



Annual Report 2011

Key Indicators

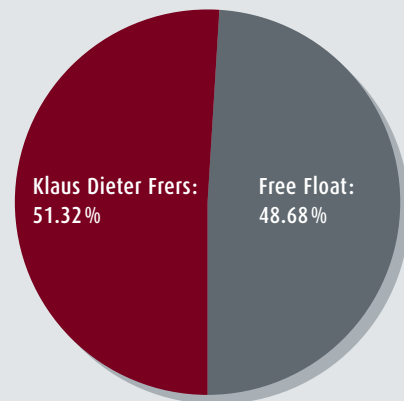
in EUR thousands	01.01.2011 to 31.12.2011	01.01.2010 to 31.12.2010	Change in %
Sales	67,055	60,362	11.1
EBITDA	12,995	10,285	26.3
EBITDA margin in %	19.4	16.9	
EBIT	8,821	5,202	69.6
EBIT margin in %	13.2	8.6	
Net income	5,335	3,773	41.4
Earnings per share in EUR	1.30	0.92	41.4
Total assets	41,425	43,471	- 4.7
Total equity	9,798	4,463	119.5
Equity to assets ratio in %	23.7	10.3	
Free cash flow	11,195	5,983	87.1
Interest-bearing liabilities	14,744	20,617	- 28.5
Net debt	8,142	13,635	- 40.3
Operating cash flow	8,578	7,305	17.4

Share

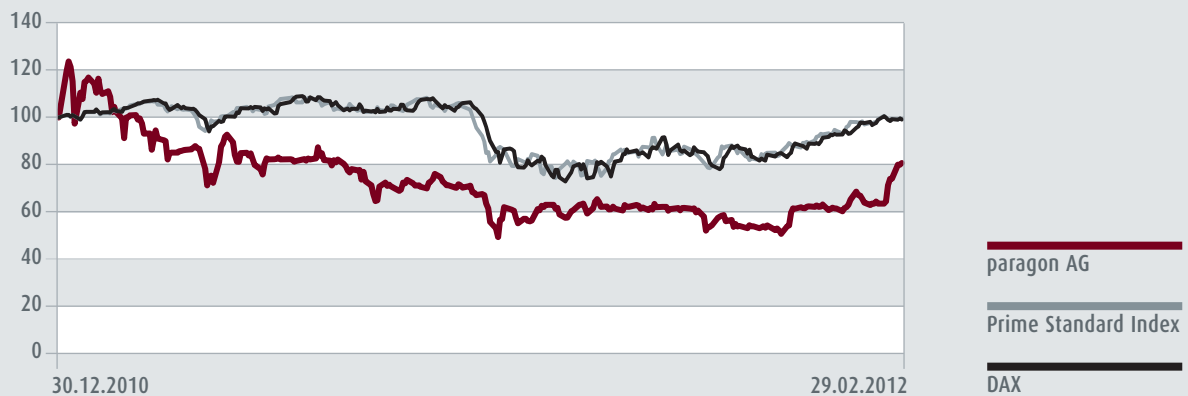
Share data

ISIN:	DE 000 555 8696
WKN:	555869
Ticker symbol:	PGN
Market segment:	Prime Standard
Sector:	Technology
Stock exchange:	Frankfurt/Main (Xetra)
Number of shares:	4,114,788
Share price on Feb. 29, 2012:	9.04 Euro
Market capitalization on Feb. 29, 2012:	EUR 37.2 million
Average trading volume (52 weeks) as at Feb. 29, 2012:	10,177 shares a day


Shareholder structure



Price developments (indexed)



Locations and Products

 **Delbrück**
(North Rhine Westphalia)



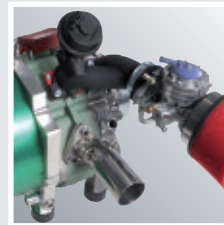
Air quality sensor AQS®



start-stop sensor



belt microphone belt-mic®



Range Extender ExtRa15

 **St. Georgen**
(Baden-Württemberg)



Stepper Motor

 **Nuremberg**
(Bavaria)



Media Device Interface



On-board clocks



cTablet Docking Station



-  Development
-  Development/Production
-  Production

 **Suhl**
(Thuringia)



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Klaus Dieter Frers, Chairman of the Managing Board

Dear Max Helder,

fiscal 2011 was a good year for paragon AG. In addition to the healthy economy in the automotive industry, these results were due to the fact that we were able to assert ourselves particularly well in the market with our new structure and our broad product portfolio. Our close relationships to the premium manufacturers in Germany and Europe once again proved extremely valuable in this process. As direct supplier to automotive manufacturers, paragon occupies a secure market position. Thanks to the close connection to our core clients, we are in a position to benefit from their dynamic growth in global competition. Our innovative solutions contribute to our customers' success.

We consciously started fiscal 2011 with caution due to the aftermath of the recently abated crisis in the automotive world. A year ago we were in fact able to clearly discern light on the economic horizon. The fact that sales figures for automotive manufacturers and in turn release orders in our production have recovered so considerably is extremely gratifying. It was all the more important that we had set the course for continued, sustained growth early on. This sound preparation allowed us to exploit the opportunities that arose in the previous fiscal year and as a result significantly improve our key indicators.

We exceeded announcements for fiscal 2011 with double-digit growth rates in revenue (+11.1% to EUR 67.1 million), EBITDA (+26.3% to EUR 13.0 million) and EBIT (+69.6% to EUR 8.8 million). Despite new hires and additional expenses related to production expansion, we were able to increase operating earnings over the previous year as well.

Efficiency to become second business focus

In the course of fiscal 2011, we also took the opportunity to enhance our range of products and services. Our man-machine interface focus covers 150 established products in six product groups: Air Quality, Drive Train, Acoustics, Stepper Motors, Media Interfaces and Cockpit. We are also increasingly concentrating on expanding our activities in an area we refer to as Efficiency. This focus will steadily gain importance, not least as a consequence of the growing relevance of energy efficiency in the automobile industry.

We took an initial step in this direction by creating a complete electric-drive module that will become available in the course of 2012. The module consists of an energy storage mechanism (PowerPack100), a range extender integrated into the air-conditioner compressor (ExtRa15), a motor controller (MoDrive40), a DC/DC converter (DCCon12) and an onboard charger (ChargeOn400). paragon will use this new product to address a different target group initially. We have begun by targeting smaller commercial vehicles, urban vehicles, and industrial vehicles instead of mass-produced passenger cars.

We will adhere to our strategy for electric vehicles as well. As an integrator, we will keep our eye on the entire system; as an innovator, we will provide best-in-class individual components. We have already created the structures necessary to accomplish this. We have created our own sales organization, separate manufacturing facilities for the module's components and a center for applications at our headquarters in Delbrück. Our facility in Suhl will continue to manufacture electronic components as it has done in the past.

We experienced first-hand the potential inherent in our Efficiency focus at the International Motor Show (IAA). The enormous interest that our stand generated convinced us that there is great demand for a universal system that features coordinated components and accompanying applications support. After all, there has hardly been an established

automotive supplier up till now who has seriously tackled the issue of electric vehicles. We were able to convince visitors of the utmost quality and soundness of investing in electric vehicles. All of our components emanate from a single source as can be seen from their uniform design. At the same time paragon has joined with competent partners, allowing it to present a united front.

Mobile automotive communications

Man-machine interface products, our original focus, also had a pleasant surprise in store at the IAA. Our cTablet Docking Station permits perfect integration of a tablet computer into an automobile. Our cooperation with the iconmobile group has yielded a solution that supports all common tablets, using a changeable insert.

The wide array of functions enabled by the cTablet Docking Station permits has impressed the industry. The spectrum ranges from reproduction of media through automotive controls, navigation, Internet, and telephone capabilities to rear-seat entertainment. It wasn't just the technical aspects that fascinated visitors, it was also the docking station's ready marketability. Like the electric-drive module, the cTablet Docking Station will become available as a ready-to-install solution during the course of 2012.

It is not just young users who want to access their private data while on the road. The use of calendars, telephones, e-mail, Internet, social networks like Facebook, music and videos has long been a reality. The main objective is to devise an automotive interface that makes use of the short developmental cycles in consumer electronics without neglecting the requirements of the car itself. The cTablet Docking Station employs a multi-step security concept to protect the vehicle's CAN bus from unauthorized access.

The rapid market penetration of the mobile Internet has confronted manufacturers and suppliers with challenges that need to be met quickly. This social megatrend will have a decisive influence on the automobiles of the future. A pioneer in mobile communications, paragon enjoys a superb opportunity to apply creative thinking in order to participate in the growth of this indispensable feature of tomorrow's automobiles.

Innovation and integration

The current phase of our evolution makes it quite apparent that paragon has never been a typical mid-sized company. Typical mid-sized companies usually have just a few products, are highly specialized and highly innovative. Large businesses, in contrast, are able to present a complete lineup of products, and are highly integrative.

paragon combines both these approaches, which is highly beneficial to the business in terms of development and growth. We have a broad array of products and we concentrate on occupying numerous niche markets, but at the same time, we are both innovative and integrative, which renders us independent of technologies, products, or customers. We hence enjoy the creative freedom to come up with complex systems within a short time frame. The same combination allows us to rapidly generate market-defining innovation.

Lean processes, rapid decisions and a great eagerness to embrace new ideas characterize the internal structures of our business. These specific characteristics support the augmentation of our man-machine interface focus with new products and, in particular, they support the creation of the Efficiency focus. We will combine our knowledge of systems for improving efficiency with our accumulated know-how. I thus am optimistic that we will soon come up with additional innovations that will shape the future.

Positioning ourselves in the electric-vehicle segment is doubtless an important step. It is only the beginning for the new Efficiency focus, though. We have still more ideas for novel products and activities in the pipeline. paragon is well on its way to becoming an integrated technology group. Expanding our spectrum of activities will only make the company stronger, which will enhance our ability to seize opportunities as they present themselves.

Balance Sheet and 2012 Outlook

Regrettably, in my opinion, the performance of the paragon share does not yet adequately reflect our advancements and successes. Our achievements were truly exemplary in 2011, both in terms of our Company's performance and in the continued expansion of our fields of activity. It would not have been possible without our employees, and I wish to thank all them for their extraordinary dedication to the future of paragon.

The commitment of our employees was recently rewarded with another innovation award for our seatbelt microphone, belt-mic®. We took this distinction as an occasion to present our report for fiscal 2011 under the guiding theme of 'Innovation at paragon'. I am certain that this presentation will show you once again the unique quality of our business strategy.

Agreement reigns in the automotive industry with respect to 2012. All key associations and opinion-leaders anticipate a stable year for the automobile. We can conclude, therefore, that production shall continue at a high level for our core clients. While a weakening of the market is anticipated for Southern Europe, and to some extent overseas, manufacturers in Germany and Central Europe are expecting stability in demand. Additional growth is expected in Asia. We will be a presence in this market as of spring of 2012 with our own sales branch in Shanghai.

In consideration of the high volume of orders on hand and the large number of product launches, the Managing Board expects additional growth in revenues in the single-digit percentage range in 2012 and 2013. EBIT will expand analogously year on year.

It is extremely important that the financial markets succeed in stabilizing, of course, for these forecasts to come true. Political solutions with vision are called for, so that consumers retain their confidence in the future. We at paragon are equipped for all scenarios and shall continue to promote our development into an integrated technology group with commitment.



Klaus Dieter Frers

Ideas on the move

paragon is based on a pioneering spirit. Our founder Klaus Dieter Frers instilled the need to strive for constant improvement, indeed the need to strive for uniqueness, when he started the business 24 years ago. The name of the company itself says it all. The old English word “paragon” means “an example, a model”. The guiding principle for what was initially an electronics manufacturer back then certainly applies to the automobile industry today. paragon is unique. It has earned itself an unmistakable profile; customers recognize the brand.

The successful principles of the founding phase are more relevant today than ever before. paragon consistently strives to be the first to recognize an opportunity in the market. Each day, our engineers pose the same question: How can we make driving even more convenient? By doing so, they can come up with ideas and solutions that no one has thought of before. Repeatedly during the last two decades, products have arisen that have conferred real benefits and reduced complexity. paragon keeps three aspects in mind: comfort, safety and wellbeing.

Comfort: Driving has long been more than just getting from Point A to Point B. Manufacturers are concentrating more and more on the comfort of drivers and passengers. Cars today are often as comfortable as a living room and as functional as an office. Thanks in part to paragon products, traveling in comfort is no longer a luxury. Many an innovative solution has found its way into the compact class.

Safety: Active and passive safety too is playing an ever greater role in automotive design. Automobiles today feature functions whose primary purpose is to protect their occupants. After all, millions of people daily rely on these safety features to protect them on the road. Solutions by paragon help make driving more carefree.

Wellbeing: Air quality is important, a fact that automotive engineers have realized for several years now. Alertness and quick reactions are paramount when driving. paragon supplies new ideas to improve both the air and the sense of wellbeing in the vehicle’s interior, the positive effects of which have been proven repeatedly.

paragon remains faithful to its founder’s philosophy when it comes to expanding its product lineup. “Ideas on the move” will help shape the automobile of the future. In stark contrast to other suppliers, our point of view corresponds to that of a vehicle’s occupants, and paragon engineers face new tasks and questions from that perspective. Focusing on buyers and users reaps benefits that manufacturers can share by working together with paragon.

paragon is working to consolidate its market position. Part of that strategy is to concentrate on niches on which larger suppliers would not focus. The solutions we propose feature crystal-clear unique selling propositions, which nevertheless are suitable for serial production. We are thus able to engage in high-margin fields and still enjoy the benefits of largely automated manufacturing. Not mainstream, but nevertheless completely with the trend, our strategy has made paragon a truly unique organization.

General stock market environment

On the whole, developments on the stock exchange floor were significantly impacted by the financial market crisis in Europe and other parts of the world. As a result of dislocations in several countries in the Euro zone, positive economic developments, especially in Germany, could not ensure that the DAX developed as well during the period under review. Rather, at the end of the year in particular, some downswings occurred that more than offset the satisfying developments at the beginning of the year.

Germany's leading index started 2011 at 6,914 points on January 3. By February 18 the DAX had climbed to 7,427 points thanks to the brighter economy. The environmental and nuclear crisis in Japan, however, had such a strong negative impact on the capital markets in the middle of March that the index dropped

to around 6,500 points. In the second quarter, the DAX rose above the 7,000 point once again; its high was reached on May 2 at 7,528 points.

Against the backdrop of subdued development in the global economy and turbulence associated with government debt in Europe, the DAX saw a significant decline. It slipped to 5,072 points by September 12, at which point it rose again somewhat: In November, the DAX exceeded 6,000 points for a short period. On the last stock exchange day of 2011, however, on December 30, it closed significantly down from the beginning of the year at 5,898 points, a 14.7% decline.

Performance of the paragon share

During 2011 the paragon share developed in diametric opposition to business results. While the Company was



able to publish very good revenue and earnings figures from one quarter to the next, the value of the security decreased during the course of the year.

The paragon share started 2011 at a level above EUR 11.00. In connection with the crisis in Japan, the share dropped to EUR 7.99 in mid-March, but recovered and rose again to EUR 9.77 by May 10. The share's value slid to EUR 7.27 in June with intraday volatilities in excess of 10%. In the third quarter, too, this negative course carried on; a low was reached on August 9 at EUR 5.60. By the end of the year, the paragon share had risen again to EUR 5.75, but like the DAX it closed significantly below the value at the beginning of 2011.

There were no significant changes from the previous year in the shareholder structure. The Chairman of the Board, Klaus Dieter Frers, held 51.32% of the shares; free float, according to the definition of the German stock exchange was 48.68%.

Financial market communications

paragon AG nurtures continuous information exchange with investors, analysts, journalist and the interested public. During fiscal 2011, the Company communicated on its current business development and all important news in the form of press releases, personal discussions, interviews and articles on the Company's website.

Paragon was covered in numerous reports in the national financial press in the reporting year, including *Börsen-Zeitung*, *Der Aktionär* (November 2011 edition: „Strong Numbers“), and *Börse Online* (December 6, 2011: „Favorite of the Day“).

A high point in communication with the financial markets was the presentation of the annual financial statements for the partial fiscal year from June 1 to December 31, 2010, which took place at the Company's headquarters in Delbrück during the press conference on March 29, 2011. Subsequently, the Managing Board

conducted numerous different discussions at the DVFA analysts' conference in Frankfurt am Main (April 12, 2011) and as part of a road show in the financial center of Zurich (April 13, 2011).

