net cash provided by/used in operating activities	(21)		**4,779**		**13,461**
Cash flow from investing activities					
Cash receipts from disposals of property, plant and equipment		0		352	
Cash payments to acquire property, plant and equipment		- 1,528		- 5,120	
Cash payments to acquire intangible assets		- 163		- 5,003	
Cash payments to acquire consolidated companies and other business units		0		- 1,900	
Cash receipts/payments from investment grants		0		208	
Interest received		408		211	
Net cash provided by/used in investing activities	(21)		**- 1,283**		**- 11,252**
Cash flow from financing activities					
Dividends paid		0		- 411	
Cash repayments of borrowings		- 441		- 8,160	
Cash proceeds from issuing borrowings		2,500		5,971	
Cash payments for the reduction of the outstanding liability relating to a finance lease		0		- 724	
Net cash paid for the repayment of profit-participation certificates		0		- 3,000	
Net change in cash and cash equivalents	(21)		**2,059**		**- 6,324**
Cash-effective change in liquidity			5,555		- 4,115
Effects resulting from exchange differences, changes in the basis of consolidation and remeasurement			1,874		- 80
Change in liquidity due to changes in the scope of consolidation (deconsolidation)			- 359		0
Cash and cash equivalents at beginning of period			1,198		5,393
Cash and cash equivalents at end of period	(21)		8,268		1,198

Group Segment Reporting of paragon AG, Delbrück

by business segments

in EUR thousands	Automotive 2009	Automotive 2008	Electronic Solutions 2009	Electronic Solutions 2008	Total 2009	Total 2008
External sales revenue	56,942	92,338	10,407	19,665	67,349	112,003
Operating result (EBIT)	**- 42,643**	**- 62,944**	**2,127**	**- 3,189**	**- 40,516**	**- 66,133**
Segment assets	28,397	43,903	0	5,834	28,397	49,737
Segment liabilities	8,958	12,069	0	1,826	8,958	13,895
Capital expenditure	1,918	7,602	15	466	1,933	8,068
Depreciation and amortization	- 5,357	- 11,848	- 35	- 743	- 5,392	- 12,591
Impairment losses in accordance with IAS 36	- 322	- 56,745	- 15	- 5,672	- 337	- 62,417
Interest income	184	387	- 61	- 175	123	212
Interest expense	- 6,533	- 8,383	- 35	- 40	- 6,568	- 8,423
Income tax	274	2,508	0	0	274	2,508
Deconsolidation expense	- 22,858	0	0	0	-22,858	0

Consolidated Statement of Changes in Equity of paragon AG, Delbrück

in EUR thousands	Subscribed capital	Capital reserve	Accumulated other comprehensive income Currency translation differences	Profit/loss brought forward	Total
Balance as of Jan. 1, 2008	**4.115**	**7.753**	**- 1.824**	**8.106**	**18.150**
Earnings after tax	0	0	0	- 71.836	- 71.836
Other comprehensive income	0	0	- 81	0	- 81
Comprehensive income	**0**	**0**	**- 81**	**- 71.836**	**- 71.917**
Currency translation differences	0	0	0	- 411	- 411
Balance as of Dec. 31, 2008	**4.115**	**7.753**	**- 1.905**	**- 64.141**	**- 54.178**
Balance as of Jan, 1. 2009	**4.115**	**7.753**	**- 1.905**	**- 64.141**	**- 54.178**
Earnings after tax	0	0	0	- 46.687	- 46.687
Other comprehensive income	0	0	2.284	0	2.284
Comprehensive income	**0**	**0**	**2.284**	**- 46.687**	**- 44.403**
Currency translation differences	0	0	- 379	0	- 379
Balance as of Dec. 31, 2009	**4.115**	**7.753**	**0**	**- 110.828**	**- 98.960**

Notes to the Consolidated Financial Statements

A. Information on the paragon Group

(1) General information

paragon Aktiengesellschaft (paragon AG or paragon), with its registered office in Delbrück, Schwalbenweg 29, Germany, is a stock corporation under German law and the parent company of the paragon Group. Since 2000, paragon AG's shares have been traded on the Frankfurt Stock Exchange in the Prime Standard segment of the regulated market. paragon AG is registered in Commercial Register of the Local Court of Paderborn (HRB 6726). The paragon Group develops and produces electronic components and sensors for the automotive industry. In addition, the Group has strengthened the area of communication technology for the automotive industry. Contract manufacturing of electronic components in the Electronic Solutions business was also part of the Group's business activities in 2009.

The Managing Board of paragon AG released the 2009 consolidated financial statements to the Supervisory Board on July 30, 2010.

The consolidated financial statements prepared as of December 31, 2009 and the group management report of paragon AG are submitted to the electronic Federal Gazette (elektronischer Bundesanzeiger) and are available on the Company's website (www.paragon-online.de).

Effects of the global financial and economic crisis

Due to the sales crisis within the automotive industry starting in October 2008, the paragon Group got into economic and financial difficulties which the Managing Board of paragon AG tried to tackle through a cost-cutting and restructuring program. The discussions held with the creditors involved with a view to have additional liquidity to manage the crisis were not successful due to the heterogeneous interests of the creditors involved.

Therefore, paragon AG filed for bankruptcy protection on October 5, 2009 at the Local Court of Paderborn with the aim to conduct an insolvency planning procedure subject to self-administration (Insolvenzplanverfahren in Eigenverwaltung). On October 5, 2009, the Local Court of Paderborn appointed Dr. Frank Kebekus, Kebekus & Zimmermann law firm, Carl-Theodor-Strasse 1, 40213 Düsseldorf, Germany as preliminary insolvency administrator. On December 16, 2009, the Managing Board of paragon AG withdrew its motion of October 5, 2009 to conduct insolvency proceedings in self-administration. The Local Court of Paderborn then instituted insolvency proceedings over the assets of paragon AG on January 1, 2010 and appointed Dr. Frank Kebekus as ultimate insolvency administrator.

The German subsidiaries of paragon AG (paragon finesse GmbH, Delbrück, paragon facilio GmbH, Delbrück, and paragon fidelio GmbH, Suhl) also filed for bankruptcy protection on October 7, 2009 at the local courts of Paderborn and Meiningen, respectively. The subsidiary paragon firstronic GmbH, Suhl, filed for bankruptcy protection at the Local Court of Meiningen on October 22, 2009. The subsidiaries paragon of North America Corp., Grand Rapids, paragon firstronic of North America Corp., Grand Rapids, Chipco Inc., Elkhart, and paragon of Japan Inc., Amagasaki-City, were liquidated in 2009.

On April 16, 2010, the insolvency plan of paragon AG was presented to, and accepted by, the creditors' meeting. As a result, the insolvency proceedings related to paragon AG was repealed effective June 1, 2010 by resolution of the Local Court of Paderborn dated May 28, 2010.

B. Basis of accounting and accounting policies

(1) Application of the International Financial Reporting Standards (IFRSs)

These consolidated financial statements of paragon AG for the year ended December 31, 2009 have, pursuant to section 315a of the German Commercial Code (HGB), 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 Interpretations Committee (IFRIC).

(2) Going Concern

Due to the successful end of the insolvency proceedings both as a result of the acceptance of the insolvency plan by the creditors' meeting on April 16, 2010, and the positive going concern prognosis after terminating the insolvency proceedings as from June 1, 2010, the consolidated financial statements of paragon AG were 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 consolidated financial statements have to be prepared on the basis of the circumstance 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, 2009 will be authorized for issue by the Managing Board and submitted to the Supervisory Board for signing on July 30, 2010. Until that date, all information available with regard to the circumstances on the balance sheet date have to be taken into account. Due to the insolvency proceedings, the process of preparing the consolidated financial statements as of December 31, 2009 has been delayed to July 2010.

The aim of presenting objective circumstances in the consolidated financial statements as of December 31, 2009 therefore required a review to be conducted as to whether objective evidence existed based on today's view (July 2010) in the consolidated financial statements as of December 31, 2009 and hence, needed to be included in the consolidated financial statements as of December 31, 2009 (adjusting events). The Company identified adjusting events through a review of all measurements of assets and liabilities in July 2010 and included such events in the consolidated financial statements as of December 31, 2009. In this context, adjusting events that have become known until the authorization for issue of the consolidated financial statements on July 30, 2010, were included in the consolidated financial statements as of December 31, 2009, based on the following material accounting policies in accordance with IAS 10:

- Going concern assumption and therefore the recognition of going concern values in accordance with IAS 1
- Depreciation of intangible assets with determinable useful lives, and of property, plant and equipment in accordance with IAS 36, which had been acquired up to the deconsolidation of subsidiaries in 2009
- Write-downs of inventories in accordance with IAS 2
- Measurement of receivables in accordance with IAS 39
- Measurement of provisions in accordance with IAS 37

The valuation measures carried out in connection with IAS 10 and the deconsolidation of German subsidiaries had a significant effect on the group net loss of EUR 46,687,000 that was caused in fiscal

2009. Therefore, paragon AG reports negative equity in its balance sheet as of December 31, 2009 in an amount of EUR 98,960,000.

(4) New accounting principles due to new standards

In fiscal year 2009, the following revised and new standard promulgated by the IASB as well as interpretations of the IFRIC were endorsed by the EU and were required to be applied for the first time:

- In January 2008, the IASB published amendments to IFRS 2 Share-based Payment. The amendment to IFRS 2 defines the term vesting conditions and clarifies how to account for non-vesting conditions and how to account for cancellations of share-based payment arrangements by the company or the counterparty. The amendment is required to be applied for fiscal years beginning on or after January 1, 2009. EU endorsement was given on December 23, 2009. The amendment did not have any material effects on the consolidated financial statements.

- In November 2006, the IASB published IFRS 8, Operating Segments. Through IFRS 8, group segment reporting was converted from the so-called risk and reward approach of IAS 14 to the management approach with regard to segment identification. The relevant criterion is the information regularly provided to the so-called chief operating decision maker to make decisions. Simultaneously, the measurement of the segments will be switched to the management approach of IAS 14 and will no longer be based on the financial accounting approach. IFRS 8 is required to be applied for fiscal years beginning on or after January 1, 2009. EU endorsement was given in December 2008. The initial adoption of IFRS 8 by paragon AG in fiscal 2009 led to significant changes in its group segment reporting.

- The revised IAS 1 Presentation of Financial Statements (Revised) was published by the IASB in September 2007 and is intended to facilitate the analysis and comparisons of financial statements for users of such financial statements. IAS 1 defines the requirements for the presentation of financial statements and sets out rules for their structure and minimum requirements in terms of content. The amended standard is required to be applied for fiscal years beginning on or after January 1, 2009. Earlier application is permitted. EU endorsement was given in December 2008. The amendment had a significant effect on the consolidated financial statements.

- In March 2007, the IASB published a revised version of IAS 23 Borrowing Costs. The revised standard requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The current option to recognize borrowing costs as an expense as incurred is was eliminated. The changed standard is required to be applied for fiscal years beginning on or after January 1, 2009. EU endorsement was given in December 2008. The amendment did not have any material effects on the consolidated financial statements.

- In February 2008, the IASB published a revised version of IAS 32 Presentation of Financial Statements. The changes relate to puttable financial instruments and obligations arising on liquidations. IAS 32 defines the requirements for the presentation of financial instruments and sets out rules for the structure and minimum requirements in terms of content. The new standard is required to be applied for fiscal years beginning on or after January 1, 2009. EU endorsement was given in December 2009. The amendment did not have any material effects on the consolidated financial statements.

- On October 13, 2008, the IASB issued amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. The amendments to IAS 39 and IFRS 7 permit to reclassify certain financial instruments in particular circumstances from the „held for trading" category into another category. The current financial crisis is regarded as such a particular circumstance which would justify any such reclassifications. The changes to IAS 39 and IFRS 7 may be applied retrospectively as of July 1. EU endorsement was given on October 15, 2008. The amendment did not have any material effects on the consolidated financial statements.

- In June 2007, the IFRIC published IFRIC 13 Customer Loyalty Programmes. The interpretation clarifies presentation and measurement of customer loyalty programs. IFRIC 13 is required to be applied for fiscal years beginning on or after July 1, 2008. EU endorsement was given in December 2008. IFRIC 13 did not have any material effects on the consolidated financial statements.

- IFRIC 15 Agreements for the Construction of Real Estate was published by the IFRIC in July 2008. The aim of the interpretation is to establish a uniform accounting method to be used by companies that undertake the construction of real estate and start to market individual units (e.g. houses) „off plan", i.e. while construction is still in progress or even before it has begun. IFRIC 15 is required to be applied for fiscal years beginning on or after January 1, 2009. EU endorsement was given in July 2009. IFRIC 15 did not have any material effects on the consolidated financial statements.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation was published by the IFRIC in July 2008. The aim of the interpretation is identification and measurement of foreign currency risks in connection with hedge accounting within the reporting entity and its foreign operations. This interpretation is required to be applied for fiscal years beginning on or after October 1, 2008. EU endorsement was given in June 2009. IFRIC 16 did not have any material effects on the consolidated financial statements.

- In May 2008, the IASB published amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate. The changes are required to be applied for fiscal years beginning after December 31, 2008. EU endorsement was given on January 23, 2009. The amendment had no effect on the consolidated financial statements.

- In March 2009, the IASB published amendments to IFRIC 9 and IAS 39. The amendments clarify how embedded derivatives should be treated if a hybrid contract from the ‚fair value through profit or loss' category is being reclassified. The changes are required to be applied for fiscal years beginning after December 31, 2008. EU endorsement was given on November 30, 2009. The amendment had no effect on the consolidated financial statements.

- In March 2009, the IASB published amendments to IFRS 4 and IFRS 7. The amendments provide more detailed information on measuring fair value and liquidity risk concerning financial instruments. The changes are required to be applied for fiscal years beginning after December 31, 2008. EU endorsement was given on November 27, 2009. The amendment had no effect on the consolidated financial statements.

- In November 2008, the IASB published amendments to IAS 39 and IFRS 7. The amendments to IAS 39 and IFRS 7 give information about the point at which the amendments to these standard take effect and concern the transitional provisions which the IASB published on October 13, 2008. EU endorsement was given on September 9, 2009. The amendment had no effect on the consolidated financial statements.

At the time of preparation of the 2009 consolidated financial statements, the following IASB standards and IFRIC interpretations had already been issued, but were not required to be applied and/or had not been endorsed by the EU at that date:

- In January 2008, the IASB published a revised version of IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements. The new standards are required to be applied for fiscal years beginning on or after July 1, 2009. The revised version of IFRS 3 and the amended version of IAS 27 define the requirements for the presentation of business combinations and financial instruments and sets out rules for the structure and minimum requirements in terms of content. The Company will evaluate the expected effects of the revised version of IFRS 3 and the amended version of IAS 27 and determine a date for initial application. EU endorsement for IFRS 3 was given in June 2009. EU endorsement for for IAS 27 was given in January 2009. This amendment will have no effect on the consolidated financial statements.

- IFRIC 17 Distribution of Non-cash Assets to Owners was published by the IFRIC in November 2008. IFRIC 17 addresses how an entity should measure distributions of assets other than cash when they are used to pay dividends to its owners. This interpretation is required to be applied for fiscal years beginning on or after July 1, 2009. EU endorsement was given in November 2009. IFRIC 17 will have no effect on the consolidated financial statements.

- In May 2008, the IASB published improvements to IFRSs as part of its annual improvements project. These comprise 35 changes to standards and consist of two parts: the first part refers to amendments that result in accounting changes for presentation, recognition or measurement purposes, while the second part contains terminology changes. The changes are required to be applied for fiscal years beginning after June 30, 2009. EU endorsement was given on January 23, 2009. The Company will evaluate the expected effects and determine a date for initial application.

- In July 2008, the IASB published ‚Eligible hedged items - amendments to IAS 39’. The amendments provide clarification concerning hedge accounting when identifying inflation as a hedge risk or portion and with option contracts used as hedging instruments. The changes are required to be applied for fiscal years beginning after June 30, 2009. EU endorsement was given on September 15, 2009. This amendment will have no effect on the consolidated financial statements.