In addition to individual contacts and background discussions with investors and journalists, paragon used its appearance at the IAA in Frankfurt to organize an Investor Relations lunch. The Company was able to welcome numerous key players from the financial market in order to report to them on the Company's development, the most recent product innovations and plans. Investors were very interested to hear that, in addition to the man-machine interface in the car, paragon is planning to focus on efficiency enhancements in future.

Financial calendar for 2012

paragon is continuing its investor relation efforts with the following events in 2012:

March 22, 2012:	Financial press conference for fiscal year 2011
March 22, 2012:	Presentation of 2011 annual report
April 17, 2012:	DVFA Small Cap Forum SCF
May 9, 2012:	Interim report for January 1 to March 31, 2012
May 9, 2012:	11th Annual Shareholders' Meeting for 2011
August 22, 2012:	Half-year report for January 1 to June 30, 2012
November 21, 2012:	Interim report for January 1 to September 30, 2012

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. During the period between January 1 and December 31, 2011, paragon was able to comply with the principles of the German Corporate Governance Code to the greatest extent possible.

Shareholders and Annual General Meeting

paragon conducted a thorough dialogue with capital market participants and, especially, with its own shareholders during fiscal 2011. Over the last twelve months the Managing Board presented the Company's current situation and prospects in numerous events. In addition to the financial center in Frankfurt am Main, paragon was also active in the international arena, such as Zurich.

The Company's management received widespread approval from the group of shareholders at the 10th ordinary Annual General Meeting, which took place on May 17, 2011, according to tradition on the premises of the town hall of Delbrück, the site of the Company's headquarters. 100 percent of the shareholders voted for the proposals of the administration. Christian Retkowski, from the Schutzgemeinschaft der Kapital-anleger e.V. (German Association for the Protection of Capital Investors) praised the Managing Board effusively – to the applause of the shareholders.

Cooperation between the Managing Board and Supervisory Board

The Managing Board worked together closely and in an atmosphere of trust with the new Supervisory Board, consisting of Hans J. Zimmermann (Chairman), Hermann Börnemeier and Walter Schäfers, elected on September 30, 2010, at the Annual General Meeting. The Managing Board reported to the Supervisory Board

on all subjects related to business development, planning, the risk situation and compliance. All Supervisory Board meetings took place with the attendance of the Managing Board.

Managing Board

The Managing Board of paragon AG consisted of one member as at December 31, 2011. During the period from January 1 to December 31, 2011, the Managing Board's rules of procedure remained unchanged. 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 throughout, as in previous years. The Supervisory Board under the leadership of Hans J. Zimmermann 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 conducted a self-assessment to review its efficiency. The Supervisory Board member, Hermann Börnemeier, who provides paragon AG with tax advice, rendered personal services during the period under review. The Supervisory Board approved this activity in its constituent session on September 30, 2010.

Transparency

paragon AG informed all capital market participants on the Group's financial situation on a regular and timely basis during the period under review. Ongoing reporting

in accordance with our listing on the stock exchange included the annual report for fiscal 2010 (published on March 29, 2011), the quarterly report as at March 31, 2011 (published on May 17, 2011), the mid-year report as at June 30, 2011 (published on August 10, 2011) and the interim report as at September 30, 2011 (published on November 16, 2011). At the same time the Company published the relevant ad hoc announcements and press releases, which included more in-depth information from the Managing Board, in accordance with its duties and on a punctual basis. The increases in the forecast that the Managing Board was able to announce due to positive business development took place within the framework of these publications.

Directors' Holdings

Members of the Managing Board held 51.32% of paragon AG shares, a good 2.1 million shares, as at the balance sheet date. Members of the Supervisory Board held 2,000 shares as at December 31, 2011.

Accounting

The financial statements as at December 31, 2011, have been prepared according to the International Financial Reporting Standards (IFRS) or the International Accounting Standards (IAS) as they are to be applied in the EU. The Annual General Meeting appointed Rödl & Partner GmbH, subsequently commissioned by the Supervisory Board, as auditor for the fiscal year January 1, 2011, to December 31, 2011.

Declaration of paragon AG on the German Corporate Governance Code

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 in the past conformed and continues to conform to the recommendations of the German Corporate Governance Code in the version dated July 2, 2010, with the following exceptions:

- The Managing Board is not comprised of several individuals (item 4.2.1).
- The Supervisory Board has not agreed a cap for extraordinary unforeseen developments, since the current Managing Board agreement was entered into prior to the relevant adoption of the code on June 18, 2009 (item 4.2.3).
- No agreement on a limitation of severance pay (severance cap) has been entered into with the Managing Board (item 4.2.3).
- No remuneration report is prepared as a part of the Corporate Governance report (item 4.2.5 and 7.1.3).
- The Supervisory Board did not form any committees (items 5.3.1 to 5.3.3).
- No age limit has been set for Supervisory Board and Managing Board members (items 5.1.2 and 5.4.1).
- Disclosures on the remuneration of the members of the Managing Board are not itemized. In the invitation to the Annual General Meeting on September 30, 2010, however, remuneration was listed on an itemized basis, so this item is being complied with indirectly (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 disclosures on such directors' dealings, however, are not made in the Corporate Governance report in the financial statements of the fiscal year as at December 31, 2011 (item 6.6).

Delbrück, March 12, 2012

paragon AG

The Managing Board
The Supervisory Board



The Supervisory Board (from left): Walter Schäfers, Hermann Börnemeier (deputy chairman) and Hans J. Zimmermann (chairman)

The Supervisory Board performed its advisory and control duties with great care in compliance with legal and statutory provisions and the rules of procedure and has intensively advised the Managing Board in guiding the Company and monitored its management. The Supervisory Board was called in early on with regard to decisions of fundamental importance.

Activities of the Supervisory Board

The Managing Board provided both oral and written information, promptly and in depth, concerning general business development, strategic future development and the Company's current situation. Furthermore, these topics in particular were discussed between the Chairman of the Supervisory Board and the Managing Board outside the sessions.

During fiscal 2011, the Supervisory Board met with the Managing Board in four sessions; the Supervisory Board also advised the Managing Board on developments at paragon AG in several phone calls.

The main focus of the meeting on March 10, 2011, was on business development in the partial fiscal year from June 1 to December 31, 2010, including the audit report of Rödl & Partner. The Supervisory Board obtained detailed reports concerning the course of the first few months of fiscal 2011. Order intake, order levels, revenue, the earnings situation and forecasts were discussed in depth; the Supervisory Board was especially involved in paragon AG's financial development. In this meeting the Supervisory Board started a series to introduce the managing employees of the Company. This started with Reiner Witzemberger (Commercial Manager, now COO), Burkhard Krüger (Marketing &

Sales Manager) and Oliver Munz (Manager of Finance).

The meeting on May 16, 2011, which took place in Hövelhof, was for the purpose of preparing for the 10th ordinary Annual General Meeting, which was held on the following day in the town hall of Delbrück.

At the third meeting on August 9, 2011, the Supervisory and Managing Boards met at the Suhl plant. The Supervisory Board viewed the impressive cutting-edge production facilities during a tour of the plant. During this meeting Ralf Mönkemöller (Development Manager Delbrück), Dr. Gerhard Wessels (Development Manager Nuremberg), Norbert Nadrowski (Materials Management Manager) and Thomas Günther (Production Manager for Suhl) were introduced. Positive business developments in the first half of the year, from January 1 to June 30, 2011, were equally contributed to by the Supervisory Board.

During the fourth session on December 1, 2011, the Managing Board provided information on business developments in the third quarter. The Managing Board was in a position to provide an optimistic forecast for the current fiscal year based on positive developments in the current year. The Supervisory Board dealt in depth with the plan the Managing Board submitted for fiscal 2012. The Supervisory Board approved the plan for fiscal 2012. During this session the Supervisory and Managing Boards also addressed initial preparations for the 11th ordinary Annual General Meeting on May 9, 2012.

The Chairman of the Managing Board remained in contact with the Chairman of the Supervisory Board outside the framework of the meetings and joint consultations. The Supervisory Board was fully informed concerning extraordinary events which might impact the assessment of the year's results.

The audit firm, Rödl & Partner, Nuremberg, was appointed as external auditor for the fiscal year from January 1 to December 31, 2011, by resolution of the Annual General Meeting dated May 17, 2011, and commissioned by the Chairman of the Supervisory Board accordingly. The annual financial statements as at December 31, 2011, as well as paragon AG's management report for fiscal 2011, constituted the subject of the audit. The audit firm made the documentation on the annual financial statements, the management report and the proposal for the appropriation of net profits for the year, as well as the audit report, available to each member of the Supervisory Board for review. The Supervisory Board discussed the appropriation of profits with the Managing Board in the presence of the external auditors in the session of March 12, 2012.

Based on its own review of the annual financial statements and the management report, the Supervisory Board approved the findings of the auditor and endorsed the annual financial statements. Accordingly, the financial statements as at December 31, 2011, have been confirmed.

The Supervisory Board agreed with the Managing Board's proposal on the appropriation of profits.

The Supervisory Board of paragon AG wishes to thank all employees, as well as the Managing Board, for their personal commitment.

Delbrück, March 12, 2012

Hans Jakob Zimmermann
Chairman of the Supervisory Board

A. Business and Framework Conditions

paragon Aktiengesellschaft (paragon AG or paragon), headquartered in Schwalbenweg 29, Delbrück 33129, Germany, is a joint stock company set up under German law. paragon AG's shares are traded on the Frankfurt Stock Exchange in the Prime Standard segment. The Company develops, produces and sells electronic components and sensors for the automotive industry.

paragon easily met its own forecasts in the fiscal year from January 1, 2011, to December 31, 2011. The Managing Board had predicted moderate growth compared to revenues of the prior year of EUR 60.4 million; the Company was even able to adjust this estimate upwards during the course of the year under review.

Despite considerable investment in personnel and technology, earnings figures developed correspondingly for the course of business. paragon has used the robust economy in the automotive industry and its outstanding relationships with our core customers to increase revenue and earnings figures on the one hand and to set the course for further development of the Company on the other. At the same time paragon was able to significantly reduce its liabilities to banks and simultaneously increase free liquidity. In this respect, too, the Company fully achieved the forecasts of the Managing Board.

Economic Situation

Until fall the German economy was fairly dynamic in 2011. It appears that consumer spending was a prime driver of this positive development according to information provided by the Institut für Weltwirtschaft (IfW) and the Federal Statistics Office (Destatis). The significant increase in disposable income contributed to the stable economy.

Destatis calculations revealed that the price-adjusted gross domestic product (GDP) of the German economy for the year as a whole was 3.0% higher than the previous year. In other words the economic recovery process continued in the second year after the economic crisis as well. The economic upswing took place primarily in the first half of the year.

Growth stimuli arose from the domestic arena above all in 2011. Consumer spending rose on a price-adjusted basis at 1.5%, a growth not seen for five years. Furthermore the past year was characterized by strong capital expenditure. Considerably more was invested in equipment (price-adjusted: +8.3%) and buildings (price-adjusted: +5.4%) than the year before.

External trade contributed a smaller share to GDP growth than domestic demand, but continued to show dynamism. Germany exported 8.2% more goods and services on a price-adjusted basis in 2011 than in 2010. The trade balance, i.e. the difference between exports and imports, contributed 0.8 percentage points to GDP growth.

Positive economic developments in Germany also impacted the job market. The number of employed exceeded the 41 million mark for the first time, surpassing the previous high from the prior year by 535,000 people or 1.3%. This growth was distributed percentage-wise equally to the number of employees domiciled in Germany (+478,000 to approximately 36.50 million) and the number of self-employed individuals (+57,000 to approximately 4.55 million). The structural change in business sectors continues. During 2011, 73.8% of employed individuals worked in the services segment.

Consumer prices increased by 2.3% vis-à-vis the previous year according to Destatis. The annual inflation rate was significantly higher than in the two previous

years (2010: +1.1%; 2009: 0.4%). Inflation rates of 2% and above were calculated for 2011, both for the year as a whole and in each month. Energy prices, above all, were responsible for the significant rise in the annual inflation rate in 2011.

Economic Performance in the Eurozone

Within the eurozone Germany demonstrated remarkable positive growth in the year under review. According to information from the Statistical Office of the European Union (Eurostat), in terms of trade Germany achieved the highest surplus (EUR +129.2 billion from January to October 2011), followed by Ireland and the Netherlands. The United Kingdom (EUR -98.2 billion) and France (EUR -72.5 billion) on the other hand booked the largest deficits. Compared to the previous year there was a trend reversal in the eurozone: In November of 2011 the balance of trade grew by EUR 6.9 billion, while it had receded by EUR 2.3 billion in the same month of 2010. Order intake in industry, too, rose compared to the previous year (+1.6% in October of 2011).

The annual inflation rate in the eurozone was calculated by Eurostat at 2.7% in December of 2011; a year before it was only at 2.2%. The lowest average values for twelve months were estimated for Sweden (1.4%), Slovenia and the Czech Republic (the latter 2.1% each).

Developments in the Automotive Industry

The global automotive market was in robust health in 2011. The US, China, India and Russia evidenced growth rates at times in the double-digits, according to information from the Verband der Automobilindustrie (VDA – German Automotive Industry Association). In contrast the passenger vehicle market in Western Europe decreased slightly by 1% to 12.8 million units. The Japanese passenger vehicle market recovered more quickly than anticipated from the Fukushima disaster. The global market for new vehicles on the whole showed an increase of 6% to 65.4 million units.

German passenger vehicle manufacturers gained further market share in many regions of the world; for the first time they sold more than 1 million light vehicles in the US.

The US market for light vehicles (passenger vehicles and light trucks) was characterized by strong growth of 10% to 12.7 million vehicles. In December of 2011 sales rose by 9%, so a total of 1.24 million units were sold during the year in total. German manufacturers raised their market share in the US, now at 8.2%, for the seventh consecutive year.

The market in China continues to increase after extremely dynamic growth, albeit at lower growth rates than in the past. The volume for the year as a whole was 12.2 million passenger vehicles, 8% above the previous year's figure. The Indian market provided a pleasing result at the end of the year: Thanks to 207,300 units sold in December of 2011 (9% over the previous year), the passenger vehicle numbers in this country rose by 6% to 2.5 million new registrations, despite restrictive monetary policy and higher gas prices.

The Russian light vehicle market, too, continued its upswing. 2011 overall was extremely gratifying given a 39% rise to almost 2.7 million units. Here, too, German manufacturers were able to extend their market share, from 16.1% to 18%, or almost 500,000 vehicles. The Brazilian market, equally important for Germany, grew by 3% to a good 3.4 million light vehicles.

As expected, the Western European passenger vehicle market was fairly stable in the past year with 12.8 million new registrations (-1%). There were significant differences in the various countries in December: While the German market increased by 6% to 244,500 units, France and Italy evidenced considerable decreases (-18% and -15%, respectively). Several smaller EU countries achieved remarkable growth rates, especially in December, e.g. Belgium (+67%), the Netherlands (+53%) and Greece (+50%).

Double-digit growth rates characterized the Japanese passenger vehicle market, too, at the end of the year. Roughly 290,000 newly registered passenger vehicles in December 2011 implied an increase of 21% vis-à-vis the same month of the previous year. On the whole, however, the annual volume of 3.5 million vehicles was significantly below the previous year's figure (-16%).

In Germany a good 3.17 million passenger vehicles were newly registered in 2011 (+9%); the market share of German manufacturers increased by over 70%. In December domestic order intake continued to rise by 4%. German manufacturers achieved an export volume in excess of 4.5 million passenger vehicles (+7%) during the year as a whole. This means that the considerable slump in 2009 has been compensated in a period of only two years and new records achieved. In December, order intake from abroad carried on with the positive trend compared to last year with a rise of 10%. Passenger vehicle production in Germany also attained a new record in 2011 at almost 5.9 million.

B. Course of Business and the Situation of paragon AG

Fiscal 2011 was marked by stable business developments for paragon AG. The Company has used the robust economy in the automotive industry to achieve significant revenue increases and once again an even greater earnings growth. At the same time paragon presented several innovations in its product portfolio during the course of 2011, which expand the core business in the man-machine interface segment and, moreover, provide justification for an additional segment.

These positive developments were supported by the diversified customer base, the close connection, as direct suppliers, to core customers and the broad range of 150 individual products. Early orientation to the megatrends in the automotive field (comfort, safety, wellbeing) combined with active product development has provided the basis for an exposed market position as niche provider.

Step-by-step, paragon AG is developing, in addition to the man-machine interface, additional automotive applications in the six product groups, Air Quality, Power Train, Acoustics, Stepper Motors, Media Interfaces and Cockpit. The Company presented initial products from further fields of activity at the IAA in the fall of 2011 in Frankfurt am Main. They included a building kit for electro-mobility, which paragon initially wants to establish in the area of 'Light commercial vehicles'. Additional applications related to efficiency are already under development.

Branches

In addition to the corporate headquarters in Delbrück, paragon operates branches in Nuremberg, Suhl and St. Georgen. The tried-and-true distribution of tasks and the excellent interaction of the locations contributed greatly to the success of fiscal 2011.

Delbrück headquarters

Sales, Purchasing, Finance
Development of Air Quality, Power Train, Acoustics, Electro-mobility

Nuremberg branch

Development of Media Interfaces, Cockpit

Suhl branch

Central production plant

St. Georgen branch

Development and production of stepper motors.

Management Systems

Constant innovation, flat hierarchies, fast processes and an efficient work-flow organization imbue paragon's daily activities. The Company combines these advantages of a medium-sized company with the integration power typical to a large company. The special combination of innovation and integration is a decisive competitive advantage and a special characteristic of paragon's profile.

paragon highly values a comprehensive planning and control system. In addition to continuous control over weekly, monthly and annual plans the traditional financial and profitability indicators, such as cash flow, expense ratios, EBIT and/or EBITDA, and EBIT margin, are among key management figures.

The Managing Board and the Supervisory Board of paragon AG receive monthly detailed risk reports on business developments. These reports show potential variances from planned figures in an actual to target comparison and are used as a basis to arrive at solutions. In addition, paragon's extended top management meets on a regular basis to discuss and debate the current course of business, the outlook and business events of particular note.

Net Assets and Financial Position

Figures of the fiscal year from January 1 to December 31, 2011, are compared below with figures from the period January 1 to December 31, 2010. The previous partial fiscal year from June 1 to December 31, 2010, has not been included in order to afford better comparability of the figures.

Total assets dropped by EUR 2.0 million to EUR 41.4 million as at December 31, 2011 (prior year: EUR 43.5 million). This drop is primarily the result of wear and tear on property, plant and equipment in the amount of EUR 1.0 million.

Non-current assets were down from EUR 18.2 million to EUR 17.1 million. This change is due chiefly to scheduled depreciation during the period under review. Current assets declined by EUR 1.0 million to EUR 24.3 million (prior year: EUR 25.3 million). The reduction in trade receivables of EUR 3.5 million is due to the program for factoring customer receivables started on July 1, 2011. As a result of the purchase of receivables by GE Capital Bank AG, paragon has additional cash resources in the amount of EUR 2.8 million at its immediate disposal as at the balance sheet date. Financing funds were considerably strengthened as a

result, so that paragon now has an additional important tool for short-term financing. Interest is applied to this credit account in accordance with market conditions.

Cash and cash equivalents of EUR 15.3 million include, in addition to current bank deposits (EUR 8.4 million) and deposits from factoring (EUR 2.8 million) the insolvency escrow account in the amount of EUR 0.5 million (prior year: EUR 3.8 million) and the escrow account for the 'insolvency dividend payout' in the amount of EUR 3.6 million (prior year: EUR 4.0 million). Both accounts are under the power of disposal of the former insolvency administrator. After suspension of the insolvency on June 1, 2010, paragon AG once again has a right of disposal over the insolvency escrow account; however, the former insolvency administrator may still have accumulating legal and tax advice costs that need to be financed from this escrow account. The excess amount belongs to paragon AG. Payment to the insolvency creditors is financed by means of the insolvency mass share loan. EUR 9.1 million had been paid out as at December 31, 2011.

The capital structure is characterized by the rise in equity of EUR 5.3 million, which, due to the slightly lower amount of total assets, has led to an improvement in the equity-to-assets ratio to 23.7%.

Non-current provisions and liabilities decreased by EUR 3.3 million in the year under review. This reduction was primarily the result of repayment of the long-term loan in the amount of EUR 2.4 million, as well as the liquidation of the special items in the amount of EUR 0.8 million during the year under review.

Non-current liabilities relate exclusively to Euro loans, which for the most part carry a fixed interest rate and mature in 2020. Payment is made by means of monthly or quarterly annuities.

The provision for pensions rose by EUR 0.1 million to EUR 2.0 million (prior year: EUR 1.9 million).

Current provisions and liabilities were down by EUR 4.1 million to EUR 14.4 million. This is due on the one hand to the repayment of loan liabilities in the amount of EUR 2.4 million, as well as a drop in current other provisions of EUR 1.7 million. Current provisions are comprised in the main from provisions for outstanding credits in the amount of EUR 1.3 million (prior year: EUR 1.7 million) and provisions for warranty claims of EUR 0.1 million (prior year: EUR 0.3 million).

Cash flow from operating activities amounted to EUR 8.6 million as at December 31, 2011 (prior year: EUR 7.3 million). Cash flow from investment activity was down due to capital expenditure on property, plant and equipment of EUR 2.1 million and investment in intangible assets of EUR 1.4 million. The repayment of non-current loans to the tune of EUR 6.4 million has reduced cash flow from financing activity. Financing resources include only cash and cash equivalents.

Results of Operations

paragon achieved earnings of EUR 67.1 million (prior year: EUR 60.4 million) in the fiscal year extending from January 1 to December 31, 2011. This represents a rise of 11.1% versus the previous year and is due to the Company's strong market position in combination with the sound economic situation in the automotive industry in 2011.

Cost of materials was up EUR 1.3 million to EUR 33.7 million. In relation to sales revenues earned, the cost of materials ratio improved by 3.5 percentage points to 50.2% (prior year: 53.7%) thanks to improved purchasing terms. Personnel costs are higher by EUR 4.2 million, which can be traced back to new hires and to the takeover of employees of the former paragon finesse GmbH as at September 1, 2010.

EBIT rose above all because of the higher sales revenues and improved cost of materials ratio by 69.6% from EUR 5.2 million to EUR 8.8 million. The EBIT margin improved from 8.6% to 13.2% as a result.

Financial income (EUR 1.3 million; prior year EUR 0.8 million) is influenced by interest expense in connection with non-current loans. paragon's refinancing was implemented in June of 2010, so, while financial expenses increased in absolute terms by EUR 0.6 million when comparing calendar years, they actually remained relatively stable when viewed on a 12-month basis. The major reason for this is the special repayments of EUR 5.1 million effected in 2011.

Income taxes rose during fiscal 2011 to EUR 2.2 million due to positive operating results.

All in all paragon had earned period income as at December 31, 2011, of EUR 5.3 million (prior year, adjusted for extraordinary effects: EUR 3.8 million). Consequently, earnings per share (EPS) amounted to EUR 1.30 with 4,115 million shares outstanding (prior year, adjusted for extraordinary effects: EUR 0.92).

Overall Assessment of paragon AG's Situation

The Managing Board is extremely satisfied with the development of paragon AG in 2011. In addition to excellent operating results, important foundations were able to be laid for expanding its competitive position.

C. Employees

As at December 31, 2011, paragon engaged 343 employees and 60 contract workers at the Company's four locations. Staff was increased by a total of 60 individuals vis-à-vis the level as at December 31, 2010 (304 employees and 39 contract workers). The following figures applied to the various locations as at December 31, 2011: (employees/temporary workers): Delbrück (58/3), Suhl (196/51), Nuremberg (29/3) and St. Georgen (60/3).

In the period under review personnel expense amounted to EUR 16.7 million. EUR 12.6 million of this was

due to salaries and wages (prior year: EUR 9.4 million), EUR 2.0 million (prior year: EUR 1.4 million) spent on social security contributions and EUR 0.0 million (prior year: EUR 0.8 million) on retirement expenses. Expenses for contract workers amounted to EUR 2.2 million in the period under review (prior year: EUR 0.9 million).

D. Remuneration of the Managing Board

paragon AG's Managing Board during the period under review consisted only of Mr. Klaus Dieter Frers. 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. No benefits were realized related to stock options. The performance-dependent bonus was geared to the Company's financial development in the period under review just elapsed, in particular EBITDA. Please refer to the information in the notes to the consolidated financial statements for the amount and breakdown of the Managing Board's remuneration.

E. Capital Expenditure

During the period under review paragon AG undertook investments in the amount of EUR 3.4 million (prior year: EUR 3.0 million). These higher expenditures are the result in particular of investment in machinery, equipment and tools.

The 2012 fiscal year investment plan for paragon AG includes EUR 4.1 million for both replacement expenditure and new facilities. All investment projects are to be financed from operating cash flow.

F. Principles of Financial Management

The primary goal of financial management at paragon is a good equity-to-assets ratio. The Company was able to score an improvement of over 100% to EUR 9.8

million (prior year: EUR 4.5 million) in this area, due to positive economic development and the resulting net income for the year. As a result, the equity-to-assets ratio had more than doubled as at December 31, 2011, compared to the previous year (23.7% versus 10.3%).

The capital structure is managed and adapted to changing overall economic conditions. During the period under review no fundamental changes in capital management goals, methods or processes were introduced.

As part of the restructuring of debt financing in the course of 2010, which was further reduced in fiscal 2011, no financial indicators (so-called 'financial covenants') are being demanded by the key financing banks.

G. Research and Development

The engineers at paragon are working intensively on continuing to reinforce the Company's good market position with new products. Responsibility for the development of individual product groups is distributed among three locations: Air Quality, Power Train, Acoustics and Electro-mobility at the headquarters in Delbrück, Media Interfaces and Cockpit in Nuremberg and Stepper Motors in St. Georgen.

In Delbrück the work of the developers included equipping a client's transmission with an all-gear sensor, the series release for the redesign of the rear-view camera and an intelligent steering controller for stepper motors and clock motors. Existing products were optimized and updated as well. The building kit for electro-mobility with components with a uniform company design was a major focus. The range extender with integration into the air conditioning system and optional hydrogen operation represents a world first in this design.

The most important projects at the Nuremberg site included the cTablet Docking Station to integrate a

tablet computer into the vehicle, the Universal Phone Tray with antenna coupling for wireless cell phone connection and the Intercom Seat System for improving communication in the car interior. In the fourth quarter of 2011 the emphasis was on a concept for a digital Audio-Bus, optimization of on-board clock software and the start of series development of the cTablet Docking Station.

In total paragon invested EUR 5.4 million (prior year: EUR 3.8 million) in the area of research and development.

H. Purchasing

paragon's materials management department works according to clear principles that have proven themselves for years. Outstanding quality, high-performance suppliers and innovative materials procurement remained the cornerstones of paragon's purchasing philosophy in fiscal 2011 as well. Close cooperation with strong partners proved to be the right approach in the year under review in order to be able to guarantee the at times extremely ambitious production goals in the case of urgent and high-volume release orders by automotive manufacturers.

Cost of materials amounted to approximately EUR 33.7 million in fiscal 2011 (prior year: EUR 32.4 million). This produces a cost of materials ratio (materials in relation to revenues) of 50.2%; this figure was 53.7% in the same period of the previous year.

I. Report on Risks and Opportunities

paragon has established a comprehensive risk management system in order to determine the risks and opportunities in the Company's development. 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 the Company's development. Please refer to the notes for risk management goals and methods as they relate to the use of financial derivatives.

Accounting-based Internal Control System

Since the internal control and risk management system is not defined by law, we rely on the definition of the Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf, (German Institute of External Auditors) regarding accounting-based internal control systems (IDW PS 261). The internal control system can be interpreted as the principles, processes and measures that management has introduced into the Company, which are designed to implement management's decisions in the organization and have the following objectives:

- a) assure the effectiveness and efficiency of business activities (including protection of assets and the prevention and detection of damage to assets),
- b) appropriateness and reliability of internal and external accounting and
- c) adherence to the key legal and statutory regulations that apply to the Company.

The risk management system encompasses the totality of all organizational rules and measures for risk identification and for dealing with the risks of entrepreneurial activity.

paragon AG's Managing Board bears the overall responsibility for the internal control and risk management system with respect to the accounting process. The principles, process instructions, operational and organizational structure, as well as the processes included in the accounting-based internal control

and risk management system, are documented in organizational instructions, which are updated to reflect external and internal developments on a regular basis.

Taking into account the size and limited complexity of the accounting process, management has specified the scope and design of these control activities and implemented the process. Furthermore, process-independent controls have been set up. Control activities address such control risks as could significantly impact accounting and the overall statement regarding the financial statements and the management report in terms of their likelihood of occurrence and their effects. Important principles, processes, measures and control activities include:

- Identification of the key control risks of relevance to the accounting process
- Process-independent controls to monitor the accounting process and its results at the level of paragon AG's Managing Board
- Control activities in paragon AG's accounting and financial control areas that provide important information for the preparation of the financial statements and management report, including the requisite segregation of duties and integrated approval processes,
- Measures that assure the proper EDP processing of accounting-based information.

Market and Industry

For years paragon has occupied a strong market position as a recognized and innovative automotive supplier. Fiscal 2011 has shown that the Company is able to exploit its position as direct supplier to the premium manufacturers of Europe to develop successfully as a company. Naturally, economic developments in the automotive industry will in future have considerable influence on the sales and earnings

situation of the Company, which has concentrated fully on automotive electronics for several years. Due to consistent focus on niche markets and its close bonds with key customers, the opportunity arises to develop new sales potential.

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 through the expansion of the product range and the customer base. The loss of a major customer might, nonetheless, have an enormous impact. Due to long contract terms in the case of vehicle series, however, the loss of a customer would be known early on. paragon counters this risk by dint of development work, new products and outstanding customer service on the one hand and detailed order level analysis as part of the early risk identification system on the other.

Pro-active product development, taking into account the interests and wishes of the end customers (the car's passengers), distinguishes paragon from the majority of automotive suppliers. The electronics manufacturer, paragon, has a significant opportunity here, since a large part of key innovations in the car will in future be in the electrical/electronics area. Furthermore, paragon has the automotive industry's mega-trends in its sights, given its focus on the aspects of comfort, safety and wellbeing and the development of additional activities to enhance efficiency in the field of electro-mobility. It cannot be ruled out, however, that a developed product does not reach production of the expected number of units. paragon counters this risk by means of intensive dialogue with the development departments of automotive manufacturers, as well as its long-term experience in the market.

Research and Development

As an innovative direct supplier to the automotive industry, paragon is involved in numerous development projects with customers. Major deviations from project goals in terms of timing or money could entail cost and legal risks (contractual penalties). paragon counters these risks by means of ongoing development and project control 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. Continuous investment in equipment and machinery assure that the Company's equipment is always up-to-date and able to meet the significant requirements of the automotive industry.

Procurement and Production

Many commodities have become more expensive in the fiscal year just elapsed. 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. Currently, the Company procures over 90% of purchasing value from Europe, while the remaining purchasing expenditure goes to 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 (2011: US \$ 3.7 million). paragon, moreover, uses continuous improvements to optimize the production and logistics structures, thereby improving the efficiency of the production process.

Information Technology

With increased vertical integration of business processes based on information technology implemented and comprehensive networking in all parts of the Company by using the Internet, IT risks, such as hardware failure or unauthorized access to the Company's data and information, increase correspondingly. 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

Since paragon AG's business activities are generally concentrated in Germany and the eurozone, currency risks have only very limited effects on the procurement and sales side. Nevertheless, these risks are monitored by means of continuous review of exchange rate expectations. At this time no financial instruments are being used to hedge currency risks.

paragon safeguards its solvency through comprehensive liquidity planning and control. Plans are prepared on a long, medium and short term basis. Furthermore, 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. In addition, paragon AG has the opportunity for short-term financing with the factoring commitment from GE Capital Bank AG.

The risk of interest-rate fluctuations is insignificant for paragon, because the majority of non-current liabilities are covered by agreed fixed interest rates. Moreover, no agreements to comply with financial indicators (financial covenants) are in place for the central financing via the Deutsche Kreditbank (DKB).

Overall Risk

paragon AG's Managing Board always assesses risks in close coordination with the Supervisory Board. The Company has further reduced its overall risk in fiscal 2011 by significantly paying down its liabilities. Further development of the Company is, however, closely linked to economic developments in the automotive industry.

The Company will be exposed to general market risks in the future as well. paragon, however, limits potential risk by its full concentration on the automotive industry. Products that have long been established with customers have the potential for expansion and further development. To this, one can add the positive impact of the establishment of the electro-mobility division in addition to the traditional products related to the man-machine interface.