- In November 2008, the IASB published a revised version of IFRS 1. The newly structured IFRS 1 replaces the previous IFRS 1 with the aim of facilitating the use and amendment of this standard in the future. Obsolete transitional guidelines were also deleted as part of the newly structured IFRS 1. The current requirements remain unchanged. The changes are required to be applied for fiscal years beginning after December 31, 2009. EU endorsement was given on September 25, 2009. This amendment will have no effect on the consolidated financial statements.

- In January 2009, the IASB published amendments to IFRIC 18. IFRIC 18 clarifies and illustrates how to account for the transfer of assets or cash for the construction or acquisition of an asset by a customer. The changes are required to be applied for fiscal years beginning after October 31, 2009. EU endorsement was given on November 27, 2009. This amendment will have no effect on the consolidated financial statements.

- In October 2009, the IASB published amendments to IAS 32. This amendment clarifies how certain rights issues should be accounted for if the emitted instrument are not denominated in the functional currency of the emitter. The changes are required to be applied for fiscal years beginning after January 31, 2010. EU endorsement was given on December 23, 2009. This amendment will have no effect on the consolidated financial statements.

- In April 2009, the IASB published improvements to IFRSs as part of its annual improvements project. Most of the amendments involve clarifications or corrections to existing IFRSs or amendments that have arisen from modifications made to the IFRSs previously. The changes are required to be applied for fiscal years beginning after December 31, 2009. EU endorsement was given on March 23, 2010. The Company will evaluate the expected effects and determine a date for initial application.

- In June 2009, the IASB published amendments to IFRS 2. This amendment explains how to account for share-based payment transactions for which a supplier of goods or services is paid in cash and the obligation to settle the transactions falls upon another company in the group. The changes are required to be applied for fiscal years beginning after December 31, 2009. EU endorsement was given on March 23, 2010. This amendment will have no effect on the consolidated financial statements.

- In July 2009, the IASB published amendments to IFRS 1. The amendments include information on reassessing the classification of leasing contracts. The changes are required to be applied for fiscal years beginning after December 31, 2009. EU endorsement was given on June 23, 2009. This amendment will have no effect on the consolidated financial statements.

- In January 2010, the IASB published amendments to IFRS 1. The amendments concern the exemption for first-time adopters in relation to IFRS 7 for information concerning fair value and liquidity risk. The changes are required to be applied for fiscal years beginning after June 30, 2010. EU endorsement was given on June 30, 2010. This amendment will have no effect on the consolidated financial statements.

- In November 2009, the IASB published IFRS 9 Financial Instruments. Together with two further addenda, the standard will replace IAS 39. IFRS 9 should be completed in 2010. The changes are required to be applied for fiscal years beginning after January 1, 2013. EU endorsement has not yet been given. The Company will evaluate the expected effects and determine a date for initial application.

- In November 2009, the IASB published amendments to IAS 24. The amendments clarify the definition of a related party and simplify the disclosure requirements for government-related entities. The changes are required to be applied for fiscal years beginning after January 1, 2011. EU endorsement has not yet been given. This amendment will have no effect on the consolidated financial statements.

- In November 2009, the IASB published IFRIC 19. IFRIC 19 explains the IFRS requirements in the event that an entity partially or entirely settles a financial obligation by issuing shares or other equity instruments. The changes are required to be applied for fiscal years beginning after July 1, 2010. EU endorsement has not yet been given. This amendment will have no effect on the consolidated financial statements.

- In November 2009, the IASB published amendments to IFRIC 14. The explanation provides an interpretation of IAS 19 and deals with questions concerning the inclusion of defined benefit assets. The amendments deal with the special case in which entities make an early payment of contributions in order to satisfy their minimum funding requirements. The changes are required to be applied for fiscal years beginning after January 1, 2011. EU endorsement has not yet been given. This amendment will have no effect on the consolidated financial statements.

- In May 2010, the IASB published exposure draft ‚Fair Value Option for Financial Liabilities'. This draft follows the portion that was already completed on the classification and valuation of financial assets and is part of the project concerning a follow-up standard to IAS 39. It is currently planned that the new regulations will take compulsory effect as from January 1, 2013. EU endorsement has not yet been given. This amendment will have no effect on the consolidated financial statements.

- In May 2010, the IASB published improvements to IFRSs as part of its annual improvements project. Most of the amendments involve clarifications or corrections to existing IFRSs or amendments that have arisen from modifications made to the IFRSs previously. In addition, amendments were made to a total of seven standards. The changes are required to be applied for fiscal years beginning after January 1, 2011. EU endorsement has not yet been given. The Company will evaluate the expected effects and determine a date for initial application.

(5) Scope of consolidation

In addition to the parent company paragon AG, Delbrück, Germany, four foreign (2008: four) and four domestic (2008: four) subsidiaries are included in the scope of consolidation. In accordance with IAS 27.32, the application to open insolvency proceedings for domestic subsidiaries in October 2009 did not end in loss of the absolute or relative ownership structures, as control on the part of the parent company paragon AG no longer exists from that point. The paragon Group also completed liquidation of foreign subsidiaries in the US and Japan in September 2009.

In detail, the following companies were included in the consolidated financial statements:

Monawi GmbH, Heidenheim, Germany (formerly: Cullmann GmbH, Delbrück) was as in previous years not included in the consolidated financial statements in accordance with IAS 27.32.

(6) Principles of consolidation

The consolidated financial statements are based on the individual financial statements of the subsidiaries included in the consolidated Group, which are prepared according to uniform accounting and valuation principles in accordance with IFRS as of December 31, 2009.

Subsidiaries are fully consolidated from the time they are acquired, meaning from the point at which the Group assumes control over them. Their inclusion in the consolidated financial statements ends when the parent company no longer exercises such control. When it opened insolvency proceedings concerning its domestic subsidiaries and liquidated its foreign subsidiaries in the US and Japan in 2009, the paragon Group lost control over those companies in accordance with IAS 27.32, even though the absolute or relative legal relationship between the companies had not changed. Accordingly, the application to open insolvency proceedings and the appointment of the (temporary) insolvency administrator for the domestic subsidiaries prompted deconsolidation to be carried out as of October 5 and 22, 2009. The paragon Group also completed liquidation of foreign subsidiaries in the US and Japan in September 2009, leading to the deconsolidation of those subsidiaries as of September 30, 2009.

When preparing the consolidated accounts, capital is accounted for according to the purchase method as provided in IFRS 3 ‚Business Combinations'. In the process, the parent company's investment book values are offset against the newly valuated equity of the subsidiary at the time of acquisition. As part of the new valuation, all acquired assets, liabilities, contingent liabilities and intangible assets remaining to be capitalized are measured at fair value. A debit difference resulting from the consolidation of capital after the purchase price allocation is shown as goodwill and subjected to an impairment test in accordance with IFRS 3 in connection with IAS 10 and IAS 36.

Receivables and payables between the companies included in the consolidated financial statements are offset against each other as part of debt consolidation. Interim results arising from intercompany

Name and registered office of the company	Currency	Shareholding of paragon AG in [%]			Sales in local currency (prior to consolidation)
		Direct	Indirect	Total	
Parent:					
paragon AG, Germany, Delbrück	EUR	-	-	-	52,923,863.88
Consolidated subsidiaries:					
paragon fidelio GmbH, Germany, Suhl [1),3)]	EUR	100%	-	100%	216,300.00
paragon firstronic GmbH, Germany, Suhl [2),4)]	EUR	100%	-	100%	8,945,771.56
paragon facilio GmbH, Germany, Delbrück [1),3)]	EUR	100%	-	100%	0.00
paragon finesse GmbH, Germany, Delbrück [1),3)]	EUR	100%	-	100%	7,517,811.52
paragon of North America Corp., USA, Grand Rapids / Michigan [5)]	USD	100%	-	100%	2,256,103.00
paragon firstronic of North America Corp., USA, Grand Rapids / Michigan [5)]	USD	-	100%	100%	4,127,562.00
Chipco Inc., USA, Elkhart / Indiana [5)]	USD	-	100%	100%	0.00
paragon of Japan Inc., Japan, Amagasaki-City / Hyogo-Ken [5)]	YEN	100%	-	100%	4,678,875.00
Non-consolidated subsidiaries:					
Monawi GmbH, Heidenheim [6)]	EUR	100%	-	100%	0.00

1) With profit transfer agreement to paragon AG, Delbrück until October 5, 2009
2) With profit transfer agreement to paragon AG, Delbrück until October 22, 2009
3) Included in the scope of consolidation until October 5, 2009, then deconsolidated
4) Included in the scope of consolidation until October 22, 2009, then deconsolidated
5) Liquidation in September 2009
6) In liquidation (formerly Cullmann GmbH)

goods and services are eliminated and deferred tax burdens and savings from consolidations affecting net income are taken into account. Intercompany revenue, as well as other intercompany income, is offset against the corresponding expenses as part of the consolidation of expenses and income.

The consolidation principles in use have not changed in comparison with the previous year.

(7) Currency translation

The translation of subsidiary financial statements prepared in foreign currencies took place according to the functional currency concept provided in IAS 21 ,The Effects of Changes in Foreign Exchange Rates'. Since the functional currencies of foreign companies in the Group (U.S. dollar, Japanese yen) differ from the functional currency of the reporting entity paragon AG (euro), the financial statements of the foreign companies are translated from the relevant functional currency (U.S. dollar, Japanese yen) into the reporting currency (euro). Assets and liabilities are translated into euros using the middle rate as of the balance sheet date, and income and expenses using the average annual exchange rate in accordance with IAS 21.40. Translation differences arising in the consolidated balance sheet and income statement from these differing exchange rates are shown as a separate item in equity and therefore have no impact on income.

Goodwill arising from the acquisition of an economically autonomous partial entity is also translated at the closing rate in accordance with IAS 21.47. The resulting difference is recognized directly in equity with no impact on income.

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

Exchange rate losses from operations in the amount of EUR 182,000 (2008: EUR 564,000) and exchange rate gains in the amount of EUR 49,000 (2008: EUR 412,000) are recognized in the consolidated income statement under other operating expenses or other operating income. These exchange rate differences are contained in the other operating expenses or other operating income.

As of the balance sheet date, the balance of the currency translation differences, which was recognized as a separate item in equity, is EUR 0 (2008: EUR 1,905,000). The cumulative exchange rate differences up to the time of deconsolidation resulted from the translation of the financial statements of U.S. subsidiaries prepared in U.S. dollars and the financial statements of Japanese subsidiaries prepared in Japanese yen. Following the liquidation of U.S. and Japanese subsidiaries in September 2009, the cumulative exchange rate differences were derecognized from income as part of the deconsolidation of these subsidiaries and the expense was shown under other operating expenses.

The exchange rates used for currency translation developed as follows:

Foreign currency for 1 EUR	Balance sheet – middle rate as of Dec. 31	Income statement – average rate	Balance sheet – middle rate as of Dec. 31	Income statement – average rate
	2009		**2008**	
U.S. dollar (USD)	1.4435	1.39749	1.4006	1.47401
Japanese yen (JPY)	133.3	130.533	126.64	152.679

(8) Significant accounting and valuation principles

The financial statements of the parent company were prepared on December 31, 2009 (reporting date of the consolidated financial statements). All financial statements of the subsidiaries included in the consolidated financial statements were prepared at the respective point of deconsolidation for the purposes of the consolidated financial statements. When preparing the financial statements of the entities included in the consolidated financial statements, uniform group accounting and valuation principles are used. For this purpose, financial statements drawn up according to country-specific regulations are adjusted to the uniform group accounting and valuation principles if they do not correspond to IFRS and are significant in nature. The accounting and valuation principles used in the previous year have been reapplied unaltered.

The consolidated financial statements were prepared in euros (EUR). The reporting currency is the euro in accordance with IAS 21. All amounts - unless stated otherwise - are disclosed in thousands of euros (EUR ,000). The fiscal year of paragon AG and the paragon Group corresponds to the calendar year. The financial statements of firstronic GmbH (included in the consolidated financial statements) only relate to a 10-month period. The financial statements of all other subsidiary financial statements included in the consolidated financial statements only relate to a nine-month period.

Individual items in the consolidated balance sheet and income statement have been combined in order to provide better clarity and lucidity. Where this has occurred, the items are explained individually in the notes to the consolidated financial statements. The consolidated income statement continues to be structured according to the cost of production method. Non-current and current assets are shown separately in the balance sheet; partial details on their maturities can be found in the Notes. Assets and liabilities are recognized as current if they mature within one year.

The consolidated financial statements comprise the consolidated balance sheet, consolidated income statement, the notes to the consolidated financial statements, the consolidated cash flow statement, the consolidated segment reporting, and the consolidated statement of changes in shareholders' equity. As in previous years, the group management report has been prepared as a supplement to the above statements.

Intangible assets

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

Research costs are recognized as expenses in the period in which they are incurred. Development costs arising from projects focused on developing 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 commercialization are assured, and the anticipated realization of future economic benefit has been demonstrated. Costs 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, the development costs are recognized immediately in income within other operating expenses in the year in which they were incurred. After their initial recognition, development costs are entered in the balance sheet at cost less cumulative amortization and cumulative impairment losses.

If intangible assets have limited useful lives, they are written down on a straight-line basis in accordance with their economic useful lives. Amortization begins upon completion of the development phase and from the point at which the asset can be used. Intangible assets with indefinite useful lives are subject to annual impairment tests. At each reporting date, the carrying amounts of such intangible assets are used as a basis for determining whether there are reasons to believe an impairment exists. If such reasons are found, an impairment test is performed in accordance with IAS 36. The 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 anticipated product life cycles and amount to between three to four years. The useful lives for licenses, patents and software range from three to ten years.

Property, plant and equipment

Additions to property, plant and equipment are measured at cost plus ancillary acquisition costs and 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 entered and depreciated in the balance sheet individually. Depreciation takes place 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 plant and office furniture and equipment three to ten years.

Fully depreciated items of property, plant and equipment are shown under costs and cumulative depreciation until the assets become inoperative. Amortized costs and cumulative depreciation are deducted from the revenue derived from retired assets. Results derived from retired assets (proceeds from asset retirement less residual carrying amounts) are shown in the consolidated income statement 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 an impairment exists. If such evidence exists, an impairment test is performed.

Lease agreements

Lease agreements are regarded as finance leases if all risks and opportunities connected with the beneficial ownership of an asset are essentially transferred to paragon. Property, plant and equipment leases that fulfill the criteria of a finance lease in accordance with IAS 17 are capitalized at the lower of their fair value and the present value of the minimum leasing payments. A liability is then entered in the balance sheet for the same amount. Subsequent valuations take place using the effective interest method with amortized costs. The amortization methods and useful lives correspond to those of assets acquired in a similar manner.

If beneficial ownership in a lease agreement falls to the lessor (operating leases), the object(s) of the lease are entered in the balance sheet of the lessor. Expenses arising from such lease agreement are shown within other operating expenses.

Determining whether an agreement constitutes a lease agreement is done on the basis of the economic nature of the agreement at the time it is concluded. Therefore, an estimate is made regarding every lease agreement as to whether fulfilling the 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-lease-back transaction involves the sale of an asset, which is already in the possession of the future lessee, to the lessor, and the subsequent continued use of the asset by the lessee by means of a lease agreement. In this respect, two economically interdependent agreements are involved (purchase agreement and lease agreement). However, the transaction is entered in the balance sheet of the lessee as one item. Depending on how the lease-back agreement is organized, it is either entered in the balance sheet as an operating lease or a finance lease.

Impairment of non-financial assets

Impairment of items of property, plant and equipment and intangible assets with determinable useful lives

As of every balance sheet date, a calculation is made as to whether there are reasons to believe an impairment of non-financial assets exists (in particular intangible assets with determinable useful lives and property, plant and equipment). If such indications of an impairment exist, the recoverable amount of the asset concerned is estimated. In accordance with IAS 36.6 (‚Impairment of Assets'), the recoverable amount corresponds to the higher of the fair value less cost to sell and the value in use of an asset or an identifiable group of assets that form a cash generating unit (CGU). If the carrying amount of an asset or a CGU exceeds its respective recoverable amount, the asset is impaired and written down to its recoverable amount.