Income tax assessments for 2010 were not available at the time that the financial statements as at December 31, 2011, were released by the Managing Board, with the exception of trade taxes for the municipality of Delbrück. As in the case of previous balance sheet dates, no provisions for income taxes were recorded as at December 31, 2011, associated with recapitalization gains. This decision was based on the premise that income taxes on the recapitalization gains in periods under review, 2009 and 2010, will be exempted after deduction of the income tax loss carryforwards pursuant to the decree of the Ministry of Finance of March 27, 2003 (BStBl 2003 I S. 240 et seq.) for reasons of equity. In the event that the exemption from income tax on this recapitalization gain fails to materialize, the income taxes that would become due would jeopardize the Company's continued existence. Measurement of income tax provisions for the assessment period 2010 is also based on key assumptions regarding the distinction between income and expense related to the insolvency (recapitalization gains) and operating results. It is conceivable that legal interpretations in this respect may differ between the tax authorities and paragon, which might lead to higher or lower taxes for the assessment period 2010, even if there seem to be no indications at present that this is the case.

At the time of publication of this report, no additional risks have been identified that might jeopardize the Company's continued existence. On the contrary, there is a good chance for paragon to exploit the fundamentally positive mood in the automotive industry and

especially at the key automotive manufacturers of Europe to achieve continued success. Thanks to its close relationship with these customers, paragon can benefit directly from the continued growth that these companies have announced.

J. Capital Structure, Managing Board and Change of Control

Pursuant to the provisions of section 289 (4) of the German Commercial Code, paragon AG provides the following explanations:

Capital

paragon AG's capital stock as at December 31, 2011, consisted of 4,114,788 shares with a par value of EUR 1.00. Subscribed capital amounted to EUR 4,114,788. Capital has been increased conditionally by up to 1,750,000 shares (conditional capital III).

The conditional capital III serves to grant 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, for cash in accordance with the terms of the bond. This authorization is in effect until April 30, 2012.

All shares carry an entitlement to dividend payments. As far as the Managing Board is aware, no restrictions on transfer and voting rights existed over the past fiscal year. There are no shares with special rights that grant control authorities. Klaus Dieter Frers, Chairman of the Board, has direct holdings in paragon AG in excess of 10% (51.32%). To the extent that paragon AG employees participate in the Company's capital, they are not subject to any restrictions with respect to the direct exercise of their voting rights.

Managing Board

The Managing Board of paragon AG consisted of one member as at December 31, 2011: Mr. Klaus Dieter

Frers, at the same time Chairman of the Board. In other respects, the provisions of sections 84 and 85 of the German Stock Corporation Act apply.

paragon AG's Managing Board is constantly committed to the Company's interests and to maintaining and enhancing shareholder value. Furthermore, the sole member of the Managing Board did not exercise any Supervisory Board functions. Subject to the condition of a change of control resulting from a takeover bid, no agreement existed within the Company's Managing Board contracts that the Managing Board should be indemnified under certain conditions.

K. Declaration on Corporate Governance

The declaration on corporate governance in accordance with section 289a of the German Civil Code and the declaration in accordance with section 161 of the German Stock Corporation Act can be viewed at any time on the paragon website at [www.paragon-online.de/Investor Relations/Corporate Governance](http://www.paragon-online.de/Investor%20Relations/Corporate%20Governance) and is printed in the annual report in the section on Corporate Governance.

L. Environmental Protection and Occupational Safety

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

Furthermore, paragon is actively involved in the area of environmental protection due to its regular reviews of manufacturing processes and guarantees compliance with legal provisions by means of stringent controls. Production subsidiaries in Germany are certified in

accordance with the environmental standard DIN EN ISO. At the same time paragon assures that commodities and energy resources are carefully handled by using the most up-to-date manufacturing techniques. Environmental management is solidly integrated into work processes and contributes significantly to the Company's financial success based on well-grounded quality management.

M. Events After the Balance Sheet Date

After the close of the fiscal year events of special significance occurred that are detailed below.

Contracts have been entered into with the company, KarTec GmbH, Forchheim; KarTec will support paragon with respect to the new product group Body Work Kinematiks.

Establishment of the paragon sales branch in Shanghai, China, is anticipated for May 1, 2012.

N. Report on Anticipated Developments

paragon AG's corporate planning is based on sales that are broken down per customer at the sub-level. Key cost components are planned over a time period of several years using individual planning models and then extrapolated in proportion to sales developments. Significant parameters, such as price changes in purchasing or sales and possible cost increases in the personnel area or tax changes, are incorporated in planning. The risk management system, updated on a continuous basis, permits the Company to identify risks early on and counteract them appropriately.

Development of the General Economy and Industries

The global economy had already stalled at the end of 2011 according to estimates of the Institut für Weltwirtschaft (IfW). At the end of 2011 and beginning of 2012, the economy was impacted by the government debt crisis in the eurozone, uncertainty about the

situation in the financial sector, imponderable issues in connection with political financial discussions in the United States and rather feeble growth in the emerging markets. While the crisis in confidence is not expected to become more acute, these depressing factors are likely to still have notable effects at the beginning of 2012. The growth in global production is likely to hover at a rate of 3.4%, according to IfW information; slightly stronger global GDP growth (4.0%) is anticipated for 2012.

The high level of uncertainty in the eurozone is likely to affect demand in German households and companies at the beginning of 2012. The IfW is also expecting negative stimuli from external trade, since production in key trading partner countries is likely to drop. The economy in Germany, however, is anticipated to pick up speed again in the summer, so that GDP should rise by 0.5% and 1.7% in 2012 and 2013, respectively. The institute is not expecting any major impact from this weak economic phase on the job market. Rather, it is expected that unemployment will continue to fall on average for both years. The inflation rate of 1.8% - 2.0% should stay at the same high level as other Euro countries.

The German Automotive Industry Association (VDA) predicts a difficult work year for the automotive industry. It is expected that the world automotive market will increase by 4% in 2012 to approximately 68 million passenger vehicles. The VDA President, on the occasion of the Association's New Year's reception, spoke of the excellent conditions in the German economy. While competition will become more intense, domestic manufacturers intend to gain an additional share of the global market. The Association is optimistic regarding the potential expansion of the market position of German corporate brands, which are currently producing one in five cars world-wide. The importance of the industry for Germany is highlighted by an additional figure: Together with those employed indirectly, every seventh job is related to the automobile, according to VDA information.

Corporate Development

Fiscal 2011 has completely met the expectations of paragon AG. The Company was able to fulfill its own forecasts in terms of sales and earnings figures, continued to strengthen equity and significantly reduced the degree of debt in the amount aimed at. paragon can look forward to 2012 with optimism, in connection with the healthy economy in the automotive industry. The Company should be able to weather the generally expected weak phase of the economy in the first half of the year without any noteworthy negative effects, due to orders already in house; paragon should be able to benefit subsequently from growth in the economy expected for the second half of the year.

The Managing Board of paragon AG has laid important foundations this past fiscal year for future corporate development. The management level has been expanded with the appointment of a Chief Operating Officer and the recruitment of a Manager for Strategic Corporate Development. This will allow the company founder and Chairman of the Board more liberty and support in the strategic development of the Company, which will devote itself to additional fields of activity in the automotive industry, as well as the man-machine interface.

The field of electro-mobility is a main focus, which will become an ever more important theme for automotive manufacturers along with the aspects of comfort, safety and wellbeing.. This is in line with the desire of many consumers to drive an environmentally friendly car and to use already existing technical options optimally. paragon has already set its first milestone in this domain with the construction of a building kit for electro-mobility.

At the moment the Company is setting its sights on small commercial vehicles, based on market developments. Specific uses and requirements for purely electrically powered vehicles already exist for inter-company transport and inter-city traffic. Leading manufacturers are forecasting the first models for passenger vehicle traffic no earlier than 2013.

paragon is offering customers in the electro-mobility field a building kit, which will be ready for series production in the course of 2012 and which provides all system components from a single source. Initial presentations at the IAA in September of 2011 and the top trade fair for electro-mobility, 'eCarTec', in November of 2011 show that sufficient demand exists. The range extender (Range Extender ExtRa15), which enables air conditioning without range restrictions for the first time around the world and which can optionally be operated with hydrogen, was one of the products that attracted attention. paragon is building a center for application in Delbrück, in addition to sales and production, which assists customers in integrating components in the car.

In 2012 paragon will take the first steps in the direction of Body Work Kinematics. paragon has identified great opportunities for the development of new products with movable body work components.

paragon shall also continue to develop dynamically in the traditional business segment of the man-machine interface. The tried-and-true product portfolio is being continuously updated and new applications added. In particular the cTablet Docking Station, with which a tablet computer can fit perfectly in the vehicle environment, should be mentioned in this context. This system, too, will be available on the market during the course of 2012.

Starting on May 1, 2012, it is expected that the paragon sales branch in Shanghai, China, will promote business in Asia.

The Managing Board of paragon AG anticipates continued sales growth in the single-digit percentage range for 2012 and 2013 against this background of orders in hand, expected developments in the economy, especially the automotive industry, and innovations that will soon be available. EBIT will develop similarly to 2011. This forecast is intentionally conservative, since general economic framework conditions cannot be assessed with precision due to the financial crisis in several Euro countries. paragon

has outstanding prospects in the medium and long term, which will also be reflected in the Company's key indicators.

Disclaimer

The 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, February 24, 2012



Klaus Dieter Frers
Chairman of the Managing Board

Guiding Theme:
Innovation at paragon

Innovation at paragon



Award ceremony: Parliamentary State Secretary Thomas Rachel awards the MARKTVISIONEN prize for innovation to Klaus Dieter Frers.

paragon has earned its strong position as an automotive supplier thanks to constant innovation. The company concentrates on niche markets, implementing its extraordinary and high-performance solutions. This strategy has been cited on multiple occasions throughout the company's history, most recently in the fall of 2011 with the coveted Innovation Prize.

paragon prevailed against some strong competition to win the MARKTVISIONEN innovation prize for its belt-mic® seatbelt microphone. The product prevailed against 102 innovations from 98 different companies. Awarding the prize before more than 200 guests was the Parliamentary State Secretary in Germany's Federal Ministry of Education and Research, Thomas Rachel.

The MARKTVISIONEN jury praised the seatbelt microphone for its unique combination of weaving methods, electronic integration, and superior voice quality. According to the Aachen School of Applied Sciences, the combination of textiles and electronics makes the belt-mic® unique in the world. The jurors called attention to the fact that the interdisciplinary process had yielded a highly complex product at a good value.

The current prize is just one in a series of awards that founder Klaus Dieter Frers and paragon have reaped for innovation in its 24-year history. It began in the early 1990's with the LUDWIG prize for a particularly

promising new business. paragon has also garnered multiple awards for exemplary management and processes, including the Oscar for mid-sized companies.

paragon was awarded a prize for the seatbelt microphone even before it was introduced. The SPE Automotive Division Award for innovative plastic components in a vehicle is better known in the industry as the PLASTICS OSCAR. The recently awarded MARKTVISIONEN prize is a valuable example of paragon's range of products but it will certainly not be the last prize for innovations 'made by paragon'.



Awards: LUDWIG "Young Entrepreneur of the Year" (1992), OSCAR for mid-sized companies (2000), MARKTVISIONEN prize for innovation (2011), PREMIER "Grand Prix for mid-sized companies" (2006), SPE AWARD "parts & components" (2010) and Entrepreneur of the Year (2006).

Promoting a hands-on mentality

Innovation is no accident at paragon. Instead, it is the result of a special product-search process. Development heads Ralf Mönkemöller (Delbrück) and Dr. Gerhard Wessels (Nuremberg) explain in the following interview how the company can transform novel ideas into ready-to-market products in such rapid succession. Know-how plus years of tried-and-true processes help make the difference.

What is different about the innovative process at paragon?
DR. WESSELS: "Striving for innovation is an integral part of our corporate culture at paragon. Experience from our daily business flows directly into the creation of new ideas. It is almost as if the approach to tomorrow's innovations arises from the assembly line."

MÖNKEMÖLLER: "We work in a very structured and targeted fashion when we are looking for new products. We don't shy away from new things. Instead, we look for areas that no one else has explored yet. This is where patents are going to play an ever greater role; they make up a major portion of paragon's market value."

How does paragon differ from normal automotive suppliers?

DR. WESSELS: "Everyone has strategy sessions to discover new products, but we consistently involve the entire company. Ideas are assessed and filtered in a multi-step process..."





MÖNKEMÖLLER: "...and paragon has an advantage in that everyone here knows the product lineup and can thus contribute something to the discussion. This allows us to come to a consensus. We can avoid tedious decision-making processes that ultimately result in nothing being done."

How can paragon assure that ideas actually turn into innovations that the market will accept?

MÖNKEMÖLLER: "Since the beginning, we have not just looked at what automobile manufacturers want from us. Instead, we analyze problems ourselves. We ask: What do motorists need? Then we go and devise new approaches to solutions that will confer benefits on both vehicle occupants and automobile manufacturers."

What role do your close contacts to premium manufacturers play in the innovation process?

DR. WESSELS: "Of course we maintain a personal dialogue with car company executives. That gives us a close-up view of their thought process and provides us with new ideas or, at least with some reassurance that we are headed in the right direction."

Do engineers have to fit a certain profile in order to become an integral part of the paragon innovation team?

MÖNKEMÖLLER: "We give our developers the freedom to come up with ideas and to present them. Of course there are certain rules but every worker has a lot of opportunity to create. The whole business benefits if people are not straitjacketed. We'll never tell an employee: No, you can't do that."

DR. WESSELS: "That's precisely why we need a hands-on mentality at paragon. We welcome creative minds who want to make something of themselves and enjoy being creative. A great deal of flexibility is also important because the opportunity to work on different problems enriches employees as well."

Where do you see the greatest potential for innovation?

DR. WESSELS: "Mechanical integration and, for media interfaces, secure access to a car's different systems will be a focal point in the future in Nuremberg. Sensor technologies and the interplay between touch and actuation systems are the focus in the controls area. Internal innovations like standardization of clocks are also important."

MÖNKEMÖLLER: "I envision for Delbrück initiatives in position sensors for the drivetrain in the course of 2012. We are also pursuing new ideas in air quality and acoustics that will optimize our processes and products."



Innovative since 1988

AQS® air quality sensor

Prevents noxious gases from entering the interior through the ventilation system



AQC air processing system

Eliminates odors and harmful bacteria from the air-conditioner condenser



belt-mic® seatbelt microphone

Optimizes voice quality when telephoning from a vehicle and increases the recognition rate of voice-recognition systems



Clutch-travel sensor

Continuously monitors the position of the clutch pedal and provides additional information for engine controls



cTablet Docking Station

Integrates individually configurable tablet computer into a vehicle perfectly and securely (joint venture with the iconmobile group)



Gauge with LCD display

Combines with other instruments with programmable displays for additional instruments



AQI air quality improvement system

Uses artificial ionization to actively improve interior air quality



Cylindrical noise-mic plus cardioid microphone

Halves the size and facilitates integration due to its cylinder shape. Microphone with cardioid characteristics



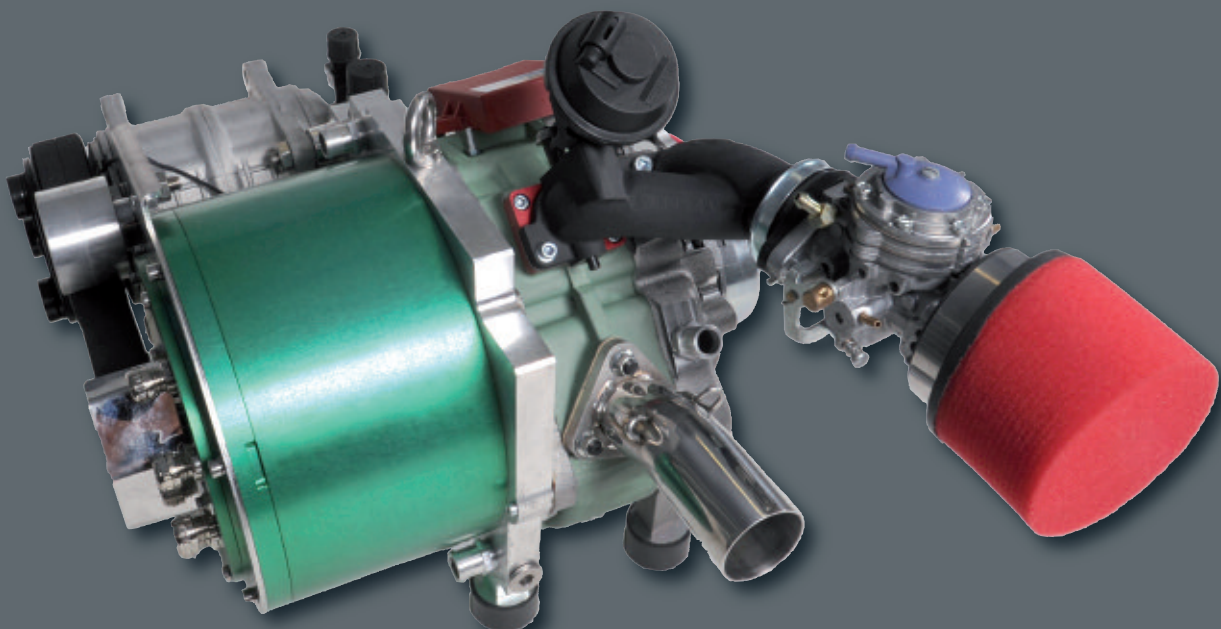
Start-Stop sensor

Uses an inductive, magnet-free metering principle to recognize the neutral position in manual transmissions



Range Extender ExtRa15

Improves the utilization of electric vehicles without limiting air conditioning (optionally with hydrogen)



Looking ahead

Man-Machine Interface

The paragon product pipeline will bring many significant new developments in the years to come, thanks to continued innovation. The new products will complement existing solutions as paragon continues to focus on the comfort, safety, and wellbeing of a vehicle's occupants. Breathing, speaking, hearing, seeing, operating, sitting, steering and shifting – all provide stimulus for the innovations of tomorrow.

BREATHING

In addition to air-quality sensors and improved air quality systems, paragon is involved in scenting the vehicle's interior.

OPERATING

The company has followed its success in cockpit controls with new activities like capacitive instrument displays and gesture recognition.

SPEAKING

Various microphone types, including the globally unique belt-mic® seatbelt microphone, provide the foundation for deluxe systems such as a digital audio link and a voice gateway.

SITTING

Climate sensors, a wellness seat and an acoustic seat system will make paragon a supplier in the car-seat segment as well.

HEARING

Mobile communications on the road are becoming more and more commonplace. Cordless recharging is just as important here as optimizing comprehension in the passenger compartment.

STEERING

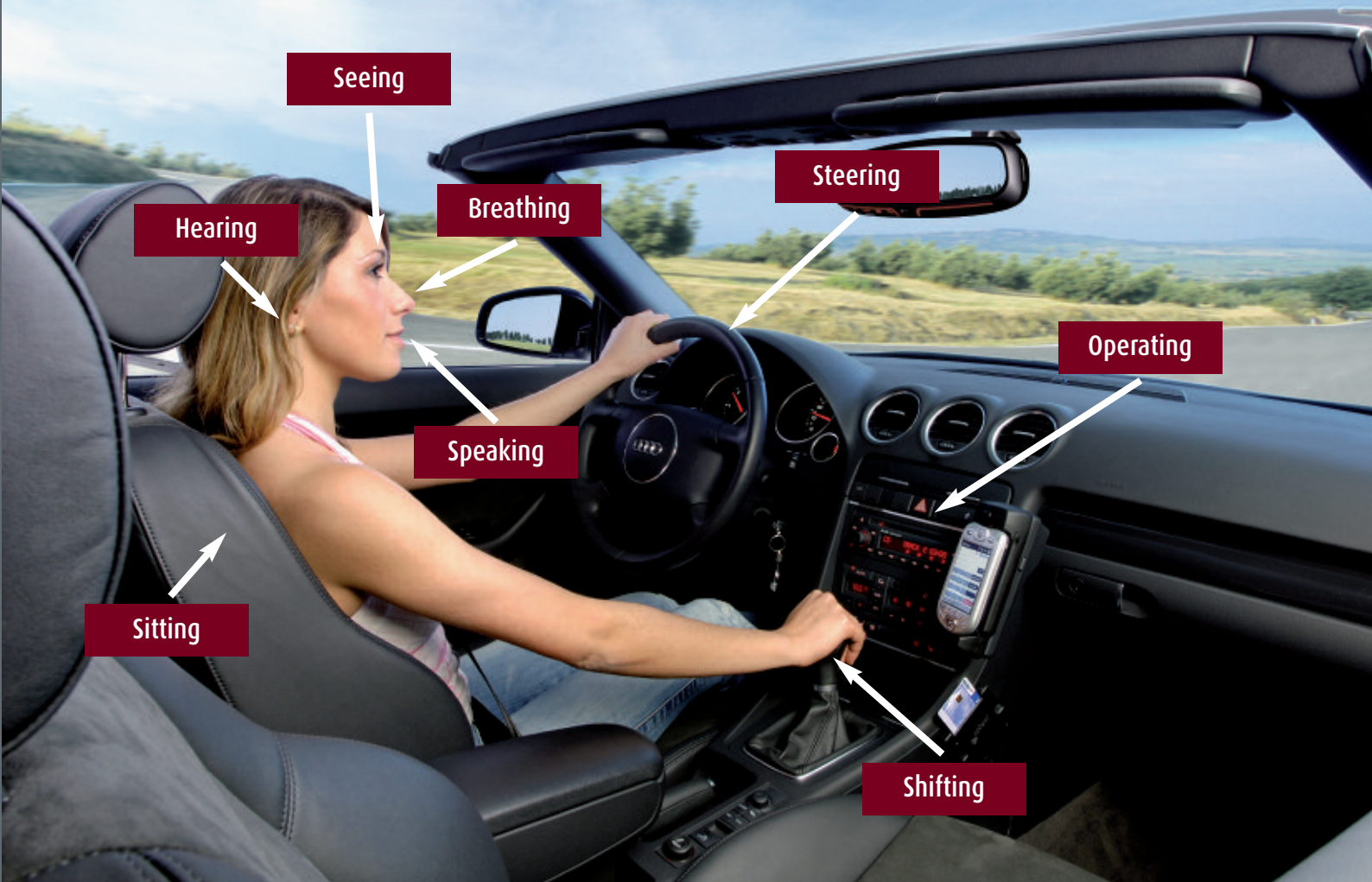
paragon has been an expert in multifunction steering wheels for many years. The newest addition is an alarm for steering assistance.

SEEING

paragon utilizes its expertise in instruments and stepper motors to make modules for the cockpit and stepper motors. A hybrid stepper motor is currently in the design phase.

SHIFTING

The spectrum of sensors for drivetrain and shift-by-wire systems is going to expand with the addition of an all-gear sensor and a 3D sensor.



Efficiency

This new company segment also involves solutions that no one has thought of in this form. Ideas that are still in the concept phase or in the development phase will soon become marketable products, which means that the pace of innovation at paragon is going to pick up. Activities in electric vehicles and auto body represent the start of another growth phase.

ELECTRIC VEHICLES

As previously announced, the module for electric drive in cars and trucks will make its appearance in the course of 2012. The system contains a PowerPack 100 (energy-storage device), a novel range extender integrated into the air-conditioning system (ExtRa15), a motor controller (MoDrive 40), a DC/DC converter (DCCon 12) and an onboard charger (ChargeOn 400).

AUTO BODY

Efficient aerodynamics, an optimum cutting edge and precise air conduction characterize the solutions that paragon comes up with. Integrated design, multi-dimensional flexibility in a limited space and a high degree of resistance to environmental influences will mark our products in the future. We have set our focus on additional automotive systems besides aerodynamic solutions.

Balance Sheet of paragon AG, Delbrück, as of December 31, 2011

in EUR thousands	Notes	31.12.2011	31.12.2010
Assets			
Non-current assets			
Intangible assets	D(1)	3,281	3,080
Property, plant and equipment	D(2)	13,272	14,250
Financial assets	D(3)	0	0
Other assets		159	151
Deferred tax liabilities	C(9)	430	718
Total non-current assets		17,142	18,199
Current assets			
Inventories	D(4)	6,865	6,472
Trade receivables	D(5)	486	3,910
Income tax claims		230	195
Other assets	D(6)	1,372	904
Cash and cash equivalents	D(7)	15,330	13,790
Total current assets		24,283	25,271
Total assets		41,425	43,470

in EUR thousands	Notes	31.12.2011	31.12.2010
Liabilities			
Equity			
Subscribed capital	D(8)	4,115	4,115
Capital reserves	D(8)	3,478	7,753
Loss carried forward		- 3,130	- 10,574
Net income/comprehensive income		5,335	3,169
Total equity		9,798	4,463
Non-current provisions and liabilities			
Non-current finance lease obligations	D(9)	224	444
Non-current borrowings	D(10)	12,298	14,727
Investment grants	D(13)	2,709	3,467
Pension provisions	D(11)	2,015	1,914
Total non-current provisions and liabilities		17,246	20,552
Current provisions and liabilities			
Current portion of finance lease obligations	D(9)	220	441
Short-term loans and current portion of long-term loans	D(10)	2,446	5,890
Trade payables	D(12)	3,070	2,071
Other provisions	D(14)	875	980
Income tax liabilities	D(15)	700	408
Other current liabilities	D(12)	7,070	8,665
Total current provisions and liabilities		14,381	18,455
Total equity and liabilities		41,425	43,470

Consolidated Income Statement of paragon AG, Delbrück, for the period from January 1 to December 31, 2011

in EUR thousands	Notes	01.01. - 31.12.2011	01.06. - 31.12.2010
Sales revenues	C(1); D(22)	67,055	35,250
Other operating income	C(2)	1,863	4,255
Increase or decrease in inventory of finished goods and work in progress		63	322
Other own work capitalized	C(3)	1,343	113
Total operating performance		70,324	39,940
Cost of materials	C(4)	- 33,670	- 18,651
Gross profit		36,654	21,289
Personnel expense	C(5)	- 16,721	- 7,911
Depreciation of property, plant and equipment and amortization of intangible assets	C(7)	- 4,068	- 2,939
Impairment of property, plant and equipment and intangible assets	D(1)	- 106	- 114
Other operating expenses	C(6)	- 6,938	- 5,758
Earnings before interest and taxes (EBIT)		8,821	4,567
Financial income	C(8)	34	130
Finance costs	C(8)	- 1,353	- 847
Financial result		- 1,319	- 717
Income before taxes (EBT)		7,502	3,850
Income taxes	C(9)	- 2,167	- 681
Net income/comprehensive income		5,335	3,169
Earnings per share (basic)	C(10)	1.30	0.77
Earnings per share (diluted)	C(10)	1.30	0.77
Average number of shares outstanding (basic)	C(10)	4,114,788	4,114,788
Average number of shares outstanding (diluted)	C(10)	4,114,788	4,114,788

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

in EUR thousands	Notes	01.01. – 31.12.2011		01.06. – 31.12.2010	
Earnings before taxes		7,502		3,850	
Depreciation/amortization of non-current assets		4,068		2,939	
Financial result		1,318		717	
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets		- 42		53	
Increase (+), decrease (-) in other provisions and pension provisions		- 1,761		1,565	
Income from the reversal of the special item for investment grants		- 758		- 737	
Other non-cash income and expense		- 216		0	
Increase (-), decrease (+) in trade receivables, other receivables and other assets		165		2,303	
Impairment of intangible assets		106		114	
Increase (-), decrease (+) in inventories		- 393		- 1,066	
Increase (+), decrease (-) in trade payables and other liabilities		1,425		- 3,406	
Interest paid		- 1,249		- 847	
Income taxes paid		- 1,587		- 449	
Cash flow from operating activities	D(21)		8,578		5,036
Cash receipts from disposals of property, plant and equipment		60		59	
Cash payments to acquire property, plant and equipment		- 2,062		- 2,515	
Cash payments to acquire intangible assets		- 1,352		- 12	
Interest received		33		130	
Cash flow from investment activities	D(21)		- 3,321		- 2,338
Cash repayments of borrowings		- 6,399		- 1,490	
Amounts paid on insolvency ratio		- 292		- 8,739	
Cash proceeds from issuing loans		639		14,061	
Cash repayments for liabilities from finance lease		- 441		- 306	
Net cash inflow from factoring		2,776		0	
Cash flow from financing activities	D(21)		- 3,717		3,526
Cash-effective change in liquidity		1,540		6,224	
Cash and cash equivalents at beginning of period		13,790		7,566	
Cash and cash equivalents at end of period	D(7; 21)	15,330		13,790	

Statement of Changes in Equity of paragon AG, Delbrück

in EUR thousands	Subscribed capital	Capital-reserve	Net profit for the year		Total
			Loss carried forward	Net income/comprehensive income	
Balance as of June 1, 2010	4,115	7,753	- 10,574	0	1,294
Net income	0	0	0	3,169	3,169
Other comprehensive income	0	0	0	0	0
Comprehensive income	0	0	0	3,169	3,169
Balance as of December 31, 2010	4,115	7,753	- 10,574	3,169	4,463

in EUR thousands	Subscribed capital	Capital-reserve	Net profit for the year		Total
			Loss carried forward	Net income/comprehensive income	
Balance as of January 1, 2011	4,115	7,753	- 7,405	0	4,463
Net income	0	0	0	5,335	5,335
Other comprehensive income	0	0	0	0	0
Comprehensive income	0	0	0	5,335	5,335
Transfer from capital reserves	0	- 4,275	4,275	0	0
Balance as of December 31, 2011	4,115	3,478	- 3,130	5,335	9,798

Shares held by members of the Managing and Supervisory Boards as at Dec. 31, 2011

Capital stock: 4,114,788 shares

	Shares as of 31.12.2011
Managing Board, total	2,111,730
Supervisory Board, total	2,000
Boards, total	2,113,730
as % of share capital	51.37

A. Information on paragon AG

(1) General information

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

The Managing Board of paragon AG released the financial statements as of December 31, 2011 and the management report for the period from January 1 to December 31, 2011 to the Supervisory Board on February 24, 2012.

The financial statements prepared for the period from January 1 to December 31, 2011, and the management report of paragon AG are submitted to the electronic Federal Gazette and are available on the Company's website (www.paragon-online.de).

B. Basis of preparation

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

These financial statements of paragon AG as of December 31, 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, as adopted by the European Union (EU) and applicable on the balance sheet date, and in accordance with the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC).

(2) Going Concern

The financial statements for the reporting period from January 1 to December 31, 2011 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 financial statements are prepared on the basis of the circumstances existing as of the balance sheet date. According to IAS 10.7, events after the reporting period include all events up to the date when the financial statements are authorized for issue. The financial statements as of December 31, 2011 were authorized for issue by the Managing Board and submitted to the Supervisory Board for signature on February 24, 2012. All information available up to that date with regard to the circumstances on the balance sheet date must be taken into account.

Events of special significance occurred after the close of the fiscal year and are detailed below:

- Contracts were entered into with KarTec GmbH, Forchheim. KarTec will support paragon with respect to its new Body Work Kinematics segment.
- Establishment of a sales branch in Shanghai, China, was made possible on May 1, 2012 by recruiting two employees.

(4) New accounting principles due to new standards

The following revised and new standards 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 as of December 31, 2011:

- In January of 2010, the IASB published amendments to IFRS 1 – First-time Adoption of the International Financial Reporting Standards. The amendments concern the exemption for first-time adopters in relation to IFRS 7 for information on fair value and liquidity risk. The changes are required to be applied for fiscal years beginning on or after June 30, 2010. The amendments were endorsed by the EU on June 30, 2010. The amendment had no effect on the annual financial statements.
- In November of 2009, the IASB published IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments. 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 on or after July 1, 2010. The amendments were endorsed by the EU on July 23, 2010. The amendment had no effect on the annual financial statements.
- In November of 2009, the IASB published IFRS 24 – Related Party Disclosures. The amendment clarifies the definition of a related party and simplifies the disclosure obligations on the part of governments with respect to enterprises that constitute related parties. The changes are required to be applied for fiscal years beginning on or after January 1, 2011. The amendments were endorsed by the EU on July 19, 2010. The amendment had no effect on the annual financial statements.
- In May of 2010, the IASB published improvements to IFRS as part of its annual updates (Annual Improvements Project 2008 – 2010). Most of the amendments involve clarifications or corrections to existing IFRSs or amendments that have arisen from modifications made to previous IFRSs. Additional amendments were made to a total of seven standards. The changes are required to be applied for fiscal years beginning on or after January 1, 2011. The amendments were endorsed by the EU on February 19, 2011. The amendments had no effect on the annual financial statements.
- In November of 2009, the IASB published amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The explanation provides an interpretation of IAS 19 and deals with areas of doubt regarding the recognition 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 on or after January 1, 2011. The amendments were endorsed by the EU on July 19, 2010. The amendment had no effect on the annual financial statements.