With the exception of goodwill, a test is carried out for assets as of every balance sheet date to see if there are reasons to believe that a previously calculated impairment loss no longer exists or has diminished. If such reasons exist, an estimate of the recoverable amount of the asset or CGU is made. A previously calculated impairment loss is only reversed if the assumptions used to arrive at the recoverable amount have changed since the calculation of the last impairment loss was made. Reversals of impairment losses are limited to the extent that neither the carrying amount of an asset nor its recoverable amount may exceed the carrying amount that would have resulted after taking into account scheduled depreciation if no impairment loss to the asset had been calculated in previous years.

Impairment of goodwill and of other intangible assets without determinable useful lives

Goodwill and other intangible assets without determinable useful lives are subject to annual impairment testing. Testing also takes place if circumstances indicate that the value could have decreased. Goodwill resulting from corporate acquisitions is attributed to a CGU that draws benefit from the synergies of the acquisition. In the paragon Group, goodwill has been attributed to the legal entities of the consolidated subsidiaries. Each individual legal entity is regarded as a CGU. Such groups represent the lowest reporting level at which management controls goodwill for management purposes.

The carrying amount of these entities (CGUs) that contain goodwill is subject to an impairment test at least once annually. If an impairment is necessary in connection with a CGU that contains goodwill, the goodwill contained is initially reduced. If the required impairment exceeds the carrying amount of the goodwill, the difference is divided among the remaining non-current assets of the CGU. Impairments to goodwill are in principle not reversed.

Effects of the insolvency / liquidation of subsidiaries

As insolvency influences the valuations of all of the assets of subsidiaries, a heightened risk of impairment exists for the non-financial assets of property, plant and equipment and intangible assets with determinable useful lives (known as a ‚triggering event'). As a result, impairment tests are conducted for such non-financial assets in accordance with IAS 10.8 in connection with IAS 36.

As the subsidiaries (being individual legal entities) will not be continued from today's perspective, no values in use can be calculated

Consolidated statement of changes in non-current assets 2008

	ACQUISITION						DEPRECIATION/AMORTIZATION							CARRYING AMOUNT	
in TEUR	01.01.2008	Currency translation	Addition	Disposal	Reclas-sification	31.12.2008	01.01.2008	Currency translation	Current depreciation and amorti-zation	Impair-ments in accordance with IAS 36	Disposals	Reclas-sifications	31.12.2008	31.12.2008	31.12.2007
Intangible assets															
Licenses, patents, software	33,081	9	216	- 39	135	33,403	12,195	8	3,385	12,254	- 4	0	27,838	5,565	20,886
Capitalized development costs	17,480	9	4,787	0	0	22,275	6,837	13	2,374	12,556	0	0	21,779	496	10,643
Goodwill	27,733	111	0	0	0	27,844	303	110	0	27,431	0	0	27,844	0	27,430
Total intangible assets	**78,294**	**129**	**5,003**	**- 39**	**135**	**83,522**	**19,335**	**131**	**5,759**	**52,241**	**- 4**	**0**	**77,461**	**6,061**	**58,959**
Property, plant and equipment															
Land and buildings	21,326	101	108	- 8	0	21,527	3,810	33	1,129	5,732	- 8	0	10,696	10,831	17,516
Technical equipment and machinery	23,500	64	2,338	- 584	- 253	25,065	14,014	90	4,056	2,706	- 366	- 1,660	18,841	6,225	9,486
Other equipment, furniture and office equipment	9,428	11	1,436	- 255	2,170	12,789	5,962	12	1,647	1,597	- 225	1,660	10,653	2,136	3,465
Payments on account and assets under construction	1,663	0	1,237	0	- 2,053	848	0	0	0	142	0	0	142	706	1,663
Total property, plant and equipment	**55,917**	**176**	**5,120**	**- 848**	**- 135**	**60,230**	**23,787**	**135**	**6,832**	**10,176**	**- 598**	**0**	**40,332**	**19,898**	**32,130**
Financial assets															
Investments in subsidiaries	25	0	0	0	0	25	25	0	0	0	0	0	25	0	0
Equity investments	266	0	0	0	0	266	0	0	0	86	0	0	86	180	266
Total financial assets	**291**	**0**	**0**	**0**	**0**	**291**	**25**	**0**	**0**	**86**	**0**	**0**	**110**	**180**	**266**
Total	**134,501**	**305**	**10,123**	**- 887**	**0**	**144,042**	**43,146**	**267**	**12,591**	**62,503**	**- 603**	**0**	**117,904**	**26,139**	**91,355**

Consolidated statement of changes in non-current assets 2009

	ACQUISITION							DEPRECIATION/AMORTIZATION								CARRYING AMOUNT	
in TEUR	01.01.2009	Currency translation	Addition	Disposal	Deconsolidation 30.09.2009/ 30.10.2009	Reclassification	31.12.2009	01.01.2009	Currency translation	Current depreciation and amortization	Impairments in accordance with IAS 36	Deconsolidation 30.09.2009/ 30.10.2009	Disposals	Reclassifications	31.12.2009	31.12.2009	31.12.2008
Intangible assets																	
Licenses, patents, software	33.403	- 14	137	- 9.190	- 6.389	0	17.947	27.838	- 14	1.326	9	- 6.280	- 9.194	0	13.685	4.262	5.565
Capitalized development costs	22.275	- 7	35	- 21.779	- 165	0	359	21.779	- 7	254	0	- 165	- 21.779	0	82	277	496
Goodwill	27.844	- 89	0	- 25.628	- 2.127	0	0	27.844	- 89	0	0	- 2.127	- 25.628	0	0	0	0
Total intangible assets	**83.522**	**-110**	**172**	**- 56.597**	**- 8.681**	**0**	**18.306**	**77.461**	**- 110**	**1.580**	**9**	**- 8.572**	**- 56.601**	**0**	**13.767**	**4.539**	**6.061**
Property, plant and equipment																	
Land and buildings	21.527	- 80	0	0	- 8.762	0	12.685	10.696	- 95	815	0	- 7.595	0	0	3.821	8.864	10.831
Technical equipment and machinery	25.065	- 52	1.273	0	- 10.672	34	15.648	18.841	- 68	2.374	122	- 10.200	- 27	0	11.042	4.606	6.255
Other equipment, furniture and office equipment	12.789	- 7	309	- 561	- 6.128	334	6.736	10.653	- 7	623	63	- 5.367	- 515	0	5.450	1.286	2.136
Payments on account andassets under construction	848	0	178	- 114	- 356	-368	188	142	0	0	143	- 141	- 143	0	1	187	706
Total property, plant and equipment	**60.230**	**- 139**	**1.760**	**- 675**	**- 25.918**	**0**	**35.257**	**40.332**	**- 170**	**3.812**	**328**	**- 23.303**	**- 685**	**0**	**20.314**	**14.943**	**19.898**
Financial assets																	
Investments in subsidiaries	25	0	0	0	- 25	0	0	25	0	0	0	- 25	0	0	0	0	0
Equity investments	266	0	0	0	0	0	266	86	0	0	0	0	0	0	86	180	180
Total financial assets	**291**	**0**	**0**	**0**	**- 25**	**0**	**266**	**111**	**0**	**0**	**0**	**- 25**	**0**	**0**	**86**	**180**	**180**
Total	**144.042**	**- 249**	**1.932**	**- 57.272**	**- 34.624**	**0**	**53.829**	**117.904**	**- 280**	**5.392**	**337**	**- 31.900**	**- 57.286**	**0**	**34.167**	**19.662**	**26.139**

Amounts stated are subject to calculatory changes of a single unit (euro,%).

for these entities (CGUs) or for the non-financial assets concerned. Moreover, both the impairment tests conducted as part of preparing the consolidated financial statements as of December 31, 2008, and the impairment tests related to the acquisition of such assets up to the deconsolidation of the subsidiaries in 2009, were based exclusively on the fair values in the form of divesture or disposal values less disposal costs of the items of property, plant and equipment and intangible assets with determinable useful lives. Due to the long preparation and adjusting event period stretching to July 2010, essentially reliable knowledge existed concerning fair values.

Due to the insolvency / liquidation of the subsidiaries, impairment tests conducted at the level of those CGUs as part of the preparation of the consolidated financial statements as of December 31, 2008 revealed that no additional future economic benefit can be generated from the goodwill derived from corporate acquisitions that had been capitalized up to that point. As a result, all goodwill was already fully impaired during fiscal 2008.

Impairment losses to non-financial assets are shown separately in the consolidated income statement.

Financial instruments

A financial instrument is an agreement that simultaneously leads to the formation of a financial asset at one entity and to a financial liability or equity instrument at another entity. A necessary requirement is that the rights or obligations based on commercial law in the form of agreements or contracts contain financial data.

Financial assets particularly comprise cash and cash equivalents, trade receivables, loan agreements, other receivables and primary and derivative financial assets held for trading purposes. Financial assets are measured at their fair values or carrying amounts in accordance with their classification. The fair values recorded in the consolidated balance sheet as a general rule correspond to the market prices of the financial assets. If no market prices are available, they are calculated using recognized valuation models and by referring to current market parameters.

Financial assets, finance lease liabilities and derivative financial instruments held for trading purposes are measured at fair value in the paragon Group. In the course of deconsolidating all subsidiaries, the shares in those subsidiaries were first recognized in the present consolidated financial statements and measured at their fair value.

Financial instruments belonging to the category ‚loans and receivables' are entered in the balance sheet at their carrying amounts. Scheduled amortization costs take into account amortization payments and the amortization of any possible difference between costs and the anticipated payment inflows at maturity, using the effective interest rate method and less any possible decreases stemming from write-downs due to potentially uncollectible accounts.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In accordance with IAS39, at paragon this particularly includes profit-sharing rights, trade liabilities and other current liabilities, obligations to banks, and the negative fair values of derivative financial instruments held for trading purposes that are not part of a hedging relationship. With the exception of the negative fair values of derivative financial instruments, paragon classifies its financial liabilities in the measurement category ‚loans and receivables' and measures them at their amortized costs, taking into account amortization payments and the amortization of any possible difference between costs and the payment obligation to be fulfilled upon maturity using the effective interest method.

Financial assets are deleted from the accounts if the contractual rights in relation to cash flows from such financial assets have expired, or if paragon has transferred its contractual rights in relation to cash flows from the financial asset to a third party, or has assumed a contractual obligation to immediately pay the cash flow to a third party as part of an agreement that fulfills the requirements of IAS 39.19 (pass-through arrangement) and thereby (1) either transferred all significant opportunities and risks connected with the financial asset, or (2) in fact neither transferred nor retained all significant opportunities and risks connected with the financial asset, but transferred the power of disposition over the asset. paragon records a new asset if (1) all contractual rights to cash flows from an asset have been transferred, or (2) all significant opportunities and risks connected with the asset have neither been transferred nor retained but paragon retains the power of disposition over the transferred asset. Financial liabilities are deleted from the accounts if the underlying obligation has been fulfilled, abolished or has expired. If an existing financial liability to the same creditor is replaced with significantly new contract terms or if the terms of an existing liability are fundamentally changed, such a replacement or change is treated as a write-off 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 liabilities that are not denominated in euros are initially recognized using the middle rate as of the transaction date and subsequently translated as of each reporting date. Any translation differences that arise are recognized in income.

Financial assets and liabilities are shown as being current if they are either classified as being for trading purposes or if they are expected to be liquidated within one year from the balance sheet date.

When recognizing financial assets and liabilities, all knowledge gained concerning adjusting events up to the approval of the consolidated financial statements is specifically reviewed and above all taken into account when measuring fair values in accordance with IAS 10 in connection with IAS 39.

Income taxes

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

Income taxes to be paid immediately for the 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 fiscal law situation 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 for differences arising from the different treatment of specific balance sheet items in the IFRS consolidated financial statements and the tax accounts (‚temporary concept'). In addition, deferred taxes are recognized for future tax reduction claims.

Deferred taxes on loss carryforwards are carried as assets if 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 actual and deferred taxes is based on judgments and estimates made by paragon. If actual events deviate from these estimates, this could have positive and negative impacts on the net assets, financial position and results of operations. A deciding factor for the impairment of deferred tax assets is the estimate of the likelihood of valuation differences being reversed and the usability of the tax loss carryforwards and tax benefits that led to the recognition of the deferred tax assets. This is in turn dependent on the accrual of future taxable profits during the period in which tax loss carryforwards can be claimed. Deferred taxes are measured using the tax rates applicable at the time of realization based on the current legal situation in the individual countries as of the balance sheet date.

A net balance of deferred tax assets and liabilities is only obtained if the tax debtees are identical and if offsetting is legally possible. Deferred taxes are shown as being non-current in accordance with IAS 1.70.

When recognizing income taxes, all knowledge gained concerning adjusting events up to the approval of the consolidated financial statements is specifically reviewed and above all taken into account when measuring fair values in accordance with IAS 10 in connection with IAS 12.

Inventories

Inventories are measured at the lower of cost or net realizable value. In accordance with IAS 2 ‚Inventories', inventories include all expenses that are directly attributable to finished goods and work in progress, as well as systemically attributable fixed and variable production overhead costs. In addition to production material and direct labor, they therefore also contain proportional production material and overhead costs. Management and social security expenses are taken into account provided they can be attributed to production. Financing costs are not recognized as part of production costs. Inventory risks resulting from the storage period and reduced usability are taken into account during the calculation of the net realizable value using value discounts. Lower values at year-end stemming from reduced market prices are also taken into account. Raw materials and trading goods are primarily measured using the moving average method.

When recognizing inventories, all knowledge gained concerning adjusting events up to the approval of the consolidated financial statements is specifically reviewed and above all taken into account when measuring fair values in accordance with IAS 10 in connection with IAS 2.

Trade receivables and other current assets

Trade receivables are allocated as financial assets to ‚loans and receivables' and carried at amortized cost less necessary allowances. Allowances in the form of specific allowances sufficiently take into account the expected default risks. Actual defaults lead to derecognition of the receivables concerned. The calculation of allowances for doubtful accounts is primarily based on estimates and evaluations of the creditworthiness and solvency of the client.

As part of a factoring program, previously selected trade receivables have been sold on a revolving basis. Such trade receivables are deleted from the accounts at the time of the sale if all significant opportunities and risks are transferred to the purchaser and the cash flows associated with the sale are assured. The factoring of selected trade receivables was arranged by contract as of February 28, 2009.

Other current assets are measured at amortized cost, taking into account necessary allowances adequate to the expected default risks. If recourse to the courts is taken for the collection of claims carried as other current assets, the Company firmly expects that its recognized claims will be fully enforceable. If other current assets are financial assets (financial instruments), they are allocated to the ‚loans and receivables' category.

When recognizing trade receivables and other assets, all knowledge gained concerning adjusting events up to the approval of the consolidated financial statements is specifically reviewed and above all taken into account when measuring fair values in accordance with IAS 10 in connection with IAS 39.

Cash and cash equivalents

Cash and cash equivalents include cash and bank balances with primary remaining terms of up to three months. Measurement is at nominal value; foreign currency positions are measured at fair value. Total cash and cash equivalents corresponds to cash and cash equivalents (cash and bank balances) less time deposits pledged for hedging purposes.

Provisions for pensions

Provisions for pensions are calculated using the projected unit credit method in accordance with IAS 19 ‚Employee Benefits'. This method not only takes into account the pension benefits and benefit entitlements know as of the balance sheet date, but also the increases in salaries and pension benefits to be expected in the future by estimating the relevant impacting factors. The calculation is based on actuarial opinions, taking into account biometric principles. Amounts not yet recorded in the consolidated balance sheet (through actuarial gains and losses) result from changes in inventory and differences between the assumptions made and actual developments. Actuarial gains and losses that arise during the fiscal year are immediately recognized in income in accordance with IAS 19.95 The possibility of only recognizing actuarial gains and losses in income if they fall outside a fluctuation margin of 10% of total obligations was not elected. The option to offset actuarial gains and losses in full against retained earnings as provided for in IAS 19.93a was not elected either. The service cost is shown under personnel expenses, and the interest accretion to provisions is allocated to the financial result.

Other provisions

In accordance with IAS 37 (‚Provisions, Contingent Liabilities and Contingent Assets'), other provisions are recognized if legal or factual liabilities to third parties exist which are based on past transactions or events and will likely lead to outflows of resources. The amount of the provisions is determined based on the best possible estimation of the expenditures needed to discharge the liability, in accordance with IAS 37, without offsetting them against recourse claims. The evaluation of the probability that pending proceedings will be successful and the qualification of the possible amount of the payment obligations are based on an estimate of the situation in question. In each case, the most probable settlement amount has been taken into account. Long-term 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 losses may deviate from the original estimates and accordingly from the amounts of the provisions. In addition, estimates may change based on new information and may have a substantial impact on the future earnings position.

When recognizing other provisions, all knowledge gained concerning adjusting events up to the approval of the consolidated financial statements is specifically reviewed and above all taken into account when measuring fair values in accordance with IAS 10 in connection with IAS 37.

Government subsidies

Accounting for government grants and subsidies is undertaken in accordance with IAS 20 ‚Accounting for government grants and disclosure of government assistance', that is, only if there is reasonable assurance that the associated conditions will be fulfilled and the grants will be received. Government grants and subsidies are accounted for as deferred liabilities and liquidated over the average useful life of the asset being subsidized. Liquidation occurs in accordance with the assumed useful life of the asset concerned in favor of other operating income.

Financial liabilities and equity instruments (in particular profit-sharing rights)

Financial liabilities and equity instruments, and in particular profit-sharing rights, are classified according to the economic substance of the underlying agreements. Profit-sharing rights have been classified as equity instruments if the agreement concerned is based on a residual claim to the assets of the paragon Group after deducting all liabilities. Equity instruments are recognized at the value of the funds or other assets received less directly attributable external transaction costs.

Trade liabilities and other current liabilities

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

Recognition of income and expenses

Income is recognized when it is probable that there will be economic benefit for paragon and the amount of the income can be reliably determined. Income is measured at the fair value of the consideration received. Discounts, rebates and value added tax or other duties are not taken into consideration. If transactions provide for a declaration of acceptance on the part of the purchaser, the value added tax concerned is only taken into account if such a declaration takes place. If the sale of products and services involves several delivery and service components, such as varying compensation agreements like prepayments, milestone payments and similar payments, it is examined whether several separate realization times for partial sales should be taken into account. Contractually agreed prepayments and other one-off payments are differentiated and released to income over the period that the contractually agreed consideration is performed.

Income from the sale of products is recognized if the relevant opportunities and risks connected with the ownership of the products being sold is transferred to the purchaser. This normally occurs upon shipment of the products, as value creation is considered to have ceased at that point. Sales are shown after deduction of discounts, rebates and returns.

Interest income and expenses are recognized using the effective interest method. Operating expenses are charged to income on the date of performance or expensed as incurred.

Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred.

Share-based payments

paragon AG has been applying IFRS 2 ‚Share-based payments' since fiscal 2004. Accordingly, the rules of IFRS 2 with respect to share-based payments must already have been applied to relevant transactions after November 7, 2002, provided the options had not yet been exercised on January 1, 2005.

Non-current assets and discontinued operations held for sale

Principles

Non-current assets and discontinued operations are classified as held for sale if their carrying amount can only be realized with sufficiently high probability through their sale rather than from income generated by their continued use. Reclassification occurs if management has taken a decision to sell and initiated the sales process, and if the sale is likely to be concluded within 12 months from the date of the original reclassification.

In accordance with IFRS 5 , Non-current assets held for sale and discontinued operations', a differentiation is made between continuing and discontinued operations and the sale of certain assets. Discontinued operations are aggregated in the consolidated balance sheet, consolidated income statement and consolidated cash flow statement under individual items. Scheduled depreciation to non-current assets that is to be attributed to discontinued operations is suspended upon announcement of a sale.

Individual, former non-current assets, the sale of which is expected within the next 12 months, are capitalized at the lower of their continued carrying amount at the time of the reclassification or their net realizable value, and are shown as non-current assets held for sale.

Unless otherwise noted, the information contained in the Notes refers to continuing operations.

Effects of the insolvency / liquidation of subsidiaries

The insolvency / liquidation of subsidiaries does not fulfill the requirements of IFRS 5.

(9) Use of estimates and assumptions

Preparing the consolidated financial statements in accordance with IFRS requires assumptions and estimates to be made that influence the assets and liabilities entered in the balance sheet, the declaration of contingent liabilities as of the balance sheet date, and statements concerning expenses and income during the period under review. If actual events deviate from these estimates, this could have positive and negative impacts on the net assets, financial position and results of operations.

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

Determining the fair values of assets acquired through subsidiaries via corporate mergers and adopted in the consolidated financial statements up to deconsolidation in 2009

The fair values and the breakdown of acquisition costs of the assets, liabilities, contingent liabilities and goodwill acquired through subsidiaries up to deconsolidation in 2009 were determined based on past experience and by estimating future cash flows.

Primarily due to the insolvency applications and liquidation of subsidiaries, paragon estimates that no future benefit will be gained from the assets still acquired through subsidiaries in 2009 and adopted in the consolidated financial statements. Based on that estimation, these assets have been depreciated to the amount of their break-up or realizable values less costs to sell in accordance with IAS 10 in connection with IAS 36.

Determining the fair values of shares in affiliated companies

The fair values of shares in affiliated companies were determined based on past experience and by estimating future cash flows.

Primarily due to the insolvency applications and liquidation of subsidiaries, paragon estimates that no future benefit will be gained from shares in affiliated companies. Based on that estimation, these assets have been depreciated to the amount of their break-up or realizable values less costs to sell in accordance with IAS 10 in connection with IAS 39 in the course of illustrating the deconsolidation in the consolidated financial statements as of December 31, 2009.

Capitalized development costs
In order to measure capitalized development costs, assumptions were made concerning the amount of anticipated future cash flows from assets using applicable discount rates and over the period of anticipated future cash flows that these assets generate. Assumptions concerning the period and amount of future cash flows are based on expectations surrounding the future development of orders on hand from those clients with whom development projects are being conducted. Corporate planning and the sales and project plans on which it is based from 2010 onward are still characterized by a high degree of uncertainty due to the difficult global economic situation.

Inventories
Inventories are measured in terms of their scope or in terms of the expected sales less estimated costs through to completion and the estimated necessary operating costs. Actual sales and the associated costs may deviate from the anticipated amounts.

Other assets and liabilities
Assumptions and estimates are generally also necessary when making allowances for doubtful accounts, as well as for contingent liabilities and other provisions, and when determining the fair value of long-life property, plant and equipment and intangible assets.

The actual values may deviate from the assumptions and estimates made, requiring a significant 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 tax result situation in future periods may deviate from the estimate made at the time the deferred tax assets were capitalized.

Provisions for pensions
Expenses arising from defined benefit plans are arrived at using actuarial calculations. The actuarial measurement takes place 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.

As part of the measurement as of December 31, 2008, the discount rate was lowered from 6.30% to 4.50% to reflect the anticipated long-range change in the market interest rate.

(10) Change of estimates
As part of the measurement as of December 31, 2009, the discount rate was lowered from 6.30% to 4.50% to reflect the anticipated long-range change in the market interest rate. The resulting effect was recognized in current earnings in the year under review as actuarial gain in the defined benefit obligation.

C. Notes on individual items in the consolidated income statement

(1) Sales revenue
Sales revenues include sales of products and services less any sales reductions. Of the sales revenues for the fiscal year of EUR 67,349 thousand (prior year: EUR 112,003 thousand), domestic sales accounted for EUR 49,719 thousand (prior year: EUR 81,817 thousand) and foreign sales for EUR 17,630 (prior year: EUR 30,366 thousand).

The breakdown and classification of sales revenues according to strategic business fields and regions are shown in the chapter "Segment Report" of the Group management report.

(2) Other operating income
Other operating income includes income from the reversal of the special account for subsidies of EUR 1,530 thousand (prior year: EUR 2,036 thousand) and income from the release of other provisions of EUR 254 thousand (prior year: EUR 211 thousand). This item also contains other income from grants from the federal employment office, exchange rate differences, use of company cars by employees, rentals and the disposal of assets. Income from currency translation amounts to EUR 49 thousand (prior year: EUR 412 thousand).

(3) Other own work capitalized
Other own work capitalized covers project-related development and production costs for test equipment for automotive products of the fiscal year reported in the amount required according to IAS 38.45. The capitalized amounts are recognized under intangible assets.

in EUR thousands	2009	2008
Project-related development costs	35	4,787
Production costs of test rigs	293	431
Other own work capitalized	**328**	**5,218**

(4) Cost of materials

in EUR thousands	2009	2008
Raw materials and supplies	34,806	59,278
Cost of purchased services	1,898	4,235
Cost of materials	**36,704**	**63,513**

(5) Staff costs
Personnel expense amounted to EUR 20,421 thousand this past fiscal year (prior year: EUR 27,891 thousand) and can be broken down as follows:

in EUR thousands	2009	2008
Wages and salaries	15,846	21,026
Social security contributions	3,843	3,281
Pension expenses	39	206
Expenses for temporary staff	693	3,378
Staff costs	**20,421**	**27,891**

Average personnel levels developed as follows compared to the previous year:

	2009	2008
Salaried employees	237	333
Wage-earning employees	179	243
Average number of employees	**416**	**576**

(6) Other operating expenses

Other operating expenses are comprised primarily of the expense of deconsolidating all subsidiaries of EUR 22,858 thousand. Furthermore, this item comprises legal and consultancy fees, investor relations expenses, advertising and marketing, vehicle costs, costs related to EDP fees and EDP training, costs related to building rentals and energy, as well as leasing and corporate insurance expenses. Expenses from currency translation amount to EUR 182 thousand in fiscal 2009 (prior year: EUR 564 thousand). The expenses contained under other operating expenses during the fiscal year comprised other taxes of EUR 26 thousand (prior year: EUR 41 thousand).

(7) Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses on intangible assets, property, plant and equipment and financial assets can be found in the consolidated statement on fixed assets.

(8) Financial result

in EUR thousands	2009	2008
Financial income	123	211
Interest income	123	211
Finance costs	**-6,568**	**-8,423**
Payments on profit-participation certificates	-1,744	-2,643
Other financial and interest expenses	-4,824	-5,780
Net finance costs	**-6,445**	**-8,212**

(9) Income taxes

in EUR thousands	2009	2008
Current taxes	**-130**	**-364**
Current domestic taxes	-108	-361
Current foreign taxes	-22	-3
Deferred taxes	**404**	**2,872**
Deferred domestic taxes	404	1,850
Deferred foreign taxes	0	1,022
Income taxes	**274**	**2,508**

In the case of domestic companies, current taxes reflect corporate and trade tax and, in the case of foreign companies, similar income-related tax. They are calculated based on the tax regulations in force for the relevant companies.

Domestic deferred taxes were computed as at December 31, 2009, at a combined income tax rate of 28.4%. This includes a corporate tax rate of 15% and a solidarity surcharge of 5.5%. A combined income tax rate of 34% was used in calculating deferred taxes in the US and 41% in Japan. No significant changes arose for paragon as a result of changes in the Corporate Tax Reform Act of 2009.

Deferred tax assets and liabilities were created in connection with the following accounts and situations:

Deferred tax assets amounting to EUR 653 thousand (prior year: EUR 447 thousand) relate to EUR 653 thousand (EUR 447 thousand) in domestic taxes and EUR 0 thousand (prior year: EUR 0 thousand) in foreign taxes. Deferred tax liabilities amounting to EUR 141 thousand (prior year: EUR 359 thousand) relate to EUR 141 thousand (prior year: EUR 359 thousand) in domestic taxes and EUR 0 thousand (prior year: EUR 0 thousand) in foreign taxes. Domestic deferred tax assets of EUR 653 thousand (prior year: EUR 447 thousand) relate to deferred tax claims arising from timing differences in valuation.

	2009		2008	
in EUR thousands	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	11	79	26	169
Property, plant and equipment	237	0	211	0
Receivables and other assets	35	9	132	11
Provisions for pensions	370	0	78	0
Liabilities	0	17	0	107
Profit participation rights	0	36	0	72
Deferred tax assets and liabilities prior to offsetting	**653**	**141**	**447**	**359**
Offset	-20	-20	-37	-37
Deferred tax assets and liabilities, net	**633**	**121**	**410**	**322**

The increase in deferred tax assets results from the increase in temporary differences in comparison with the previous year, primarily due to the continued development of the tax base on provisions for pensions. The reduction in deferred tax liabilities to intangible assets primarily concerns amortization performed on internally-generated intangible assets and the reduction of carrying amount differences in connection with profit-sharing rights.

Domestic corporate and trade tax loss carryforwards arise from consolidated net earnings for 2009. In 2009 no deferred tax liabilities were recorded with respect to tax loss carryforwards from fiscal 2009 and previous years, since both paragon AG and its domestic subsidiaries were in insolvency starting from October of 2009. According to the Group's estimates, based on awareness of facts up to the time in which the consolidated financial statements are released, these tax loss carryforwards will not be usable in future for the reduction of income taxes. In Germany tax loss carryforwards can be utilized indefinitely taking into account minimum taxation, according to which a positive tax basis exists up to EUR 1,000 thousand without limitation and up to 60% for amounts in excess of this; usability in the US is limited to 20 years.

Deferred tax liabilities in the amount of EUR 141 thousand (prior year: EUR 359 thousand) reflect temporary differences in valuation and chiefly apply to intangible assets capitalized under IFRS but which may not be capitalized under German tax law.

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

Pursuant to IAS 12.81 the actual tax expense is to 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 the theoretical tax expense to the actual tax expense.

in EUR thousands	2009	2008
Consolidated net income before income taxes	**-46,961**	**-74,344**
Calculatory tax expense at a tax rate of 28.4% (prior year: 28.4%)	-13,337	-21,114
Tax effect from non-deductible expenses and tax-free income	-6	-8
Tax expense from previous years	129	364
Tax effects from goodwill impairment in accordance with IAS 36	0	7,790
Tax effects from impairment of intangible assets and property, plant and equipment in accordance with IAS 36	96	9,936
Tax effects from impairment differences in intangible assets and PPE	6,492	0
Other non-taxable net income for the current year	6,352	0
Other	0	523
Current tax expense	**-274**	**-2,508**

(10) Earnings per share

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

With Group net income of EUR -46,687 thousand (prior year: EUR -71,836 thousand), the basic earnings per share is EUR -11.35 (prior year: EUR -17.46).

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

paragon AG's stock option plans create the basis for a potential dilution of earnings per share. Under these plans, management receives option rights for the purchase of paragon AG shares. Exercising these subscription rights depends on the price movement of the paragon share. During 2009, based on an average share price of EUR 2.11 (prior year: EUR 6.40) and a strike price of EUR 3.88 (third tranche) and EUR 15.09 (fourth tranche), dilution by 0 shares occurred (prior year: 6,297 shares).

The diluting shares are calculated according to the following formula:

Potentially diluting common shares [each] = subscription rights issued and exercisable [each] x (1 - strike price / share price

Third tranche: 0 = 15,998 x (1-3.88EUR / 2.11 EUR)

Fourth tranche: 0 = 30,000 x (1-15.09EUR / 2.11 EUR)

Thus, the number of shares used for calculating the diluted earnings did not increase in fiscal 2009. The number of shares used for calculating the diluted earnings in the previous year rose by 6,297 to 4,121.085. The diluted earnings per share figure is rounded to EUR -11.35 (prior year: EUR -17.43). The diluted earnings per share figure was calculated according to IAS 33.24 et seq.

Additional information on the stock option plans can be found in the section on ' Share-based payments'.

D. Notes on individual items of the consolidated balance sheet

The development and breakdown of intangible assets, property, plant and equipment and financial assets are reflected in the consolidated statement of fixed assets. Comments on capital expenditure can be found in the Group management report.

(1) Intangible assets

Capitalized development costs

Development costs of EUR 277 thousand (prior year: EUR 496 thousand) have been capitalized under intangible assets. Total development costs for the period amounted to EUR 6,190 thousand (prior year: EUR 10,336 thousand). Of this amount internal development costs of EUR 35 thousand (prior year: EUR 4,787 thousand) were capitalized as intangible assets.

Development has been focused on the communications division with Car Media Systems, air quality sensors and air quality treatment for automobiles, as well as in the area of instrumentation and control.

Depreciation, amortization and impairment losses in the fiscal year amount to EUR 254 thousand (prior year: EUR 14,930 thousand). Taking into account all adjusting items and findings to the point in time at which the consolidated financial statements (IAS 10) were released, no impairment losses arose in accordance with IAS 36 (prior year: EUR 12,556 thousand).