As of the date the financial statements for the reporting period from January 1 to December 31, 2011 were prepared, the following standards and interpretations had already been issued, but were not required to be applied and/or had not been endorsed by the EU:

- In November of 2009, the IASB published IFRS 9 – Financial Instruments. Together with two further addenda, the standard will replace IAS 39 with regard to the classification and measurement of financial assets. The changes were previously required to be applied for fiscal years beginning on or after January 1, 2013. In December of 2011, however, the IASB decided to postpone initial application from January 1, 2013 to January 1, 2015 since at that time only phase 1 of the project had been completed. Phase 2 (Impairment Losses) and phase 3 (Hedge Accounting) are still under discussion. In order to ensure that all future rules, and thus the definitive IFRS 9, are applied at the same time, the IASB has officially postponed the time at which IFRS 9 is to become effective. Furthermore, adjusted prior-year figures do not have to be provided for the first-time application of IFRS 9. The European Union has not yet endorsed the changes. The Company will evaluate the expected effects and determine a date for initial application.
- In October of 2010, the IASB published requirements for the recognition of financial liabilities. They supplement the already existing requirements for the classification and measurement of financial assets that had been published in November 2009 in IFRS 9 – Financial Instruments. The changes are required to be applied for fiscal years beginning on or after January 1, 2013. The European Union has not yet endorsed the changes. The Company will evaluate the expected effects and determine a date for initial application.
- In October of 2010, the IASB published amendments to IFRS 7 – Financial Instruments: Disclosures. These amendments relate to the transfer of financial assets. The expanded disclosure requirements are intended, among other things, to enable the reader of financial statements to understand the relationship between the transferred financial assets and the associated financial liabilities. The amendments require additional disclosures if a disproportionately large number of transfers occurs near the end of a reporting period. The changes are required to be applied for fiscal years beginning on or after July 1, 2011. The amendment will have no effect on the financial statements.

- In December of 2010, the IASB published two minor amendments to IFRS 1 – First-time Adoption of the International Financial Reporting Standards. The first amendment replaces references to a fixed transition date of “January 1, 2004” with “the date of transition to IFRS,” thus eliminating the need for companies adopting the IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period in which the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation. The amendments to IFRS 1 are set out in Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters and are effective from July 1, 2011. Early adoption is permitted. The European Union has not yet endorsed the changes. The amendment will have no effect on the financial statements.
- In December of 2010, the IASB published amendments to IAS 12 – Income Taxes. The amendments set out in Deferred Tax: Recovery of Underlying Assets result from proposals published for public comment in an exposure draft in September. The remaining guidelines were incorporated into IAS 12 and SIC 21 was withdrawn. The changes are required to be applied for fiscal years beginning on or after December 31, 2011. The European Union has not yet endorsed the changes. The amendment will have no effect on the financial statements.
- In May of 2011, the IASB completed its improvements to requirements for off-balance sheet activities and Joint Arrangements with the publication of IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, and IFRS 12 – Disclosure of Interests in Other Entities as well as two revised standards: IAS 27 Consolidated and Separate Financial Statements and IAS 28 Investments in Associates. IFRS 10 results in the implementation of a single consolidation model and is based on the current principles for identifying the controlling influence according to which a subsidiary should be included in the scope of consolidation of a parent company. Furthermore, the standard provides additional guidelines that are designed to help in determining the controlling influence. SIC-12 – Consolidation – Special Purpose Entities and parts of IAS 27 were replaced by the introduction of IFRS 10. IFRS 11 is intended to place focus on the rights and obligations involved in a joint arrangement and enable the accounting presentation to better reflect reality. At present, the standard permits only one accounting method for joint arrangements. Once IFRS 11 takes effect, it will supersede SIC-13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers and IAS 31 – Interests in Joint Ventures; therefore proportionate consolidation will no longer apply. Changes in terminology and the instances in which equity accounting is to be performed in accordance with IAS 28 should be observed. IFRS 12 is a new standard specifying the requirements for making disclosures in the notes for all types of interests in other entities, including joint arrangements, associates, special-purpose entities and other off balance sheet instruments. The new standard is mandatory for fiscal years starting on or after January 1, 2013. Early adoption is possible. The European Union has not yet endorsed the changes. The amendments will have no effect on the financial statements.
- In May of 2011, the IASB published IFRS 13 – Fair Value Measurement. The standard provides guidance on the measurement of fair value when another IFRS requires fair value measurements or disclosures. Which items are to be measured or disclosed at fair value are, however, not laid out in IFRS 13, but in the individual standards. Furthermore, fair value has been redefined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The European Union has not yet endorsed the changes. The amendment will become effective for fiscal years starting on or after January 1, 2013. Early adoption is permitted. The amendment will have no effect on the financial statements.
- In June of 2011, the IASB adopted an amended version of IAS 19 – Employee Benefits. Probably the most significant change is elimination of the so-called “corridor approach,” or the deferred recognition of actuarial gains and losses. In the future, all actuarial gains and losses must be recognized immediately in OCI (other comprehensive income) without impacting profit or loss. Additional changes include the presentation or breakdown of changes in net defined benefit liabilities (assets) and enhanced disclosures in the notes regarding features and risks of defined-benefit plans. The European Union has not yet endorsed the changes. The revised IAS 19 is mandatory for fiscal years starting on or after January 1, 2013. The Company will evaluate the expected effects and determine a date for initial application.
- In June of 2011, the IASB and the FASB adopted the amendments to IAS 1 – Presentation of Financial Statements. The changes are designed to improve the presentation of OCI (other comprehensive income) and to harmonize the presentations under IFRS

and US-GAAP. OCI is to be broken down into items which may be “recycled” and those which will not be. Tax associated with the items presented before tax must also be shown separately. Recognition of these items is covered in a separate standard. The IASB hopes to achieve greater consistency and better comparability of financial statements with these amendments. Application of the amendments to IAS 1 is mandatory for fiscal years starting on or after July 1, 2012. The European Union has not yet endorsed the changes. Early adoption is permitted, however. The Company will evaluate the expected effects and determine a date for initial application.

- In October of 2011, the IASB adopted IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine. The interpretation developed by the IFRS Interpretations Committee governs accounting for waste removal costs during the production phase in surface mining. The interpretation clarifies when waste removal costs are to be recognized as an asset and how initial measurement and subsequent measurement is to take place. The European Union has not yet endorsed the changes. IFRIC 20 is to be applied for the first time to fiscal years starting on or after January 1, 2013. Earlier application is permitted. The amendment will have no effect on the financial statements.
- In October of 2011, the IASB published amendments to IAS 32 – Financial Instruments: Presentation and IFRS 7 – Financial Instruments: Disclosure. The IASB clarifies the rules for offsetting financial instruments in these amendments. The amendments are intended to eliminate inconsistencies in the interpretation of the existing rules for offsetting financial assets and liabilities. In addition, enterprises are in the future to disclose gross and net amounts from the offset, as well as the amounts of existing offset rights that do not meet the accounting criteria for offsetting. The European Union has not yet endorsed the changes. Application of the amendment is mandatory for fiscal years starting on or after January 1, 2014. Disclosure of the additional information, however, is mandatory for fiscal years or interim periods starting January 1, 2013. The amendments will have no effect on the financial statements.

(5) Currency translation

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

Exchange rate losses from operations in the amount of EUR 50 thousand (prior year: EUR 30 thousand) and exchange rate gains in the amount of EUR 26 thousand (prior year: EUR 27 thousand) are recognized in the statement of comprehensive income. These exchange rate differences are contained in other operating expenses or other operating income.

(6) Accounting policies

The accounting policies used in the previous year have been reapplied unaltered with the following exception:

In fiscal 2011, old debts measured as insolvency dividends were reclassified from the other provisions and trade payables on the balance sheet to other current liabilities on the balance sheet. Only the comparison information from the previous year was adjusted, since the change in presentation was retroactive only to the balance sheet date of December 31, 2010 and otherwise has no significant influence on the informational value of the earliest comparative period. It is for this reason that there is no presentation in the balance sheet at the beginning of this comparative period (IAS 1.39c). The effects of the change are laid out in Note 12 “Other Liabilities.”

The financial statements were prepared in euros (EUR). Pursuant to IAS 21 – The Effects of Changes in Foreign Exchange Rates, the reporting currency is the euro. All amounts – unless stated otherwise – are disclosed in thousands of euros (EUR thousand). The reporting period for paragon in the financial statements at hand extends from January 1 to December 31, 2011. The accounting

Foreign currency for 1 EUR	Balance sheet - middle rate as of December 31.	Income statement - average rate	Balance sheet - middle rate as of December 31	Income statement average rate
	01.12.2011		06.12.2010	
U.S. dollar (USD)	1.2932	1.3922	1.3253	1.3108

period relating to the period of insolvency from January 1, 2010 to May 31, 2010 ended upon suspension of the insolvency proceedings by the district court of Paderborn effective June 1, 2010. The Annual General Meeting on September 30, 2010 resolved to restore paragon's fiscal year to the calendar year starting on January 1, 2011. As a result the comparative period is a partial fiscal year from June 1, 2010 to December 31, 2010. Consequently, the previous year's figures do not provide a complete basis for comparison. In order to facilitate reading of the report the term "prior year" will be used as a standard as regards disclosures in connection with the previous partial fiscal year. Individual items in the balance sheet and statement of comprehensive income have been combined in order to provide better clarity and transparency. Where this has occurred, the items are explained individually in the notes to the financial statements. The statement of comprehensive income continues to be structured in accordance with the total cost (nature of expense) method. The balance sheet makes a distinction between non-current and current assets and liabilities; these are broken down in detail by maturity in the notes. Assets and liabilities are recognized as current if they mature within one year.

The financial statements comprise the balance sheet, the statement of comprehensive income, the notes to the financial statements, the cash flow statement, and the statement of changes in equity. As in previous years, a 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 in connection with the development of patents and client-specific solutions are recognized as intangible assets at cost, provided the unambiguous attribution of expenses required by IAS 38 is possible, technical feasibility and marketability are assured, and the anticipated realization of future economic benefit has been demonstrated. Cost comprises all costs directly and indirectly attributable to the development process, as well as necessary portions of project-related overhead costs. If the asset recognition requirements have not been fulfilled, development costs are 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 useful economic lives. Amortization starts as soon as the asset can be used, i.e. when it is at the location and state of operating readiness intended by management. 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 that impairment exists. If such indications existed, an impairment test pursuant to IAS 36 – Impairment of Assets is performed. All residual values, useful lives, and amortization methods are reviewed at the end of each fiscal year and adapted as necessary.

The useful lives for internal development costs correspond to the 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, 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 is undertaken on a straight-line basis. In the case of buildings, the useful life is considered to be 20 to 25 years, for technical plant five to ten years, and for other plant and office furniture and equipment three to ten years.

Fully depreciated items of property, plant and equipment are presented under cost and cumulative depreciation until the asset is retired. Amortized costs and cumulative depreciation are deducted from the revenue derived from retired assets. The profit or loss contributions of retired assets (disposal proceeds less residual carrying amounts) are shown in the 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 that impairment exists. If such evidence exists, an impairment test is performed.

Leases

Leases are classified as finance leases if substantially all the risks and rewards incidental to beneficial ownership of an asset are transferred to paragon. Property, plant and equipment whose leases fulfill the criteria of a finance lease in accordance with IAS 17 – Leases are capitalized at the lower of their fair value and the present value of the minimum leasing payments at the beginning of the usage period. A liability is then entered in the balance sheet for the same amount. Subsequent measurement takes place using the effective interest method at amortized cost. The amortization methods and useful lives correspond to those of assets acquired in a similar manner.

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

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

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

Impairment of non-financial assets

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

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

Financial instruments

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

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

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

Financial liabilities generally refer to contractual obligations to deliver cash or another financial asset. At paragon, these consist in particular of trade payables and other current liabilities as well as liabilities to banks pursuant to IAS 39 – Financial Instruments: Recognition and Measurement. paragon classifies financial liabilities under the measurement category of loans and receivables and measures them at amortized cost, taking into account principal

payments and the amortization of any difference between the acquisition cost and the payment obligation due on maturity using the effective interest rate method.

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

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

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

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

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

Income taxes

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

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

Deferred taxes are recognized using the balance sheet liability method in accordance with IAS 12 – Income Taxes. Deferred tax assets and liabilities are recognized to reflect temporary differences between the carrying amount of an asset or liability in the IFRS balance sheet and its tax base. Deferred taxes are also recognized for future tax liabilities.

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

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

Current income tax assets and liabilities and deferred income tax assets and liabilities are only offset if such offset is legally permissible and the deferred tax assets and liabilities relate to

income taxes that have been levied by the same tax authority. Deferred taxes are reported as non-current in accordance with IAS 1.70.

Inventories

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

Trade receivables and other current assets

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

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

Cash and cash equivalents

Cash and cash equivalents include cash and bank balances with original maturities of up to three months. They are measured at nominal value. Foreign currency positions are measured at fair value. “Cash and cash equivalents” on the cash flow statement corresponds to “cash and cash equivalents” on the balance sheet (cash and bank balances).

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 known as of the balance sheet date, but also the increases in salaries and pension benefits to be expected in the future by estimating relevant influencing factors. The calculation is based on actuarial opinions, taking into account biometric principles. Amounts not yet recorded in the balance sheet arise from actuarial gains and losses due to changes in inventory and differences between the assumptions made and actual developments. Actuarial gains and losses that arise during the period under review are immediately recognized in income in accordance with IAS 19.95. The option of recognizing actuarial gains and losses in income only if they fall outside a fluctuation margin of 10% of total obligations was not elected. The option to recognize actuarial gains and losses in full in other comprehensive income pursuant to IAS 19.93A and to offset them against retained earnings as provided for in IAS 19.93D was not elected either. The service cost is shown under personnel expenses, and the interest portion of the allocation to provisions is included in the financial result.

Other provisions

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

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

Government grants

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

Financial liabilities and equity instruments

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

Trade payables and other current liabilities

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

Recognition of income and expenses

Income is recognized when it is probable that economic benefits will flow to paragon and the amount of the income can be measured reliably. Income is measured at the fair value of the consideration received. Discounts, rebates and value added tax or other levies are not taken into consideration. If transactions provide for a declaration of acceptance on the part of the purchaser, the

related sales revenues are only recognized once such a declaration has been issued. If the sale of products and services involves several delivery and service components, such as varying remuneration agreements in the form of prepayments, milestone payments, and similar payments, a review takes place to ascertain whether revenues should be recognized separately for partial sales at different points in time. Contractually agreed prepayments and other non-recurring payments are deferred and taken to income over the period during which the contractually agreed service is performed.

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

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

Borrowing costs

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

(7) Use of estimates and assumptions

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

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

Capitalized development costs

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

Inventories

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

Other assets and liabilities

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

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

Deferred tax assets

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

Domestic deferred taxes were computed at a combined income tax rate of 29.2% as of December 31, 2011 (prior year: 29.2%). This includes a corporate tax rate of 15% and a solidarity surcharge of 5.5%. The income tax rate also reflects trade tax, taking into

account the breakdown of the trade tax assessment rates among the municipalities in which the Company's branches are located.

Provisions for pensions

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

With respect to measurement as of December 31, 2011, the discount rate increased from 5.37% on December 31, 2010 to 5.45% in anticipation of the long-term trend in market interest rates.

Consolidated statement of changes in non-current assets, June 1 to December 31, 2010

in EUR thousands	ACQUISITION COST				DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES				CARRYING AMOUNTS			
	01.06.2010	Additions	Disposals	Reclas-sifications	31.12.2010	01.06.2010	Current depreciation and amortization	Impairments in accordance with IAS 36/38	Disposals	31.12.2010	31.05.2010	31.12.2010
Intangible assets												
Licenses, patents, software	17,965	12	0	0	17,977	14,211	722	0	0	14,933	3,754	3,044
Capitalized development costs	359	0	0	0	359	137	72	114	0	323	222	36
Total intangible assets	18,324	12	0	0	18,336	14,348	794	114	0	15,256	3,976	3,080
Property, plant and equipment												
Land and buildings	12,685	1,056	0	0	13,741	4,098	406	0	0	4,504	8,587	9,237
Technical equipment and machinery	15,677	671	0	210	16,558	12,003	1,359	0	0	13,362	3,674	3,196
Other equipment, furniture and office equipment	6,876	525	- 65	156	7,492	5,662	380	0	- 12	6,030	1,214	1,462
Payments on account	518	263	- 60	- 366	355	1	0	0	- 1	0	517	355
Total property, plant and equipment	35,756	2,515	- 125	0	38,146	21,764	2,145	0	- 13	23,896	13,992	14,250
Financial assets												
Equity investments	266	0	- 266	0	0	86	0	0	- 86	0	180	0
Total financial assets	266	0	- 266	0	0	86	0	0	- 86	0	180	0
Total	54,346	2,527	- 391	0	56,482	36,198	2,939	114	- 99	39,152	18,148	17,330

AG IFRS Statement of Fixed Assets as at December 31, 2011

in EUR thousands	ACQUISITION COST				DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES				CARRYING AMOUNTS			
	01.01.2011	Additions	Disposals	Reclas- sifications	31.12.2011	01.01.2011	Current depreciation and amortization	Impairments in accordance with IAS 36/38	Disposals	31.12.2011	31.12.2010	31.12.2011
Intangible assets												
Licenses, patents, software	17,977	209	0	0	18,186	14,934	977	0	0	15,911	3,043	2,275
Capitalized development costs	359	1,144	0	0	1,502	322	68	106	0	496	36	1,007
Total intangible assets	18,336	1,352	0	0	19,688	15,256	1,045	106	0	16,407	3,080	3,281
Property, plant and equipment												
Land and buildings	13,742	2	0	0	13,744	4,505	748	0	0	5,253	9,237	8,491
Technical equipment and machinery	16,558	145	- 35	278	16,945	13,362	1,660	0	- 19	15,003	3,196	1,942
Other plant, office furniture and equipment	7,493	373	- 10	321	8,177	6,031	615	0	- 9	6,637	1,462	1,540
Payments on account	355	1,543	0	- 599	1,299	0	0	0	0	0	355	1,299
Total property, plant and equipment	38,148	2,062	- 45	0	40,165	23,898	3,023	0	- 28	26,893	14,251	13,272
Total	56,484	3,415	- 45	0	59,853	39,154	4,068	106	- 28	43,300	17,330	16,554

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

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

(1) Sales revenues

Sales revenues include sales of products and services less any sales reductions. Of the sales revenues for the fiscal year of EUR 67,055 thousand (prior year: EUR 35,250 thousand), domestic sales accounted for EUR 44,104 thousand (prior year: EUR 26,185 thousand) and foreign sales for EUR 22,951 thousand (prior year: EUR 9,065 thousand).