Impairments in accordance with IAS 10 in connection with IAS 36

Amortization to intangible assets in the fiscal year amounts to EUR 1,589 thousand (prior year: EUR 30,569 thousand). This includes impairment losses of EUR 9 thousand (prior year: EUR 24,810 thousand) according to IAS 38.97 in connection with IAS 36, taking into account all adjusting items and findings to the point in time at which the consolidated financial statements (IAS 10) were released. This impairment relates to intangible assets with determinable useful lives acquired by subsidiaries up to their deconsolidation in 2009, which have been recognized during the fiscal year at their divesture or disposal values and fully impaired accordingly. Impairment losses are allocated as follows to the cash-generating units:

immaterielle Vermögenswerte	Impairment in accordance with IAS 36	Impairment in accordance with IAS 36
	2009	2008
in EUR thousands		
Cash Generating Unit (CGU)		
paragon AG	0	14,276
paragon Finesse GmbH	9	10,450
paragon Firstronic GmbH	0	8
paragon Fidelio GmbH	0	0
paragon USA	0	76
Total	**9**	**24,810**

Goodwill

Due to the insolvency and/or liquidation of subsidiaries, impairment tests at the level of these cash-generating units indicated that no future economic benefit can be generated from the goodwill recognized from corporate acquisitions. As a result, all goodwill was already fully impaired during fiscal 2008.

(2) Property, plant and equipment

Depreciation, amortization and impairment losses in the fiscal year amount to EUR 4,140 thousand (prior year: EUR 17,008 thousand).

This includes impairment losses of EUR 328 thousand (prior year: EUR 10,176 thousand) according to IAS 36, taking into account all adjusting items and findings to the point in time at which the consolidated financial statements (IAS 10) were released. This impairment relates to intangible assets with determinable useful lives acquired by subsidiaries up to their deconsolidation in 2009, which have been recognized during the fiscal year at their divesture or disposal values and fully impaired accordingly. Impairment losses are allocated as follows to the cash-generating units:

Property, plant and equipment	Impairment in accordance with IAS 36	Impairment in accordance with IAS 36
	2009	2008
in EUR thousands		
Cash Generating Unit (CGU)		
paragon AG	0	0
paragon Finesse GmbH	123	3,144
paragon Firstronic GmbH	15	4,692
paragon Fidelio GmbH	0	995
paragon USA	190	1,345
Total	**328**	**10,176**

Land and buildings are encumbered with property charges as collateral for long-term bank loans.

Portions of movable fixed assets are financed under lease contracts with terms from four to five years as a rule. Payments reflecting future lease installments are recorded as liabilities. The net carrying amount of capitalized assets under financial leases as at December 31, 2009, amounts to EUR 1,264 thousand (prior year: EUR 891 thousand). Corresponding payment obligations from future lease installments amount to EUR 988 thousand (prior year: EUR 1,417 thousand) and are recorded as liabilities. Capitalized lease objects are without exception technical plant and machinery.

(3) Financial assets

Shares in the amount of EUR 180 thousand (prior year: EUR 180 thousand) reflected under financial assets relate primarily to the unconsolidated investment in Paderborner Stadiongesellschaft mbH, Paderborn. Shares were written down by EUR 86 thousand in fiscal 2008. The write-down is based on the purchase agreement available at the time of the release of the consolidated financial statements.

Shares in Monawi GmbH (formerly: Cullmann GmbH), already written down in 2007 to a memo value of EUR 1.00, are also reported.

(4) Inventories

Inventories consist of the following:

in EUR thousands	2009	2008
Raw materials and supplies	2,246	8,783
Changes in work in progress and finished goods	1,758	9,943
Advance payments on inventories	423	498
Inventories	**4,427**	**19,224**

During the fiscal year write-downs of inventories were recorded in cost of materials in the amount of EUR 6,198 thousand (prior year: EUR 201 thousand); this reflects all findings concerning adjusting items that became known until the point in time of the release of the consolidated financial statements (IAS 10). As in the previous year, there were no grounds for reversals of impairment losses. The carrying amount of inventories recorded at net realizable value (fair value minus selling costs) is EUR 1 thousand as of December 31, 2009 (prior year: EUR 102 thousand). As in the previous year, no inventories were used to secure liabilities as of the balance sheet date.

Orders that would need to be reported under IAS 11 (‚Construction Contracts') did not exist on the balance sheet date.

(5) Trade receivables

Under a factoring agreement paragon AG sold its trade receivables on a revolving basis. This agreement was terminated with the purchasing financial institution effective February 19, 2009. The last receivables sales took place in February of 2009. As of the balance sheet date, no trade receivables had been sold (prior year: EUR 10,564 thousand).

The carrying amount of trade receivables is arrived at as follows:

in EUR thousands	2009	2008
Trade receivables, gross	4.720	5.327
less valuation allowances	-413	-952
Trade receivables	**4.307**	**4.375**

The aging structure of trade receivables as at the balance sheet date is shown below:

in EUR thousands	Carrying amount	of which neither impaired nor past due	of which past due but not impaired, as follows			
31.12.2009			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Trade receivables	**4,047**	2,118	1,105	45	195	584
31.12.2008			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Trade receivables	**4,061**	793	1,769	739	426	334

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

In measuring trade receivables all adjusting items were taken into account that became known up to the point in time of release of the consolidated financial statements (IAS 10). The impaired receivables developed as follows based on these findings:

in EUR thousands	2009	2008
Impaired trade receivables before allowances	673	1,266
Allowance for credit losses	-413	-952
Impaired trade receivables after allowances	**260**	**314**

Impairment losses and derecognition of trade receivables are reported under other operating expense. Income from receipts associated with derecognized receivables are reported under other operating income. No write-downs or derecognition of other financial assets occurred either in the fiscal year or the previous year.

(6) Other current assets

Other current assets include:

in EUR thousands	2009	2008
Other current assets		
Creditors with debit balances	159	143
Security deposit factoring	85	0
Receivables from claims for damages	10	39
Prepaid expenses	0	269
Miscellaneous other Assets	203	398
Other current assets	**457**	**849**

Overdue other current assets as at the balance sheet date are reflected below:

in EUR thousands	Carrying amount	of which neither impaired nor past due	of which past due but not impaired, as follows			
31.12.2009			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Other current assets	**457**	457	0	0	0	0
31.12.2008			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Other current assets	**849**	849	0	0	0	0

In recording other current financial assets all findings on adjusting items that became known up to the release of the consolidated financial statements were subject to special review and taken into account above all in measuring fair values in accordance with IAS 10 in conjunction with IAS 36. Based on these findings, recording an impairment loss was not necessary (prior year: EUR 4,934 thousand).

Otherwise there were no indications that notable payment defaults were likely to arise in the case of other current assets as at December 31, 2009.

(7) Cash and cash equivalents

Cash on hand and bank deposits are shown at nominal value. Cash and cash equivalents include EUR 11 thousand (prior year: EUR 21 thousand) in cash on hand and EUR 9,349 thousand (prior year: EUR 2,241 thousand) in bank deposits. Bank deposits include time deposits pledged as collateral in the amount of EUR 1,092 thousand (prior year: EUR 1,065 thousand). Consequently the financing funds in accordance with IAS 7 are comprised of cash and cash equivalents minus these bank deposits, which cannot be converted to cash at any moment. Changes in financing funds are shown in the consolidated cash flow statement.

(8) Equity

The development of the individual components of Group equity for fiscal 2009 and 2008 are shown in the statement of changes in equity.

Stock capital

paragon AG's share capital as of December 31, 2009 amounts to EUR 4,115 thousand (prior year: EUR 4,115 thousand) and is divided into 4,114,788 bearer shares with a notional share in capital of EUR 1.00 each. No increase in capital stock due to the exercise of options under the stock option plan took place in fiscal 2009.

Authorized capital

In accordance with the resolution of the Annual General Meeting dated May 24, 2005, on the suspension of authorized capital and the creation of new authorized capital, as well as on the corresponding modification of the statutes, the Managing Board was authorized in accordance with section 5, paragraph 6, of the statutes, with the consent of the Supervisory Board, to raise the Company's capital in the period to April 30, 2010, by the issue of new bearer shares against cash or non-cash contributions on one or more occasions, however, not exceeding EUR 2,000,000 in total. Shareholders are to be granted subscription rights.

The Managing Board is, however, authorized, with the consent of the Supervisory Board

- To exclude the subscription rights of shareholders up to 10% of capital stock so as to issue new shares against cash contributions in the course of capital increases at an issue price not significantly below the stock exchange price,
- To exclude the subscription rights of shareholders in the event that new shares are issued against contributions related to the acquisition of companies, parts of companies or interests in companies and
- To exclude fractional amounts from subscription rights of shareholders.

The Managing Board is entitled to establish conditions of the share issue with the consent of the Supervisory Board. The Supervisory Board is authorized to modify the version of the statutes with respect to the scope of capital increases from authorized capital.

As of the balance sheet date, no shares have yet been issued under authorized capital.

Conditional capital

(a) Conditional capital I

A conditional capital increase of up to EUR 290 thousand by issue of 289,800 common shares was resolved (stock option plan no. 1) by resolution of the Annual General Meeting of October 17, 2000, modified by the Annual General Meeting resolution of May 15, 2002, and supplemented by the resolution of the Annual General Meeting of May 12, 2004. The conditional capital increase is to be used only for assuring subscription rights under stock options to the Managing Board and employees of paragon AG and to directors and employees of its subsidiaries. As of the balance sheet date, conditional capital I relating to the exercise of options amounted to EUR 175 thousand.

(b) Conditional capital II

The resolution on additional issues of option rights to Managing Board members and certain senior executives of the Company (Stock option plan no. 2) was passed at the same time in the Annual General Meeting of May 12, 2004. Additional conditional capital II, entailing a conditional capital increase of up to EUR 115 thousand by the issue of 115,000 common shares, was created to secure these option rights. As at the balance sheet date, no option rights had yet been issued from this conditional capital.

(c) Conditional capital III

A conditional capital increase of EUR 1,750 thousand by issue of 1,750,000 no par-value shares was resolved (conditional capital III) by resolution of the Annual General Meeting of May 22, 2007.

The conditional capital increase exclusively serves the purpose of granting shares to the holders or creditors of conversion rights and/or options from bonds which were issued pursuant to the authorization of the Annual General Meeting of May 22, 2007 to issue convertible bonds and/or bonds with warrants against cash according to the terms of the bond. This authorization is in effect until April 30, 2012. As at the balance sheet date, no option rights had yet been issued from this conditional capital.

The Managing Board may, with the consent of the Supervisory Board, also issue convertible bonds for which the holders of convertible bonds may be required, under the terms of the bond or by the Managing Board with the consent of the Supervisory board, to exchange the bonds for shares of paragon AG during the conversion period or at its end.

The bond terms of bonds granting or specifying a conversion right, a conversion obligation and/or an option, may also determine that in the event of conversion or exercise of an option, own shares of the Company can be granted.

The shareholders of paragon AG are entitled to subscribe to the bonds. The bonds may also be offered to the shareholders of paragon AG by way of an indirect subscription right.

The Managing Board is also authorized, with the consent of the Supervisory Board, to exclude shareholders from subscription rights if the issue price of the bonds is not significantly lower than the fair value of the convertible bonds or bonds with warrants. This authorization applies, however, only if shares issued or to be issued to service the conversion rights or options or in the event of mandatory conversion do not exceed 10% of the capital stock. Shares issued from authorized capital with exclusion of subscription rights under section 203 (1) and (2) in conjunction with section 186 (3) sentence 4 German Stock Corporation Act (AktG) and treasury shares sold based on an authorization pursuant to section 71 (1) No. 8 sentence 5 in conjunction with section 186 (3) sentence 4 AktG, with exclusion of subscription rights are counted towards this limitation to 10% of the capital stock.

Each option right carries an entitlement to acquire one paragon AG bearer share with a notional share capital value of EUR 1.00.

Capital reserves
Capital reserves at EUR 7,753 thousand as at December 31, 2009, are unchanged from the previous year.

Reserve for currency translation differences
Exchange rate differences arising from the translation of financial statements prepared in foreign currencies or from consolidation are recognized directly in equity without impact on profit or loss in accordance with IAS 21.

The net balance of currency translation differences as at the balance sheet date is EUR 0 thousand (prior year: EUR -1,905 thousand. The cumulative exchange rate differences up to the time of deconsolidation resulted from the translation of the financial statements of U.S. subsidiaries prepared in U.S. dollars and the financial statements of Japanese subsidiaries prepared in Japanese yen. Following the liquidation of U.S. and Japanese subsidiaries in September 2009, the cumulative exchange rate differences were derecognized from income as part of the deconsolidation of these subsidiaries and the expense was shown under other operating expenses.

Dividends
As in fiscal 2008, the Annual General Meeting does not intend to propose a dividend per share for fiscal 2009.

(9) Finance lease obligations

Liabilities under finance leases are recorded at their present value or amortized cost in accordance with IAS 17. The redemption component can be derived as follows:

in EUR thousands	Remaining term to maturity < 1 Year	Remaining term to maturity between 1 and 5 years	Remaining term to maturity more than 5 years	**31.12.2009**	31.12.2008
Minimum lease payments	373	738	0	1,111	1,575
Future interest payments	-58	-65	0	-123	-158
Finance lease obligations (reduction of outstanding liability)	**315**	**673**	**0**	**988**	**1,417**
of which reported under non-current liabilities				673	947
of which reported under current liabilities				315	470

(10) Liabilities to banks

Current and non-current liabilities to banks total EUR 48,237 thousand (prior year: EUR 48,209 thousand); collateral for liabilities to banks exist in the amount of EUR 9,384 thousand (prior year: EUR 9,384 thousand).

So-called covenants regarding adherence to specific financial ratios were agreed with respect to credit financing of the paragon Group in the amount of EUR 19,160 thousand (prior year: EUR 22,498 thousand). Non-compliance with these financial covenants would give the financial institutions an extraordinary right of termination. The Company was not able to achieve the financial covenants agreed to in loan agreements in fiscal 2008 and fiscal 2009. No extraordinary termination rights were asserted regarding the loan liabilities recorded up to December 31, 2009, until the initiation of insolvency proceedings with respect to paragon AG on October 5, 2009, and subsequently also with respect to all German subsidiaries. Once insolvency proceedings were initiated the extraordinary termination rights could no longer be asserted.

Liabilities to banks are secured by property charges for loan liabilities in the amount of EUR 8,532 thousand (prior year: EUR 8,532 thousand) and by collateral assignment of property, plant and equipment of EUR 852 thousand (prior year: EUR 852 thousand).

In addition to collateral provided by property charges and the assignment of property, plant and equipment, additional collateral exists from the cession of rights and claims under grant approval letters for public investment subsidies.

Liabilities to banks have terms of:

in EUR thousands	Remaining term to maturity < 1 Year	Remaining term to maturity between 1 and 5 years	Remaining term to maturity more than 5 years	**31.12.2009**	31.12.2008
Liabilities to banks	**40.396**	**7.840**	**0**	**48,236**	**48,209**
of which reported under non-current liabilities				7,840	21,659
of which reported under current liabilities				40,396	26,550

Interest rates for liabilities to banks are between 4% and 9% and are fixed for the contract term for the major portion of the loans and thereby not subject to any significant risk of change. Individual risks relating to variable-interest loans are hedged by derivative financial instruments in the form of interest rate swaps.

(11) Provisions for pensions

A provision for a defined benefit pension plan was created in accordance with IAS 19. This relates in part 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 concerns a commitment at age 65 established under an individual contract, which is based on length of employment and salary level. Pension provisions exist for pension commitments to members of the Managing Board and former employees of companies of the paragon Group and their survivors.

Another portion of the pension provisions related to obligations of paragon finesse GmbH, Delbrück, under a group relief fund of the former Andreas Haller Fabrik für Feinmechanik GmbH & Co. KG for 12 active employees, 25 inactive employees and 18 vested employees who had left employment at an earlier stage. Inclusion of paragon finesse GmbH in the 2009 consolidated financial statements ended through the application to open insolvency proceedings in October 2009 without loss to the absolute or relative legal relationships in accordance with IAS 27.32, as control on the part of the parent company paragon AG no longer exists from that point. By opening insolvency proceedings concerning paragon finesse GmbH on October 7, 2009, pension obligations were transferred to the insolvency insurance company.