The breakdown and classification of sales revenues by strategic business field and region are shown in the "Segment Report" chapter of the management report.

(2) Other operating income

Other operating income includes income from the reversal of the special item for grants of EUR 758 thousand (prior year: EUR 737 thousand), income from the liquidation of specific valuation allowances of EUR 259 thousand (prior year: EUR 223 thousand) and income from the reversal of other provisions of EUR 117 thousand (prior year: EUR 212 thousand). This item also contains other income from grants from the federal employment office, exchange rate differences, use of company cars by employees, and lease income. In the prior year, other operating income contained restructuring income of EUR 2,531 thousand from the derecognition of financial liabilities in connection with implementation of the insolvency plan.

(3) Other own work capitalized

Insofar as development projects satisfied the requirements of IAS 38.21 and IAS 38.57 in the period under review and were capitalized, project-related development costs were reported in other own work capitalized. The capitalized amounts are recognized under intangible assets. The costs for test equipment for automotive products were also reported in other own work capitalized.

in EUR thousands	01.01. – 31.12.2011	01.06. – 31.12.2010
Project-related development costs	1,144	0
Cost of test equipment	199	113
Other own work capitalized	1,343	113

(4) Cost of materials

in EUR thousands	01.01. – 31.12.2011	01.06. – 31.12.2010
Raw materials and supplies	31,292	17,601
Cost of purchased services	2,378	1,050
Cost of materials	33,670	18,651

(5) Personnel expense

Personnel expense amounted to EUR 16,721 thousand in the period under review (prior year: EUR 7,911 thousand) and can be broken down as follows:

in EUR thousands	01.01. – 31.12.2011	01.06. – 31.12.2010
Wages and salaries	12,594	5,642
Social security contributions/ pension expenses	1,967	1,564
Expenses for temporary staff	2,160	705
Personnel expense	16,721	7,911

Personnel levels changed as follows compared to the previous year:

	01.01. – 31.12.2011	01.06. – 31.12.2010
Salaried employees	159	148
Wage-earning employees	160	139
Average number of employees	319	287

(6) Other operating expenses

Other operating expense relates chiefly to legal and consulting costs (EUR 745 thousand, prior year: EUR 511 thousand), vehicle costs (EUR 525 thousand, prior year: EUR 221 thousand), IT and phone costs (EUR 649 thousand, prior year: EUR 341 thousand), costs of building rent and energy (EUR 1,440 thousand, prior year: EUR 743 thousand), advertising and marketing costs (EUR 384 thousand, prior year: EUR 101 thousand), and plant insurance and leasing costs (EUR 263 thousand, prior year: EUR 233 thousand). Other taxes recorded under other operating expenses during the period under review amounted to EUR 30 thousand (prior year: EUR 12 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 statement on fixed assets.

(8) Financial result

in EUR thousands	01.01. – 31.12.2011	01.06. – 31.12.2010
Financial income	34	130
Interest income	34	130
Finance costs	- 1,353	- 847
Other finance costs and interest expense	- 1,353	- 847
Net financial result	- 1,319	- 717

Interest expenses owed to banks of EUR 1,124 thousand are reported in other financing and interest expenses.

(9) Income taxes

in EUR thousands	01.01. – 31.12.2011	01.06. – 31.12.2010
Current taxes	1,880	573
Current domestic taxes	1,880	573
Deferred taxes	287	108
Deferred domestic taxes	287	108
Income taxes	2,167	681

Current taxes reflect corporate and trade tax. No foreign taxes were levied during the period under review.

Domestic deferred taxes were computed as of December 31, 2011 at a combined income tax rate of 29.2% (prior year: 29.2%). This includes a corporate tax rate of 15% and a solidarity surcharge of 5.5%. The income tax rate also reflects trade tax, taking into account the breakdown of the trade tax assessment rates among the municipalities in which the Company's branches are located.

The corporate tax assessment for 2010 had not been received prior to the release of the financial statements by the Managing Board on February 24, 2012. In determining current taxes, the assumption was that income taxes on restructuring profits – after deduction of the existing loss carryforwards – will be waived on grounds of equity in accordance with the decree issued by the German Minister for Finance on March 27, 2003 (Federal Tax Gazette 2003 I, pages 240 et seq.).

Deferred tax assets as of the end of the period under review refer exclusively to domestic taxes and are the result of temporary differences in the measurement of property, plant and equipment and pension provisions. Deferred tax liabilities as of the end of the period under review refer exclusively to domestic taxes, reflect temporary measurement differences, and apply chiefly to intangible assets not capitalized under German tax law as well as to trade receivables.

Deferred tax assets and liabilities were recognized in connection with the following items and situations:

in EUR thousands	31.12.2011		31.12.2010	
	De-ferred tax assets	De-ferred tax liabilities	De-ferred tax assets	De-ferred tax liabilities
Intangible assets	0	294	0	11
Property, plant and equipment	298	0	277	0
Receivables and other assets	0	4	0	9
Provisions for pensions	430	0	461	0
Deferred tax assets and liabilities prior to offsetting	728	298	738	20
Offset	- 298	- 298	- 20	- 20
Deferred tax assets and liabilities after offsetting	430	0	718	0

The rise in deferred tax liabilities of EUR 278 thousand is primarily the result of the capitalization of development costs for intangible assets undertaken during the year under review. The reduction in deferred tax assets primarily concerns the reduction in carrying amount differences in pension provisions.

No loss carryforwards were recognized for corporate or trade tax.

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

Pursuant to IAS 12.81 (c) 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 theoretical tax expense to current tax expense.

in EUR thousands	01.01. – 31.12.2011	01.06. – 31.12.2010
Net income for the period before income taxes	7,502	3,850
Calculatory tax expense at a tax rate of 29.2% (prior year: 29.2%)	2,191	1,124
Non-taxable restructuring profit	0	- 472
Non-deductible expenses and tax-free income	- 14	- 26
Other	- 10	55
Current tax expense	2,167	681

(10) Earnings per share

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

With net income of EUR 5,335 thousand (prior year: EUR 3,169 thousand), the basic earnings per share amount to EUR 1.30 (prior year: EUR 0.77).

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

Stock option plans create the basis for a potential dilution of earnings per share. Under stock option plans management receives option rights to purchase paragon AG shares. All options still exercisable within the fiscal year expired on November 6, 2010, in other words within the fiscal year from June 1, 2010, to December 31, 2010. No option rights to the purchase of paragon AG shares existed in the fiscal year from January 1 to December 31, 2011.

D. Notes on individual balance sheet items

The statement of fixed assets shows the change in and breakdown of intangible assets, property, plant and equipment, and financial assets. Notes on capital expenditure can be found in the management report.

(1) Intangible assets

Development costs of EUR 1,007 thousand (prior year: EUR 36 thousand) have been capitalized under intangible assets. Total development costs for the period amounted to EUR 5,544 thousand (prior year: EUR 2,548 thousand). Of this amount, internal development costs of EUR 1,144 thousand (prior year: EUR 0 thousand) were capitalized as intangible assets.

Development has focused on the communications division (Car Media Systems) and in the areas of power train sensors and instrumentation and control.

Depreciation, amortization, and impairment losses during the period under review amounted to EUR 68 thousand (prior year: EUR 72 thousand).

Pursuant to IAS 36, an impairment test was performed on the capitalized development costs. The impairment test showed that the maximum recoverable amount for individual development projects was EUR 0 thousand. The recoverable amount in each case reflects the fair value of the development projects determined based on new information concerning the realizability of the development projects. The impairment loss pursuant to IAS 36 came to EUR 106 thousand in the year under review (prior year: EUR 114 thousand).

The recoverable amount of internally generated intangible assets is determined based on the calculation of their value in use by applying cash flow forecasts based on sales planning approved by the Managing Board. Sales plans cover a five-year planning period; the growth of each product is established based on available market analyses. The risk-adjusted discount factor for cash flow forecasts is 6%.

(2) Property, plant and equipment

Depreciation, amortization and impairment losses during the period under review amounted to EUR 3,023 thousand (prior year: EUR 2,145 thousand). Land and buildings are encumbered with property charges as collateral for long-term bank loans.

Portions of movable fixed assets are financed under leases with terms of four to five years as a rule. The corresponding payment obligations reflecting future lease installments are recorded as liabilities. The net carrying amount of assets capitalized under financial leases amounted to EUR 768 thousand as of December 31, 2011 (prior year: EUR 1,043 thousand). The corresponding payment obligations from future lease installments amounted to EUR 444 thousand (prior year: EUR 885 thousand) and are recorded as liabilities at their net present value. All capitalized assets from finance leases relate to technical plant and machinery. The greatest share of the leases includes arrangements for the transfer of ownership without further payments after full settlement of all obligations during the basic lease period (full amortization). Otherwise, no firm agreements have been made concerning the further use of the leased objects after expiration of the basic lease period. paragon assumes, however, that the leased objects can be acquired at a favorable price after the basic lease period has expired or may continue to be used at a favorable rent.

In the period under review, the expense from the disposal of property, plant and equipment came to EUR 18 thousand (prior year: EUR 53 thousand).

(3) Financial assets

Shares in affiliated companies (paragon finesse GmbH, paragon fidelio GmbH, paragon firstronic GmbH, and paragon facilio GmbH) are recognized unaltered in financial assets at EUR 0 thousand (prior year: EUR 0 thousand). The shares were already fully written down to fair value in fiscal 2008. The insolvency proceedings of the affiliated companies had not been concluded at the time of preparation of these financial statements. Consequently, there were no reversals of impairment losses in the period under review.

in EUR thousands	Carrying amount	of which neither impaired nor past due	of which past due but not impaired, as follows			
			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
31.12.2011						
Trade receivables	480	38	74	22	20	326
31.12.2010						
Trade receivables	3,801	2,610	785	81	105	220

(4) Inventories

Inventories consist of the following:

in EUR thousands	31.12.2011	31.12.2010
Raw materials and supplies	3,547	3,463
Work in process and finished goods	3,126	2,907
Advance payments on inventories	192	102
Inventories	6,865	6,472

No impairment losses were recorded as expense against inventories in the period under review (prior year: EUR 271 thousand). As in the previous year, no impairment losses were reversed. The carrying amount of inventories recorded at net realizable value (fair value less costs to sell) was EUR 0 thousand as of December 31, 2011 (prior year: EUR 213 thousand). As at the balance sheet date, inventories in the amount of EUR 5,297 thousand (prior year: EUR 5,018 thousand) were used as collateral for liabilities.

(5) Trade receivables

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

in EUR thousands	31.12.2011	31.12.2010
Trade receivables, gross	493	4,176
less impairment losses	- 7	- 266
Trade receivables, net	486	3,910

The reduction in the level of receivables as compared to the previous year is due primarily to the sale of trade receivables in connection with the factoring agreement concluded with GE Capital Bank AG in July 2011.

The maturity structure of non-impaired trade receivables as of the balance sheet date is shown below

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

The impaired receivables changed as follows based on these findings:

in EUR thousands	31.12.2011	31.12.2010
Impaired receivables before allowances for losses	12	375
Allowances for losses	- 7	- 266
Impaired receivables after allowances for losses	5	109

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

(6) Other current assets

Other current assets include:

in EUR thousands	31.12.2011	31.12.2010
Other current assets		
Input tax refunds	538	0
Purchase price retentions from factoring	392	0
Prepaid expenses	360	247
Creditors with debit balances	53	432
Miscellaneous assets	29	225
Other current assets	1,372	904

Overdue other current assets as of 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			
			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
31.12.2011						
Other current assets		1,372	1,372	0	0	0
31.12.2010						
Other current assets	904	904	0	0	0	0

There were no indications that notable payment defaults were likely to arise in the case of other current assets as of December 31, 2011.

(7) Cash and cash equivalents

Cash on hand and bank deposits are shown at nominal value. Cash and cash equivalents include EUR 9 thousand (prior year: EUR 12 thousand) in cash on hand and EUR 15,321 thousand (prior year: EUR 13,778 thousand) in bank deposits. Among other things, cash and cash equivalents include the escrow account in the amount of EUR 466 thousand (prior year: EUR 3,845 thousand) and the escrow account "quota distribution" in the amount of EUR 3,669 thousand (prior year: EUR 3,961 thousand). Both accounts are under the sole power of disposal of the former insolvency administrator. As of December 31, 2011, bank deposits included time deposits pledged as collateral in the amount of EUR 1,070 thousand (prior year: EUR 0 thousand). Changes in cash and cash equivalents are shown in the cash flow statement.

(8) Total equity

The changes in the individual components of equity for the fiscal year from June 1 to December 31, 2010 and for the reporting period from January 1 to December 31, 2011 are presented in the statement of changes in equity.

Share capital

paragon AG's share capital as of December 31, 2011 amounted to EUR 4,115 thousand (prior year: EUR 4,115 thousand) and was divided into 4,114,788 bearer shares with a notional share in capital of EUR 1.00 each. No increase in share capital due to the exercise of options under the stock option plan took place during the period under review.

Conditional capital

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

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 in return for cash pursuant to the terms of the bond. This authorization is in effect until April 30, 2012. As at the balance sheet date, no options had 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 specify that, in the event of conversion or exercise of an option, shares in the Company may 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, provided the issue price of the bonds is not significantly lower than the fair value of the convertible bonds or bonds with warrants. However, this authorization only applies if the 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 of the 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 of the AktG, with exclusion of subscription rights, are counted towards this limitation to 10% of the share capital.

Subject to the option terms to be determined, each option carries an entitlement to acquire one paragon AG bearer share with a notional share capital value of EUR 1.00.

Transfer from capital reserves

As of December 31, 2011, the amount of EUR 4,275 thousand was transferred from capital reserves in order to cover the difference between the loss carried forward from the previous year and net income for the year.

(9) Finance lease obligations

Liabilities under finance leases are recorded at their present value or amortized cost in accordance with IAS 17. The portion reflecting the repayment of principal is 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	31.12.2011	31.12.2010
Minimum lease payments	243	234	0	477	963
Future interest payments	- 23	- 10	0	- 33	- 78
Finance lease obligations (reduction of principal)	220	224	0	444	885
of which reported under non-current liabilities				224	441
of which reported under current liabilities				220	444

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	31.12.2011	31.12.2010
Liabilities to banks	2,446	5,006	7,293	14,745	20,617
of which reported under non-current liabilities				12,299	14,727
of which reported under current liabilities				2,446	5,890

(10) Liabilities to banks

Current and non-current liabilities to banks totaled EUR 14,745 thousand (prior year: EUR 20,617 thousand); collateral for liabilities to banks existed in the amount of EUR 14,745 thousand (prior year: EUR 20,617 thousand).

Liabilities to banks are secured by property charges for loan liabilities in the amount of EUR 6,854 thousand (prior year: EUR 7,207 thousand) and by collateral assignment of property, plant and equipment of EUR 566 thousand (prior year: EUR 467 thousand) as well as collateral assignment of inventories in the amount of EUR 5,297 thousand (prior year: EUR 5,018 thousand). The previous collateralization of loan liabilities by assigning trade receivables was ended in July of 2011.