The following assumptions underpin the actuarial computations:

in %	2009	2008
Discount rate	4.50	6.30
Expected return on plan assets	4.50	4.50
Wage increase (new commitment until 2009 service period; 0% for subsequent periods)	10.00	10.00
Pension increase	2.00	2.00
Fluctuation	0.00	0.00

Actuarial gains and losses may arise from increases or decreases of the net present value of the defined benefit obligations, which may in turn be brought about by changes in calculation parameters and estimates regarding the risks related to the pension obligations. The net value of pension provisions can be derived as follows:

Net present value of defined benefit obligation:

in EUR thousands	2009	2008
Present value of defined benefit obligation at beginning of year	1,931	2,031
Deconsolidation	-227	0
Service cost	228	279
Interest cost	107	106
Benefits paid	0	-11
Actuarial gains (-)/losses (+)	770	-474
Present value of defined benefit obligation at the balance sheet date	**2,809**	**1,931**

Fair value of plan assets:

in EUR thousands	2009	2008
Fair value of plan assets at beginning of year	1,308	1,072
Expected return on plan assets	66	55
Actuarial gains (-)/losses (+)	-132	-127
Employer contributions	308	308
Fair value of plan assets as of the balance sheet date	**1,550**	**1,308**

Net value of defined benefit obligation reported:

in EUR thousands	2009	2008
Present value of defined benefit obligation	2,809	1,932
less fair value of plan assets	-1,550	-1,308
Unfunded defined benefit obligation	**1,259**	**624**

The net value has developed as follows:

in EUR thousands	2009	2008
Unfunded defined benefit obligation at beginning of year	623	959
Deconsolidation	-227	0
Pension expense	1,171	-17
Contributions paid	-308	-319
Unfunded defined benefit obligation as of the balance sheet date	**1,259**	**623**

The following amounts were taken into account in the comprehensive statement of consolidated income:

in EUR thousands	2009	2008
Service cost	228	279
Interest cost	107	106
Expected return (-) on plan assets	-66	-55
Actuarial gains (-)	902	-347
Pension expense	**1,171**	**-17**

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

in EUR thousands	2009	2008
Present value of defined benefit obligation	2,809	1,932
less fair value of plan assets	-1,550	-1,308
Unfunded defined benefit obligation	**1,259**	**624**

The corridor provision was not applied. The option to offset actuarial gains and losses in full against retained earnings as provided for in IAS 19.93A was not elected.

(12) Other liabilities

Other current liabilities primarily comprise liabilities to affiliated companies (EUR 27,203 thousand) that arose up to the cancellation of the profit and loss transfer agreements, due to opening insolvency proceedings concerning German subsidiaries in October 2009. Furthermore, they also contain liabilities arising from pass-through obligations in connection with the factoring to SFS in the amount of EUR 5,377 thousand (prior year: EUR 3,809 thousand), a payment for profit-sharing rights in the amount of EUR 1,851 thousand (prior year: EUR 396 thousand), as well as the remaining liability of EUR 2,023 thousand (prior year: EUR 1,895 thousand) relating to IKB Private Equity GmbH, Düsseldorf, in connection with the silent equity holding reported until 2005.

Other current liabilities comprise the following items:

in EUR thousands	2009	2008
Other current liabilities		
Liabilities to subsidiaries	27,203	0
Accrual for ABS	5,377	3,809
Repayment obligation of silent contribution (first tranche)	2,023	1,895
Accruals	3,993	1,849
Payments on profit-participation certificates	1,851	396
Liabilities from other taxes	1,407	1,025
Liabilities due to employees	1,210	1
Other current liabilities	1,258	118
Other current liabilities	**44,322**	**9,093**

Other current liabilities are not included as of the end of fiscal 2009 and in the previous year.

Other liabilities have a term of:

in EUR thousands	Remaining term to maturity < 1 Year	Remaining term to maturity between 1 and 5 years	Remaining term to maturity more than 5 years	31.12.2009	31.12.2008
Other liabilities	**44,322**	**0**	**0**	**44,322**	**9,093**
of which reported under non-current liabilities				0	0
of which reported under current liabilities				44,322	9,093

(13) Profit-sharing rights

Profit-sharing rights exist in the amount of EUR 22,807 thousand (prior year: EUR 22,610 thousand) in the form of subordinate loans bearing both fixed and variable interest rates. During fiscal 2009, no repayments of profit-sharing rights took place (prior year: EUR 3,000 thousand).

Due to its contractual form, these profit-sharing rights must be recognized as a financial liability in accordance with the provisions of IAS 32, since the conditions to classify them as equity have not been met. Repayment obligations are ranked behind all other liabilities. Directly attributable transaction costs have reduced the value of the addition of the profit-sharing rights as defined by IAS 39.43 and will be recorded as expenses over the term of the profit-sharing rights.

Profit-sharing rights 2004

By resolution of the Annual General Meeting of May 12, 2004, paragon AG was authorized, with the consent of the Supervisory Board, to issue profit-sharing rights in the period up to 31 December, 2008, on one or more occasions, of up to a maximum of EUR 15,000 thousand under exclusion of shareholders' subscription rights.

- The profit-sharing rights granted based on this resolution were repaid early in the amount of EUR 3,000 thousand as at December 31, 2008, and EUR 5,000 thousand as at December 31, 2007. Transaction costs not amortized by the time of the repayment were recorded against income. During fiscal 2009, no additional cancellation fees and compensation payments were claimed.
- In a profit-sharing rights agreement dated October 27, 2005, paragon AG issued additional profit-sharing rights totaling EUR 6,000 thousand with fixed interest payments of 8.1% p.a. to Force 2005-1 Ltd. Partnership, St. Helier, Jersey, Channel Islands as part of the private placement. The term of these profit-sharing rights will end no later than January 15, 2013. Share-based payments amounted to EUR 486 thousand during the past fiscal year (prior year: EUR 486 thousand). Transaction costs of EUR 210 thousand, which are amortized over the term, arose in connection with the issue. The carrying amount as at December 31, 2009, is EUR 5,965 thousand (prior year: EUR 5,882 thousand).

By resolution of the Annual General Meeting held on May 12, 2004, the Managing Board was further authorized to offer profit- sharing rights in the aggregate par value of up to a maximum of EUR 15,000 thousand on one or several occasions until December 31, 2008 to the shareholders for subscription.

- Based on this resolution paragon AG's Managing Board decided to issue profit-sharing rights with a total par value of EUR 14,511 thousand to paragon AG shareholders (public tranche), divided into 12,092,514 equivalent profit-sharing rights with a par value of EUR 1.20 each. The shareholders of paragon AG were given preference in acquiring profit-sharing rights through exercise of the subscription right in the period from November 4, 2004, to December 3, 2004. The subscription right ratio was 1:3; i.e. one paragon share entitled the shareholder to purchase three profit-sharing rights. The minimum subscription sum is EUR 120. The profit-sharing rights are traded neither on the floor of the stock exchange nor over the counter; they can only be transferred by assignment with the consent of the Company. For the minimum term until December 31, 2010, annual fixed compensation of six percent plus profit-related compensation of from one to three percent, depending on the EBITDA margin, will be paid. As of the balance sheet date, a total of 3,363,584 profit sharing rights at a par value of EUR 1.20 per profit-share were subscribed. For fiscal 2008, compensation amounts to EUR 242 thousand (prior year: EUR 283 thousand). The carrying amount as of December 31, 2009, is EUR 4,012 thousand (prior year: EUR 3,954 thousand).

Profit-sharing rights 2006

By resolution of the Annual General Meeting of May 17, 2006, paragon AG was authorized, with the consent of the Supervisory Board, to issue profit-sharing rights in the period up to April 30, 2011, on one or more occasions, of up to a maximum of EUR 50,000 thousand subject to the following conditions:

- profit-sharing rights issued under this authorization confer no entitlements to memberships nor conversion or option rights relating to the Company's shares and
- profit-sharing rights issued under this authorization confer no share in the Company's liquidation proceeds.
- The Managing Board is authorized to exclude shareholders' subscription rights with the consent of the Supervisory Board.

As a result of this resolution, the authorizations to issue profit-sharing rights of May 12, 2004, became invalid to the extent not already utilized.

- paragon AG then granted new profit-sharing rights in the amount of EUR 6,000 thousand at a par value of one euro each to StaGe Mezzanine Capital S.A., Luxembourg, as part of a private placement as provided for in the profit-sharing rights agreement dated December 14, 2006. The term of these acquired profit-sharing rights will end no later than December 20, 2013. No ordinary termination of these profit-sharing rights is anticipated. The Managing Board made use of its authorization to exclude shareholders' subscription rights in relation to these profit-sharing rights.
- Holders of profit-sharing rights receive compensation in the form of a coupon of 7.84% p/a consisting of a fixed amount unrelated to profit and a profit-related component for the profit-sharing rights they have been granted. For fiscal 2009, compensation amounts to EUR 470 thousand (prior year: EUR 479 thousand). Transaction costs of EUR 317 thousand, which are amortized over the term, arose in connection with the issue. The carrying amount

as at December 31, 2009, is EUR 5,830 thousand (prior year: EUR 5,774 thousand).

- Furthermore, paragon granted new profit-sharing rights in the amount of EUR 7,000 thousand at a par value of one euro each to PREPS 2008-1 plc, Ireland, as part of a private placement as provided for in the profit-sharing rights agreement dated January 10, 2007. The term of these acquired profit-sharing rights will end no later than January 10, 2014. No ordinary termination of these profit-sharing rights is anticipated. The Managing Board made use of its authorization to exclude shareholders' subscription rights in relation to these profit-sharing rights. Holders of profit-sharing rights receive compensation of 7.8% p.a., consisting of a fixed amount unrelated to profit and a profit-related component for the profit-sharing rights they have been granted. For fiscal 2009, compensation amounts to a total of EUR 546 thousand (prior year: EUR 546 thousand). Transaction costs of EUR 250 thousand, which are amortized over the term, arose in connection with the issue. The carrying amount as at December 31, 2009, is EUR 7,000 thousand (prior year: EUR 7,000 thousand).

Profit-sharing rights have the following remaining terms:

in EUR thousands	Remaining term to maturity < 1 Year	Remaining term to maturity between 1 and 5 years	Remaining term to maturity more than 5 years	**31.12.2009**	31.12.2008
Profit participation rights	**22,807**	**0**	**0**	**22,807**	**22,610**
of which reported under non-current liabilities				0	22,610
of which reported under current liabilities				22,807	0

(14) Investment grants

These are government investment allowances, reported as liabilities in accordance with IAS 20. During the year under review, the paragon Group received no government aid (prior year: EUR 207 thousand).

(15) Other provisions

Movements in other provisions are shown below:

in EUR thousands	01.01.2009	Utilization	Reversal	Deconsolidation	Additions	**31.12.2009**
Guarantees and ex gratia payments	378	248	0	130	532	**532**
Credits	430	232	0	198	1,170	**1,170**
Impending losses	761	0	213	0	0	**548**
Miscellaneous provisions	1,708	426	126	67	853	**1,942**
Other provisions	**3,277**	**906**	**339**	**395**	**2,555**	**4,192**

(16) Additional information on financial instruments

This section provides a summary of financial instruments employed by the paragon Group. The table below shows the carrying amounts (BW) and fair values (FV) of financial assets and financial liabilities as at December 31, 2009 and 2008:

	December 31, 2009							
	Nominal amount		Amortized cost		Fair value			
	Cash reserve		Loans and receivables		Held for trading		Available for sale	
in EUR thousands	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value
ASSETS								
Cash and cash equivalents	9,360	9,360						
Trade receivables			4,307	4,307				
Other assets			457	457				
Positive fair values of financial instruments								
Financial assets							180	180
Total assets	**9,360**	**9,360**	**4,764**	**4,764**	**0**	**0**	**180**	**180**
EQUITY AND LIABILITIES								
Liabilities to banks			48,236	12,971				
Profit participation rights			22,807	0				
Finance leases			988	969				
Trade payables			8,958	8,958				
Negative fair values of derivative financial instruments					520	520		
Other liabilities			44,322	44,322				
Total equity and liabilities	**0**	**0**	**125,311**	**67,220**	**520**	**520**	**0**	**0**

	December 31, 2008							
	Nominal amount		Amortized cost		Fair value			
	Cash reserve		Loans and receivables		Held for trading		Available for sale	
in EUR thousands	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value
ASSETS								
Cash and cash equivalents	2,262	2,262						
Trade receivables			4,375	4,375				
Other assets			849	849				
Positive fair values of financial instruments								
Financial assets							180	180
Total assets	**2,262**	**2,262**	**5,224**	**5,224**	**0**	**0**	**180**	**180**
EQUITY AND LIABILITIES								
Liabilities to banks			48,209	12,251				
Profit participation rights			22,610	0				
Finance leases			1,417	1,424				
Trade payables			13,895	13,895				
Negative fair values of derivative financial instruments					761	761		
Other liabilities			9,093	9,093				
Total equity and liabilities	**0**	**0**	**95,224**	**36,663**	**761**	**761**	**0**	**0**

Determination of fair value

The fair value of cash and cash equivalents, short-term receivables, trade payables and other liabilities roughly reflects the carrying amount.The Company measures long-term receivables based on specific parameters such as interest rates and the customer's credit standing and risk structure. Accordingly, paragon sets up allowances for anticipated defaults on receivables.

paragon determines the fair value of liabilities under finance leases by discounting the anticipated cash flows using the interest rates applicable for similar financial liabilities with a comparable remaining term.

The fair value of liabilities under profit-sharing rights amounts to EUR 0 thousand as at the balance sheet date of December 31, 2009. Due to the subordinate nature of profit-sharing rights, they were satisfied only after the higher-ranking insolvency creditors during the period of paragon AG's insolvency. No further interest or principal payments were made related to profit-sharing rights from the balance sheet date of December 31, 2009, until the acceptance of the insolvency plan in the creditor meeting of April 16, 2010.

paragon determines the fair value of liabilities to banks by discounting the anticipated cash flows using the interest rates applicable for similar financial liabilities with a comparable remaining term. The fair value of this portion of liabilities to banks is EUR 7,841 thousand. In the case of the portion of liabilities to banks that was satisfied in the course of the insolvency proceedings as insolvency dividends (EUR 40,396 thousand), the insolvency dividends allocated of EUR 5,130 thousand were recorded as fair value.

Financial assets available for sale represent for paragon a residual measure of the financial assets that cannot be recognized in any of the other possible measurement categories. The price in an active market is recognized as the fair value, if such a price is available. Financial assets available for sale concern shares in the affiliated companies paragon fidelio GmbH, paragon firstronic GmbH, paragon facilio GmbH and paragon finesse GmbH (fair value: EUR 0 thousand) and the shares in Paderborner Stadiongesellschaft mbH, Paderborn, Germany. A different fair value of EUR 180 thousand was calculated as part of a purchase offer. As a result the shareholdings were written down to the different fair value in the previous year. For more details, please refer to the section entitled ‚Financial Assets'.

The Company generally engages in the use of derivative financial instruments with financial institutions of high credit standing as contracting partners. The determination of their fair value depends on the type of the financial instrument.

To measure the fair value a corresponding hierarchical classification has taken place, which makes allowance for the materiality of the factors influencing the valuation (Level 1 – Level 3). These comprise the prices listed on the markets for identical assets or liabilities (Level 1) or, if Level 1 prices are not available, input factors that can be observed for the asset or liability either directly (e.g. as a price) or indirectly (e.g. through price derivation). If no factors are found for the measurement of the asset or liability, which are based on observable market data, they are calculated separately (Level 3).

As of the balance sheet date and as in the previous year, only Level 2 financial instruments measured at fair value have been recognized.

Interest rate derivatives

The fair value of interest rate derivatives (interest rate swaps) is determined by discounting anticipated future cash flows over the remaining term of the contract based on current market interest rates and the interest rate structure curve. paragon recognizes interest rate swaps based on an estimated value calculated using an option pricing model.

Currency derivatives

The fair value of forward exchange contracts is determined as a function of the forward exchange rates. paragon recognizes currency derivatives based on an estimated value calculated using an option pricing model.

Net gains and losses

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

in EUR thousands	2009	2008
Trade receivables and other receivables	-4,193	-5,735
Financial assets and financial liabilities held for trading	241	-915
Financial assets available for sale	0	-86
Net gains/losses	**-3,952**	**-6,736**

Net gains and losses from receivables include changes in bad debt allowances, 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 comprehensive statement of consolidated income.

Net gains and losses from financial assets and financial liabilities held for trading include all fair value changes of the derivative financial instruments (interest rate swaps). After opening insolvency proceedings, all countervalues related to interest rate swaps were filed for claims on the insolvency schedule.

(17) Derivative financial instruments

In addition to the primary financial instruments, paragon employs various derivative financial instruments. As part of risk management, the Company primarily limits the risk from interest rate and exchange rate fluctuations by employing derivative financial instruments. 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. Nominal values are equivalent to the purchase and/or sale prices of the derivative financial instruments. The fair values recorded correspond to the current values of the derivative financial instruments, reflecting the price at which third parties would assume the associated rights and duties under contracts as at the balance sheet date.

Derivative financial instruments for currency hedging

The paragon Group is exposed to a number of financial risks due to its international activities. This includes, in particular, the effects of changes in exchange rates. paragon takes an integrated approach in hedging the risks inherent in fluctuating exchange rates. Group-wide risks are consolidated and centralized and hedged using derivative financial instruments. If necessary, paragon AG enters into forward exchange contracts as part of the hedging process. There were no forward exchange contracts recorded as at December 31, 2009.

Derivative financial instruments for interest rate hedging

Interest rate risk results from the sensitivity of financial liabilities to changes in the market interest rate. The Company hedges these risks by employing interest rate derivatives. paragon uses non-exchange-traded interest rate swaps to hedge interest rates. The transactions are primarily entered into with banks of impeccable financial standing. If the trade date and settlement date do not coincide, then the settlement date is used for the initial recording.

To hedge interest rate risk, the company follows an approach geared to the variable interest rate of individual financial liabilities. Swap contracts are tailored to the hedged variable-rate borrowings in terms of both amount and maturity. The Company does not use hedge accounting as defined in IAS 39.85.

in EUR thousands	2009	2008
Fair values		
- Interest rate derivatives not part of a hedging relationship (swaps)	-520	-761
Negative fair values	**-520**	**-761**

As in the previous year, derivative financial instruments used for interest rate hedging did not exist at the end of fiscal 2009.

(18) Management of risks from financial instruments

Market price fluctuations can lead to considerable cash flow and profit risks for paragon. Changes in exchange rates and interest rates influence operations, as well as investing and financing activities. To optimize financial resources within the Group, the risks from changes in interest rates and exchange rates are continuously analyzed and ongoing business and financial market activities are thus controlled and monitored. The use of derivative financial instruments contributes significantly to this control.

Price fluctuations in currencies and interest rates can entail significant profit and cash flow risks. Consequently paragon centralizes these risks to the extent possible and manages them with foresight by the use of derivative financial instruments. As a part of the overall risk management system, the management of this risk is a central responsibility of the Managing Board of paragon AG. Part of the financial market risks fall under the area of responsibility of the Managing Board. The Managing Board bears total responsibility for the overall risk management process at the highest level.

paragon has implemented an internal sensitivity analysis system based on a variety of methods of risk analysis and risk management. Sensitivity analysis 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. The following assumptions are made:

- appreciation of the euro against all foreign currencies by 10 percentage points
- a parallel shift of interest rate curves by 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 deviate significantly, if market developments are different than assumed.

Market-sensitive assets in connection with pension plans (plan assets) are not the subject of quantitative and qualitative statements. For further details, please refer to the section entitled ‚Provisions for pensions'.

Foreign currency risks

Because of its international orientation, paragon is exposed to foreign currency risks in connection with its ongoing business activities. The Company employs derivative financial instruments to limit these risks. Exchange rate fluctuations can lead to undesirable earnings and liquidity fluctuations. Each paragon business unit is exposed to exchange rate risks when transacting business with foreign contracting parties resulting in future cash flows that are not in the local currency (transaction risk). The paragon Group limits the risk primarily by settling purchases and sales of merchandise and services in the particular local currency.

paragon determines the sensitivity of foreign currency fluctuations by aggregating the net currency position of the operating business not reflected in the Company'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 reduction of future payment inflows in the amount of EUR 209 thousand as of December 31, 2009 (prior year: EUR 268 thousand). To the extent future purchases are not hedged against currency risks, a depreciation of the euro against other currencies would have adverse impacts on the financial position and results of operations because of foreign currency outflows that exceed foreign currency inflows in the Company.

The following table shows the net foreign currency risk of the individual primary currencies as of December 31, 2009:

	31.12.2009		31.12.2008	
in EUR thousands	USD	CHF	USD	CHF
Transaction-related currency risk				
Currency risk from balance sheet items	2,086	0	2,640	38
Currency risk from pending transactions	0	0	0	0
	2,086	**0**	**2,640**	**38**
Items economically hedged through derivatives	0	0	0	0
Net exposure to currency risk	**2,086**	**0**	**2,640**	**38**
Change of currency exposure resulting from a 10% appreciation of the euro	209	0	264	4

The Companies paragon of North America Corp., USA, paragon firstronic of North America Corp, USA, and paragon Japan Inc. were located outside the euro zone up to their liquidation in September 2009. The individual local financial statements of these companies were translated into euro, the Group's currency.

paragon records translation-related effects that arise if the value of the net asset position, converted to euro, changes due to fluctuations in the foreign currencies under equity in the consolidated financial statements. Risks from translating foreign currency sales and earnings of subsidiaries are not hedged.

Interest rate risks

Interest rate risk applies to any change in interest rates as they affect earnings, equity or cash flow of current or future periods. Generally an interest rate risk exists in connection with financial liabilities. In order to limit risk, interest rate hedging instruments in the form of swaps are used, so as to restrict or rule out the effects of future interest rate fluctuations on the financing cost of loans. The Company engages in interest rate swaps traded OTC in order to hedge interest rate risk. The paragon Group adopts an approach geared to individual financial liabilities with variable interest rates. Swap contracts are tailored to the hedged variable-rate borrowings in terms of both amount and maturity.

Most of the interest-bearing financial liabilities have a fixed interest rate. Changes in the interest rate would have an effect in this case only if these financial instruments were recorded at fair value. Since this is not the case, the financial instruments with a fixed interest rate are not subject to the risk of interest rate changes as spelled out in IFRS 7.

In the case of financial liabilities with variable interest rates the interest rate risk is essentially measured by cash-flow sensitivity. Due to the insolvency proceedings, which have been ongoing since October 2009, no further interest payments accrued for the variable interest rate financial liabilities accounted for at the end of fiscal 2009. The total amount was filed for claims in the insolvency schedule. A movement in the interest level will therefore lead to no cash flow risk in subsequent fiscal years.

	31.12.2009		31.12.2008	
in EUR thousands	+ 1%	- 1%	+1%	- 1%
Cash flow risk				
from floating-rate financial instruments	0	0	-247	248
Balance sheet risk and income statement risk				
from derivative financial instruments not part of a hedging relationship				
Increase (+)/decrease (-) in earnings	0	0	448	-496
Increase (+)/decrease (-) in equity	0	0	448	-496

Liquidity risks

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 at December 31, 2009, cash and cash equivalents of EUR 9,360 thousand (prior year: EUR 2,262 thousand) were available to paragon, but no free credit lines (prior year: EUR 3.7 million). In addition to the aforementioned instruments to assure liquidity, paragon continuously follows the developments in the financial markets in order to be able to take advantage of emerging financing options that might prove beneficial.

The following table shows the payments made for principal payments, repayments and interest from capitalized financial liabilities:

in EUR thousands	2010	2011 - 2014	2015 and thereafter
Non-derivative financial liabilities			
Liabilities to banks	5,499	2,889	10,072
Liabilities from finance leases	372	738	0
Trade payables	8,958	0	0
Other financial liabilities	426	0	0
Total non-derivative financial liabilities	**15,255**	**3,627**	**10,072**
Derivative financial liabilities	**0**	**0**	**0**
Total:	**15,255**	**3,627**	**10,072**

Net liquidity and net borrowing is derived from the sum of cash equivalents minus liabilities to banks, profit-sharing rights and liabilities under finance leases, as shown in the balance sheet:

in EUR thousands	2009	2008
Cash and cash equivalents	9,360	2,262
Total liquidity	9,360	2,262
Current financial liabilities and current portion of non-current financial liabilities	63,518	27,347
Non-current financial liabilities	8,513	44,889
Total financial liabilities	**72,031**	**72,236**
Net debt	**62,671**	**69,973**

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. The paragon Group reviews the creditworthiness of all customers with borrowing requirements that exceed specifically defined limits. The Group monitors credit risk on an ongoing basis.

(19) Capital management

The paramount goal of capital management is to maintain a good equity-to-assets ratio and to meet the minimum capital requirements of the lending banks. The capital structure is managed and adapted to changing economic conditions. Dividend payments to shareholders are adjusted and, if necessary, new shares issued in order to maintain or adapt the capital structure. No dividends were paid in 2009. During fiscal 2009 and 2010, no fundamental changes in capital management goals, methods or processes were introduced.

Capital management relates only to the Group's reported equity. The consolidated statement of changes in equity can be viewed in this regard.

The paragon Group was required to adhere to financial indicators during fiscal 2009 in association with financing by lending banks. Due to the significant deterioration in the financial situation in the fourth quarter of 2008, the key indicators demanded by the banks were not maintained in fiscal 2009. The obligation to adhere to these financial indicators was suspended as part of the refinancing negotiations that began subsequently. Against the backdrop of the insolvency that has occurred in the interim for paragon AG and its subsidiaries, debt financing was radically restructured prior to the release of these consolidated financial statements; the banks did not impose any requirements with regard to financial indicators.

(20) Contingent liabilities and other financial liabilities

As of December 31, 2009, no guarantees or other commitments or off-balance sheet contingent assets or liabilities exist for the Group.

Other financial liabilities are reflected below:

in EUR thousands	Remaining term to maturity < 1 Year	Remaining term to maturity between 1 and 5 years	Remaining term to maturity more than 5 years	31.12.2009	31.12.2008
Capital commitments	12,719	287	0	**13,006**	13,067
Lease from rental contracts	305	89	54	**448**	3,180
Lease obligations	229	205	0	**434**	1,456
Other commitments	372	738	0	**1,110**	1,575
Other financial obligations	**13,625**	**1,319**	**54**	**14,998**	**19,278**

(21) Notes on the consolidated cash flow statement

In accordance with IAS 7 (‚Cash Flow Statements') the cash flows occurring during a fiscal year are recorded in the consolidated cash flow statement, in order to present information concerning movements in the Company's cash. The consolidated cash flow statement was prepared according to the indirect method as defined in IAS 7.18b. Cash flows are differentiated according to cash flows from operating activities and from investment and financing activities.

The cash and cash equivalents shown in the consolidated cash flow statement comprises all cash and cash equivalents that are available at short notice.

in EUR thousands	2009	2008
Bank balances	9,349	2,241
Cash on hand	11	21
Cash and cash equivalents	**9,360**	**2,262**
Term deposits pledged as collateral	-1,092	-1,064
Cash	**8,268**	**1,198**

In accordance with IAS 27.32, the inclusion of all subsidiaries in the consolidated financial statements as of December 31, 2009 did not end in loss of the absolute or relative ownership structures, as control on the part of the parent company paragon AG no longer exists from that point. The paragon Group also completed liquidation of foreign subsidiaries in the US and Japan during fiscal 2009. The Group received no considerations, either due to the insolvency or from the liquidation of subsidiaries.

The loss of controlling capacity and the deconsolidation of subsidiaries comprises a loss of cash flows in the amount of EUR 359 thousand.

Furthermore, in the course of deconsolidating the subsidiaries, the following main groups of assets and liabilities were disposed of:

in EUR thousands	2009
Assets	
Intangible assets and property, plant and equipment	3,050
Inventories	6,057
Receivables and other assets	33,600
Liabilities	
Provisions	1,360
Liabilities	43,919

(22) Notes on consolidated segment reporting

The business activities of the paragon Group are divided into two operative segments (Automotive and Electronic Solutions) for performance measurement and management purposes in accordance with IFRS 8 ‚Operating Segments'. Automotive is the dominant business segment. As a direct supplier, paragon supplies automobile manufacturers with electronics from the sensors / actuators and cockpit systems divisions. In the Electronic Solutions business segment, industrial electronics products are manufactured and distributed. Both short-term reporting and resource deployment management, and planning and budgeting take place in the Group for these segments. No operational segments are combined in order to form the aforementioned segments. The members of paragon AG's Managing Board are the leading decision-takers and monitor the activities of the operational segments based on key figures that are based on the same data used to prepare the IFRS consolidated financial statements.

The EBIT of the business segments is monitored separately by the Managing Board, in order to take decisions concerning the distribution of resources and to calculate the profitability of the sub-areas. The economic development of the segments is measured on the basis of the EBIT and in harmony with the EBIT at group level. Financing of the paragon Group and the profit tax burden is centrally managed for the entire group and not shown in the individual segments. In this respect, paragon AB functions as the central platform of the Group and assumes group-wide duties in the areas of finance, controlling, purchasing, corporate communication and personnel management.

Transfer pricing between the segments is determined based on standard market conditions as between third parties. For consolidation purposes, sales revenues and other revenue and expenses from transactions with other segments are eliminated.

The segment result is the difference between segment revenue and segment expenses that result from the operational activities of the paragon Group (EBIT). The segment level result is adjusted by the costs accrued centrally at paragon AG and transferred to the individual entities. Investments refer to additions to property, plant and equipment and intangible assets during the period under review. Information about geographical regions

Segment information by geographical regions

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

in EUR thousands	Germany 2009	Germany 2008	EU 2009	EU 2008	Other countries 2009	Other countries 2008	**Total 2009**	Total 2008
Sales	49,719	81,595	12,488	21,118	5,142	9,290	**67,349**	112,003
Non-current assets (PPE and intangible assets)	19,482	25,390	0	0	0	569	**19,482**	25,959

At EUR 17,068 thousand (prior year: EUR 24,316 thousand), 25% (prior year: 22%) of sales revenues relate to one client. An additional 17% (prior year: 16%) of sales revenues relate to another client, at EUR 11,331 thousand (prior year: EUR 18,227 thousand).

The product portfolio is divided into instrumentation and control elements, climate systems, car media systems and electronic solutions. The products mentioned differ in terms of their value creation component and with regard to their field of application.

in EUR thousands	2009	2008
Instrumentation and control elements	19,135	32,099
Climate systems	17,561	23,031
Car media systems	20,090	37,208
Electronic solutions	10,563	19,665
Total	**67,349**	**112,003**

Segment assets are reflected as follows in the consolidated segment report:

in EUR thousands	2009	2008
Total assets	38,902	53,515
- monetary assets	-9,360	-2,262
- deferred taxes	-653	-447
- other non-segment-specific assets	-492	-1,069
Segment assets	**28,397**	**49,737**

Segment liabilities are reflected as follows in the consolidated segment report:

in EUR thousands	2009	2008
Total equity and liabilities	38,902	53,515
- Equity	98,960	54,178
- Special item	-4,731	-6,432
- Loans and other liabilities	-124,173	-87,366
Segment liabilities	**8,958**	**13,895**

Depreciation, amortization and impairment losses in the automotive business segment during the fiscal year as provided for in IAS 38.97 in conjunction with IAS 36 have been recorded in the amount of EUR 199 thousand (prior year: EUR 138 thousand). Non-cash expenses and income are not shown explicitly in segment reporting, as it is not possible to allocate them specifically to the segments generating them.

(23) Related party disclosures

Related parties in terms of IAS 24 include members of the Managing Board, the Supervisory Board and their immediate families and Artega Automobil GmbH & Co. KG.

Total remuneration of the Managing Board includes salaries and one-off payments, as well as severances and expenses related to severance payments in the amount of EUR 1,108 thousand (prior year: EUR 1,939 thousand). In addition, payments occurring after the termination of the employment relationship in the amount of EUR 1,171 thousand (prior year: EUR 5 thousand) are included in total remuneration. Expenses in connection with share-based payments were not incurred during the fiscal year (prior year: EUR 0 thousand).

Disclosure of itemized remuneration for members of the Managing Board was waived in accordance with the Annual General Meeting resolution of May 17, 2006, concerning omission of the disclosures under section 285 (1), no. 9a, (5-9) and sections 315a, 314 (1), no. 6a (5-9) of the German Commercial Code.

Expenses incurred for members of the Supervisory Board are divided into fixed, as well as variable remuneration through stock appreciation rights. For more details, please refer to the information provided on the Stock Appreciation Rights Program (STAR Program) in the section entitled ‚Share-based payments'. EUR 41 thousand (prior year: EUR 42 thousand) was provisioned for total remuneration to the Supervisory Board during the fiscal year. The full amount of these provisions relates to fixed remuneration. Expenses incurred in connection with share-based payments were not incurred during the fiscal year (prior year: EUR 0 thousand).

As of the balance sheet date, the Managing Board held 2,111,730 shares out of a total of 4,114,788, of which 2,111,730 are in the hands of Mr. Klaus Dieter Frers. The Supervisory Board holds 6,000 shares.

In 2009, rental payments totaling EUR 163 thousand (prior year: EUR 167 thousand) were paid to the Frers family based on existing agreements; EUR 127 thousand (prior year: EUR 127 thousand) related to one company building in Delbrück.

As of the balance sheet date, a directly enforceable fixed guarantee without consideration on the part of Mr. Klaus Dieter Frers existed for paragon AG's obligations to banks in the amount of EUR 497 thousand (prior year: EUR 153 thousand).

Moreover, on the balance sheet date, an agreement was in existence between the State of Thuringia (represented by the Thüringer Aufbaubank, Erfurt) and Mr. Klaus Dieter Frers concerning a co-debtor obligation under public law, according to which Mr. Frers, in addition to paragon AG, assumes the liability for reimbursement as recipient of grants. This liability would arise if the State of Thuringia requested the Company to reimburse an investment subsidy in the amount of EUR 4,898 thousand (prior year: EUR 4,898 thousand) of which EUR 4,898 thousand (prior year: EUR 4,898 thousand) have been paid out as of the balance sheet date.

Under the cooperation agreement concluded on January 1, 2007, the following items were charged to Artega: Automobil Gm & Co. KG, Delbrück:

in EUR thousands	2009	2008
Rents	0	486
Out-of-pocket expenses	28	146
Interest	0	19
Development work	0	0
Total:	**28**	**651**

The existing cooperation agreement between paragon AG and Artega Automobil GmbH & Co. KG was terminated as at December 15, 2009. All claims and obligations of both contracting parties arising from the cooperation agreement to date have been fulfilled during the term of the contract. As of December 31, 2009, no receivables exist any longer from Artega Automobil GmbH & Co. KG resulting from the charges of 2007 and 2008.

(24) Statutory Board of the Company

During the period under review, paragon AG's Managing Board consisted of the Chairman of the Managing Board, Mr. Klaus D. Frers, graduate engineer, responsible for the Technology and Corporate Development departments; the Chief Financial Officer, Mr. Volker Brinkmann, responsible for the Finance and Investor Relations departments; Mr. Golo Alexander Wahl, responsible for the Marketing and Sales department; Mr. Markus Werner, responsible for the Finance department (since October 4, 2009); and Mr. Andrew Seidel, attorney, responsible for restructuring (since October 1, 2009). Mr. Volker Brinkmann and Mr. Golo Alexander Wahl resigned from the Managing Board of paragon AG on March 17, 2009 and November 30, 2009, respectively.

The Company's Supervisory Board consists of the following individuals:

Name	Profession	Memberships in Supervisory Boards and other committees
Prof. Dr.-Ing. Walter Kunerth Chairman	Management consultant, Zeitlarn	Götz Management Holding AG, Regensburg (Chairman)
		GILDEMEISTER AG, Bielefeld
		Autoliv Inc., Stockholm (member of the Board of Directors)
Dr. Klaus G. Weyer	Physicist, Dortmund	ELMOS Semiconductor AG, Dortmund
Dr. Peter Penczynski	Physicist, Langquaid	

(25) Share-based Payment

paragon AG grants the members of its Managing Board stock options (acquired based on a contingent capital increase), which entitle the holder to purchase one share for each option after the expiration of the blocking period at a previously fixed subscription price (plain vanilla options).

• Stock option plan 1

paragon AG grants some of its employees and the members of its Managing Board stock options that entitle the holder to purchase one share for each option after the expiration of the blocking period at a previously fixed subscription price (plain vanilla options). In accordance with IFRS 2, the value of employee options that are paid in shares (equity settled payments) is determined at the time of the grant based on a recognized option pricing model. The total expense that results is spread out uniformly over the blocking period of the option and is recognized as equity in the capital reserve. Changes of the option value due to changed parameters (e.g., later price changes) have no impact on the expense to be recognized. The same applies to options that lapse after the end of the blocking period. Stock options were valued using a binomial model. The value of the options was determined using appropriate probabilities based on price scenarios at fixed time intervals.

Assumption of an early exercise before the expiration of the total term of the option reduces the amount recognized.

Based on the resolution of the Annual General Meeting of October 17, 2000, modified by the resolutions of the Annual General Meetings of May 15, 2002, and May 12, 2004, stock options in four tranches have so far been granted annually to some employees and the Managing Board of paragon AG in connection with Stock Option Plan 1. Additional conditional capital I, entailing a conditional capital increase of up to EUR 290 thousand by the issue of 289,800 common shares, was created to secure these option rights. The first tranche was offered to employees and Managing Board members on January 10, 2001; the second tranche was offered on April 10, 2002, the third tranche on April 7, 2003, and the four tranche on November 6, 2004.

If the options could not be exercised by January 1, 2005, the rules of IFRS 2 must be applied to those issued under the third and fourth tranche, which were granted after November 7, 2002.

The following parameters were assumed for the third tranche for calculating the option value in the binomial model:

Date granted	April 7, 2003
Total term of the option plan	6 years
Blocking period	2 or 3 years
Share price when options were issued	EUR 3.73
Strike price of the option	EUR 3.88
Anticipated dividend yield	1.60%
Risk-free rate	3.40%
Historic average share volatility	26.0 %
Option value as of April 7, 2003	EUR 0.94

As a modification of the existing authorization, the Managing Board, with the consent of the Supervisory Board, or the Supervisory Board alone, were authorized by resolution of the Annual General Meeting of May 12, 2004, to, on one or more occasions, grant option rights to a total of 123,976 bearer shares of the Company with a term up to six years to members of the Company's Managing Board or senior executives of the Company or executives acting as 'division managers' in accordance with their employment contract in the period until the end of 2005. All stock appreciation rights granted in previous years for the third tranche lapsed during fiscal 2009.

In its meeting on September 28, 2004, the Supervisory Board decided to offer for purchase a total of 30,000 option rights in the fourth tranche to members of the Managing Board within two weeks of the announcement of the quarterly results for the third quarter of 2004.

The following parameters were assumed for the fourth tranche for calculating the option value in the binomial model:

Date granted	November 6, 2004
Total term of the option plan	6 years
Blocking period	2 or 3 years
Share price when options were issued	EUR 15.75
Strike price of the option	EUR 15.09
Anticipated dividend yield	1.60%
Risk-free rate	3.30%
Historic average share volatility	35.0 %
Option value as of November 6, 2004	EUR 5.52

In fiscal 2009, no personnel expense totaling was allocated to capital reserve for the granting of stock options of the fourth tranche of stock option plan 1 (prior year: EUR 0 thousand). The stock appreciation rights expire on November 19, 2010.

• Stock option plan 2

The resolution on additional issues of option rights to Managing Board members and senior executives of the Company was passed at the time of the Annual General Meeting of May 12, 2004. Additional conditional capital II, entailing a conditional capital increase of up to EUR 115 thousand by the issue of 115,000 common shares, was created to secure these option rights.

Each option right confers an entitlement to acquire one paragon AG share in accordance with option conditions to be established.

As in the previous year no option rights under this program were issued in the year under review.

• Stock Appreciation Rights Program (STAR Program)

paragon AG grants members of the Supervisory Board stock appreciation rights for which a cash payment in the amount of the difference between the share price and the previously fixed strike price is distributed if the option is exercised after the expiration of the blocking period. In accordance with IFRS 2, the reporting value of cash settled share-based payment transactions is determined based on a recognized option pricing model on the relevant reporting date. The resulting total expense must be spread out uniformly over the blocking period of the rights granted and recognized as a liability. Changes to option rights due to changed parameters or price changes during the year until the time actually exercised must be recognized as an expense in the provision in the relevant fiscal year. This results in total personnel expenses at the level of the payment actually made.

• Stock appreciation rights program No. 1

The stock appreciation rights program No. 1 (2003 conditions for the granting of stock appreciation rights to paragon AG's Supervisory Board members) was adopted in a resolution of the Annual General Meeting of May 14, 2003. The STAR program includes a total of 20,000 stock appreciation rights, which the Managing Board is required to offer to paragon AG's Supervisory Board members in five tranches. In mid-November 2003, a total of 4,000 stock appreciation rights were offered and granted to the Supervisory Board in a first tranche at a price of EUR 8.24. Of that amount, a total of 3,000 rights were exercised in November 2004, entailing cash payments amounting to EUR 21 thousand. The remaining 1,000 stock appreciation rights from the first tranche expired in fiscal 2007. As a second tranche, an additional 4,000 stock appreciation rights were offered and granted to the Supervisory Board in November 2004 at a price of EUR 15.09. The remaining 4,000 stock appreciation rights from the second tranche expired in fiscal 2008. In November 2005, a total of 4,000 additional stock appreciation rights were offered and granted to the Supervisory Board at a price of EUR 16.43 (fourth tranche). These stock appreciation rights expired in fiscal 2009.

For the stock appreciation rights granted in November 2003 and November 2004, the following parameters were used in the binomial model to calculate the option value:

Total term of the option plan	4 years
Blocking period	1 year
Anticipated term to end of blocking period	0.92 years
Share price on December 30, 2008	EUR 2.75
Strike price of the option 2005 Tranche	 EUR 16.43
Anticipated dividend yield	3.6%
Risk-free rate	3.049%
Share volatility	55.02%
Option value as of December 31, 2008 2005 Tranche	 EUR 0.00026

As at December 31, 2009, there was no need to create a provision for the outstanding 4,000 stock appreciation rights of the Supervisory Board due to the low option value.

	Stock option program No. 1				STAR program		
Issue date	First tranche	Second tranche	Third tranche	Fourth tranche	First tranche	Second tranche	Third tranche
Issue date	Jan. 2001	Apr. 2002	Apr. 2003	Nov. 2004	Nov 2003	Nov 2004	Nov 2005
Options granted	46,365	47,990	71,469	30,000	4,000	4,000	4,000
Strike price in €	7.98	3.,78	3.88	15.09	8.24	15.09	16.43
Expiration of holding period	Jan 2003	Apr. 2004	Apr. 2005	Nov. 2006	Nov. 2004	Nov. 2005	Nov. 2006
in units							
Options outstanding at start of year	0	0	15,998	30,000	0	0	4,000
Options granted	-	-	-	-	-	-	-
Options exercised	-	-	-	-	-	-	-
Options exercised	-	-	15,998	-	-	-	4,000
Outstanding options	-	-	-	30,000	-	-	-
Exercisable options	-	-	-	30,000	-	-	-
in EUR							
Valuation of options as of December 31, 2009			0.00	0.012			
Valuation of options as of 31. December 2008			0.94	5.520			
Option value per SAR as of December 31, 2009							0.000
Option value per SAR as of 31. December 2008							0.000

• Stock appreciation rights program No. 2

By resolution of the Managing Board of April 2, 2004, the stock appreciation rights program No. 2 of paragon AG was adopted for the granting of stock appreciation rights to employees of paragon AG, as well as to employees and members of management of affiliated companies. STAR Program No. 2 includes a total of 100,000 stock appreciation rights for the period up to December 31, 2005, and a total of 250,000 stock appreciation rights in the period from January 1, 2006, to December 31, 2008, which the Managing Board can offer to the eligible individuals. Each appreciation right confers to the participant the right to receive, on the day the stock appreciation right is exercised, a cash payment in the amount of the difference between the basis price and the share price on the day the stock appreciation right is exercised.

By the balance sheet date no stock appreciation rights had been granted from the STAR Program No. 2.

The following table shows the stock options and stock appreciation rights that have been granted and exercised.

(26) External audit fee
The expense recorded in fiscal 2009 as fees invoiced by Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft amount to EUR 60 thousand (prior year: EUR 186 thousand) include a fee for the external audit of paragon AG's consolidated financial statements, as well as fees for the audit of the legally stipulated individual financial statements of paragon AG and its domestic subsidiaries.

(27) Risk management
Please refer to the Management Report for information on the Group's risk management.

(28) Employee benefits
Since January 1, 2002, paragon AG has offered employees a pension option by joining a group relief fund with compensation payments to the reinsurance-funded plan. A reinsurance policy has been taken out with the insurance company Delta Lloyd Deutschland AG, a unit of the insurer AVIVA plc., London, to ensure that claims can be met.

paragon AG contributed EUR 29 thousand (prior year: EUR 63 thousand) in the year under review.

(29) Declaration on the German Corporate Governance Code
The statement of compliance with the German Corporate Governance Code stipulated in section 161 of the AktG was submitted on July 29, 2010; shareholders have permanent access to this statement at the Company's website (www.paragon-online.de).

(30) Responsibility Statement
To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Delbrück, July 30, 2010

paragon AG
The Managing Board
Klaus Dieter Frers

We have audited the consolidated financial statements – comprising the balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement, segment reporting and the notes – and the group management report prepared by paragon AG, Delbrück, for the financial year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional provisions under German commercial law pursuant to section 315a (1) of the German Commercial Code (HGB) is the responsibility of the Company's management. 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 the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the financial position and financial performance in the consolidated financial statements in accordance with the applicable accounting principles and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities included in consolidation, the scope of consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations with the exception of the following qualifications:

We were unable to conduct a due diligence audit of the measurement of the total negative fair values of EUR 520 thousand from derivatives reported in the consolidated financial statements because we did not receive any confirmation of the actual amounts of these negative fair values from three material creditor banks. Consequently, we cannot rule out the possibility that the consolidated financial statements may contain misstatements in this respect.

We were unable to verify the existence of the inventories reported in the amount of EUR 4.427 million because the timing of the audit engagement meant that we could not participate in the stocktaking process and were unable to obtain reasonable assurance as to the value of the inventories by performing alternative audit procedures. Consequently, we cannot rule out the possibility that the consolidated financial statements may contain misstatements in this respect.

In our opinion, based on the findings of our audit, the consolidated financial statements – with the aforementioned qualifications – comply with the IFRSs, as adopted by the EU, and the additional provisions under German commercial law pursuant to section 315a (1) HGB and provide a fair presentation of the financial position and financial performance of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion any further, we wish to point out that the consolidated financial statements report a negative net worth as at the balance sheet date and that insolvency proceedings were initiated for paragon AG and all its German subsidiaries in 2010. The negative net worth reported in the consolidated financial statements was subsequently eliminated by the completion of the insolvency proceedings for paragon AG when the creditors' meeting accepted the insolvency plan on April 16, 2010, thereby reducing the Company's debts.

Nuremberg, July 30, 2010

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Keller	Freytag
Accountant	Accountant

paragon AG
Head office
Schwalbenweg 29
33129 Delbrück
Phone: +49(0)5250 9762-0
Fax: +49(0)5250 9762-60
E-mail: info@paragon-online.de
Internet: www.paragon-online.de

Corporate Communications
Phone: +49(0)5250 9762-161
Fax: +49(0)5250 9762-60
E-mail: investor@paragon-online.de

Neue Kraft, bewegende Ideen

paragon AG
Schwalbenweg 29
33129 Delbrück · Germany
Phone: + 49 (0) 52 50 - 97 62 - 0
Fax: + 49 (0) 52 50 - 97 62 - 60
E-mail: investor@paragon-online.de
Internet: www.paragon - online.de