Liabilities to banks have terms of (see table above):

The interest rate for liabilities to banks is 6% and is fixed for all loans. There is, therefore, no interest rate risk.

(11) Provisions for pensions

A provision for a defined benefit pension plan was recognized in accordance with IAS 19 – Employee Benefits. This relates to a commitment of a fixed amount at age 65 based on an individual contract. In addition to this existing pension agreement, a new commitment was made in fiscal year 2005. This involves a commitment at age 65 established under an individual contract that is based on length of employment and salary level. Pension provisions exist for pension commitments to members of the Managing Board. Based on a decision by the Supervisory Board on August 31, 2009, some pension obligations in the amount of EUR 794 thousand and the corresponding plan assets of EUR 1,425 thousand were outsourced to HDI Gerling Pensionsfonds.

The following assumptions underpin the actuarial computations:

in %	31.12.2011	31.12.2010
Discount rate	5.45	5.37
Expected return on plan assets	0.00	0.00
Salary increase (10% recommitment based on individual contracts until 2009, 0% thereafter)	0.00	0.00
Pension increase	2.00	2.00
Fluctuation	0.00	0.00

Actuarial gains or losses may arise from increases or decreases 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 amount of pension provisions can be derived as follows:

Net present value of defined benefit obligation:

in EUR thousands	31.12.2011	31.12.2010
Present value of defined benefit obligation at beginning of year	1,914	2,838
Service cost	64	190
Interest cost	103	74
Pension payments	0	0
Settlements	0	- 794
Actuarial gains (-), losses (+)	- 66	- 394
Present value of defined benefit obligation on balance sheet date	2,015	1,914

Fair value of plan assets:

in EUR thousands	31.12.2011	31.12.2010
Fair value of plan assets at beginning of year	0	1,688
Expected return on plan assets	0	48
Loss on plan assets	0	- 311
Settlements	0	- 1,425
Employer contributions	0	0
Fair value of plan assets on balance sheet date	0	0

Net amount of recognized defined benefit obligation:

in EUR thousands	31.12.2011	31.12.2010
Present value of defined benefit obligation	2,015	1,914
less fair value of plan assets	0	0
Unfunded defined benefit obligation	2,015	1,914

The net amount changed as follows:

in EUR thousands	31.12.2011	31.12.2010
Unfunded defined benefit obligation at beginning of year	1,914	1,150
Settlements	0	631
Pension expense	101	133
Contributions paid	0	0
Unfunded defined benefit obligation on balance sheet date	2,015	1,914

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

in EUR thousands	01.01. - 31.12.2011	01.06. - 31.12.2010
Service cost	64	190
Interest cost	103	74
Expected return (-) on plan assets	0	- 48
Actuarial gains (-)	-66	- 83
Pension expense	101	133

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

in EUR thousands	31.12.2011	31.12.2010
Present value of defined benefit obligation	2,015	1,914
less fair value of plan assets	0	0
Unfunded defined benefit obligation	2,015	1,914

The corridor method 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

All other liabilities are due within a year and include the following items:

in EUR thousands	31.12.2011	31.12.2010
Other current liabilities		
Deferred income (provisions)	3,196	4,639
Old debts measured at insolvency ratio	3,670	3,724
Liabilities from other taxes	175	294
Other current liabilities	29	8
Other current liabilities	7,070	8,665

In fiscal 2011, old debts measured as insolvency dividends were reclassified from other provisions and trade payables to other current liabilities on the balance sheet. Only the comparative information from the previous year was adjusted, since the change in reporting was retroactive only to the balance sheet date of December 31, 2010 and otherwise had no significant influence on the informational value of the earliest comparative period. It is for this reason that there is no presentation in the balance sheet at the beginning of this comparative period (IAS 1.39 c). Against this backdrop, EUR 1,756 thousand was reclassified to other current liabilities from other provisions and EUR 2,838 thousand from trade payables as of December 31, 2010.

The terms of the other liabilities are shown 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	31.12.2011	31.12.2010
Other liabilities	7,070	0	0	7,070	8,665
of which reported under non-current liabilities				0	0
of which reported under current liabilities				7,070	8,665

(13) Special item for grants

This involves government investment grants, which are reported as liabilities in accordance with IAS 20. As in the previous year, paragon received no public assistance in the reporting period.

(14) Other provisions

All other provisions are due within one year and have changed as follows:

in EUR thousands	01.01.2011	Utilization	Reversal	Addition	31.12.2011
Guaranties and ex gratia payments	310	0	198	0	112
Litigation risks	670	0	0	93	763
Other provisions	980	0	198	93	875

(15) Income tax liabilities

This relates to EUR 333 thousand (prior year: EUR 408 thousand) in trade tax and EUR 367 thousand (prior year: EUR 0 thousand) in corporate tax and the solidarity surcharge for the current reporting period.

(16) Additional information on financial instruments

This section provides a summary of financial instruments employed by paragon AG. The table below shows the carrying amounts (CA) and fair values (FV) of financial assets and financial liabilities as of December 31, 2011 and December 31, 2010:

December 31, 2011								
in EUR thousands	Nominal amount		Amortized cost		Fair value			
	Cash reserve		Loans and receivables		Held for trading		Available for sale	
	BW	FV	BW	FV	BW	FV	BW	FV
ASSETS								
Cash and cash equivalents	15,330	15,330						
Trade receivables			486	486				
Other assets			1,531	1,531				
Financial assets								
Total assets	15,330	15,330	2,017	2,017	0	0	0	0
EQUITY AND LIABILITIES								
Liabilities to banks			14,744	14,369				
Finance leases			444	454				
Trade payables			3,070	3,070				
Other liabilities			7,070	7,070				
Total equity and liabilities	0	0	25,328	24,963	0	0	0	0

December 31, 2010								
in EUR thousands	Nominal amount		Amortized cost		Fair value			
	Cash reserve		Loans and receivables		Held for trading		Available for sale	
	BW	FV	BW	FV	BW	FV	BW	FV
ASSETS								
Cash and cash equivalents	13,790	13,790						
Trade receivables			3,910	3,910				
Other assets			1,055	1,055				
Financial assets								
Total assets	13,790	13,790	4,965	4,965	0	0	0	0
EQUITY AND LIABILITIES								
Liabilities to banks			20,617	20,350				
Finance leases			885	918				
Trade payables			2,071	2,071				
Other liabilities			8,665	8,665				
Total equity and liabilities	0	0	32,238	32,004	0	0	0	0

Determination of fair value

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

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

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

paragon determines the fair value of liabilities to banks by discounting the anticipated future cash flows using the interest rates applicable for similar financial liabilities with a comparable term to maturity.

A hierarchical classification was undertaken for measuring fair value in accordance with IAS 39.AG71 et seq. The hierarchical fair value levels and their application to paragon's financial assets and liabilities are described below:

- Level 1: Quoted prices for identical assets or liabilities in active markets;
- Level 2: Measurement factors other than quoted market prices that are directly (for instance, from prices) or indirectly (for instance, derived from prices) observable for assets or liabilities; and
- Level 3: Measurement factors for assets and liabilities not based on observable market data..

Net gains

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

in EUR thousands	01.01. – 31.12.2011	01.06. – 31.12.2010
Receivables	205	168
Financial liabilities at amortized cost	196	2,531
Net gains	401	2,699

The net gain from receivables includes changes in impairment losses and gains and losses from derecognition as well as payment inflows and reversals of impairment losses on receivables originally written down, which were recorded against income in the statement of comprehensive income. The net gain from financial liabilities at amortized cost contains the book gain arising from the recapitalization gains due to derecognition of financial liabilities as part of the implementation of the insolvency plan.

(17) Derivative financial instruments

In addition to primary financial instruments, paragon employs various derivative financial instruments as needed. As part of risk management, the Company 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.

Derivative financial instruments for currency hedging

paragon is exposed to a number of financial risks due to its international activities. These include, in particular, the effects of changes in exchange rates. paragon takes an integrated approach in hedging the risks inherent in fluctuating exchange rates. Company-wide risks are centralized, if appropriate, and hedged using derivative financial instruments. If necessary, paragon enters into forward exchange contracts as part of the hedging process. As in the previous year, no forward exchange contracts were recorded as of December 31, 2011.

Derivative financial instruments for interest rate hedging

Interest rate risk results from the sensitivity of financial liabilities to changes in the market interest rate. paragon hedges these risks by employing interest rate derivatives. The Company 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 accounting.

To hedge any interest rate risk, the Company follows an approach geared to the variable interest rate of individual financial liabilities. Swap contracts are therefore tailored to the hedged variable-rate borrowings in terms of both amount and maturity. The Company

does not use hedge accounting as defined in IAS 39.85. No financial liabilities with variable interest rates or derivative financial instruments for interest rate hedging existed as of December 31, 2011 or in the prior year.

(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 business operations as well as investing and financing activities. To optimize financial resources within the Company, the risks from changes in interest rates and exchange rates are continuously analyzed, and current business and financial market activities are thus controlled and monitored. Derivative financial instruments contribute to this process.

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

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

- an appreciation of the euro against all foreign currencies by 10 percentage points

- a parallel shift in interest rate curves of 100 basis points (one percentage point)

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

Foreign currency risk

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

paragon determines the sensitivity of foreign currency fluctuations by aggregating the net currency position of the operating business that is not reflected in the 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 change in future payment inflows in the amount of EUR 19 thousand as of December 31, 2011 (prior year: EUR 10 thousand). To the extent that future purchases are not hedged against currency risks, a depreciation of the euro against other currencies would have adverse impacts on financial position and financial performance due to the Company's foreign currency outflows exceeding its foreign currency inflows.

The following table shows the net foreign currency risk of the individual primary currencies as of December 31, 2011:

in EUR thousands	31.12.2011		31.12.2010	
	USD	Other	USD	Other
Transaction-related currency risk				
Currency risk from balance sheet items	157	26	100	0
Currency risk from pending transactions	0	0	0	0
	157	26	100	0
Items economically hedged through derivatives	0	0	0	0
Net exposure to currency risk	157	26	100	0
Change in currency exposure resulting from a 10% appreciation of the euro	16	3	10	0

Interest rate risk

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

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

In the case of financial liabilities with variable interest rates, the interest rate risk is essentially measured by cash-flow sensitivity. As no financial liabilities with variable interest rates existed as of the end of the reporting period on December 31, 2011, a change in the interest rate level in following fiscal years will not result in a cash flow risk.

Liquidity risk

Liquidity risk, i.e. the risk that paragon might not be able to meet its financial obligations, is limited by means of flexible cash management. As of December 31, 2011, cash and cash equivalents in the amount of EUR 15,330 thousand (prior year: EUR 13,790 thousand) were available to paragon. No free credit lines were available as of December 31, 2011. 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 recognized financial liabilities as of December 31, 2011:

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

in EUR thousands	31.12.2011	31.12.2010
Cash and cash equivalents	15,330	13,790
Total liquidity	15,330	13,790
Current financial liabilities and current portion of non-current financial liabilities	2,666	6,331
Non-current financial liabilities	12,522	15,171
Total financial liabilities	15,188	21,502
Net liquidity (prior year: net debt)	142	- 7,712

Credit risk

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

(19) Capital management

The paramount goal of capital management is to maintain a reasonable equity-to-assets ratio. The capital structure is managed and adapted to changing economic conditions. In the fiscal year up to December 31, 2011, no fundamental changes in capital management goals, methods, or processes were introduced.

in EUR thousands	2012	2013 – 2016	2017 and thereafter
Non-derivative financial liabilities			
Liabilities to banks	3,262	7,301	10,077
Liabilities from finance leases	243	234	0
Trade payables	3,070	0	0
Other financial liabilities	7,070	0	0
Total non-derivative financial liabilities	13,645	7,535	10,077
Derivative financial liabilities	0	0	0
Total	13,645	7,535	10,077

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

paragon was not required to comply with any financial covenants during the reporting period up to December 31, 2011 in association with financing provided by lending banks.

(20) Contingent liabilities and other financial liabilities

As of December 31, 2011, the Company had no guarantees or off-balance sheet contingent assets or liabilities. 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	31.12.2011	31.12.2010
Capital commitments	12,619	0	0	12,619	13,765
Lease obligations	511	1,686	1,544	3,741	3,725
Other liabilities	534	538	0	1,072	898
Other financial liabilities	13,664	2,224	1,544	17,432	18,388

(21) Notes on the cash flow statement

In accordance with IAS 7 – Cash Flow Statements, the cash flows occurring during a fiscal year are recorded in the cash flow statement in order to present information concerning movements in the Company’s cash and cash equivalents. The cash flow statement was prepared pursuant to the indirect method as defined in IAS 7.18b. Cash flows are broken down into cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities.

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

in EUR thousands	31.12.2011	31.12.2010
Bank deposits	15,321	13,778
Cash on hand	9	12
Cash and cash equivalents	15,330	13,790

Cash and cash equivalents also include the escrow account in the amount of EUR 466 thousand (prior year: EUR 3,845 thousand) and the escrow account “insolvency dividend payout” in the amount of EUR 3,669 thousand (prior year: EUR 3,961 thousand). Both accounts are under the sole power of disposal of the former insolvency administrator. Furthermore, cash and cash equivalents included account balances pledged as collateral in the amount of

EUR 1,070 thousand as of December 31, 2011 (prior year: EUR 0 thousand).

(22) Segment reporting

For performance measurement and management purposes in accordance with IFRS 8 – Operating Segments, paragon’s business activities are now broken down by products and services and comprise the five reportable segments of Air Quality, Power Train, Acoustics, Media Interfaces, and Cockpit. The first three of these segments are allocated to the Delbrück site, and the two latter segments to the Nuremberg site. At paragon, short-term reporting, resource deployment and management, planning, and budgeting all take place via these segments. paragon’s Managing Board is the chief operating decision maker and as such monitors the activities of the operating segments using performance indicators that are based on the same data used to prepare the IFRS financial statements.

Sales revenues of the business segments are monitored separately by the Managing Board in order to make decisions concerning the distribution of resources and to calculate the profitability of the sub-divisions. The business performance of the segments is therefore measured on the basis of sales revenues and in line with the sales revenues at the paragon AG level. All expenses, paragon AG’s financing, and income tax charges are centrally managed for the entire company and not allocated to the individual segments. The Delbrück site functions as the core of the business and assumes the company-wide duties of finance, controlling, purchasing, corporate communications, and personnel management. Amounts were not charged between the segments during the period under review.

Notes to the Financial Statements

Sales revenue	01.01. –	01.06. –
in EUR thousands	31.12.2011	31.12.2010
Delbrück		
Air Quality, Power Train, Acoustics	32,259	15,789
Nuremberg		
Media Interfaces, Cockpit	27,106	16,997
St. Georgen	7,690	2,464
Total	67,055	35,250

Reconciliation to comprehensive income

Income	3,269	4,691
Expense	- 61,502	- 35,374
Financial result	- 1,319	- 717
Income tax	- 2,168	- 681
Net profit for the year	5,335	3,169

Information on geographical areas

The table below contains information concerning sales revenues from external clients and the non-current assets allocated to the geographical regions of the Company. 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	Germany	EU	EU	Other countries	Other countries	Total	Total
	01.01. –	01.06. –	01.01. –	01.06. –	01.01. –	01.06. –	01.01. –	01.06. –
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Sales revenue	44,104	26,185	19,077	7,680	3,874	1,385	67,055	35,250
Non-current assets (property, plant and equipment and intangible assets)	16,553	17,330	0	0	0	0	16,553	17,330

At EUR 18,666 thousand (prior year: EUR 8,372 thousand), 27.8% (prior year: 23.8%) of sales revenues relate to one client; an additional 21.2% (prior year: 20.8%) of sales revenues relate to a second client at EUR 14,279 thousand (prior year: EUR 7,348 thousand); and a further 11.1% (prior year: 11.3%) of sales revenues relate to a third client at EUR 7,492 thousand (prior year: EUR 3,985 thousand).

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

(23) Related Party Disclosures

Related parties include members of the Managing Board and the Supervisory Board and their immediate families as stipulated in IAS 24 – Related Parties.

Total remuneration of the Managing Board includes salaries and non-recurring payments in the amount of EUR 1,027 thousand (partial fiscal year from June 1 to December 31, 2010: EUR 488 thousand) and includes fixed (EUR 473 thousand; partial fiscal year from June 1 to December 31, 2010: EUR 288 thousand) and variable (EUR 554 thousand; partial fiscal year from June 1 to December 31,

2010: EUR 200 thousand) components. The key variable salary components are geared to EBITDA and the Company's financial situation. No expenses in connection with share-based payments were incurred during the period under review (prior year: EUR 0 thousand). With regard to expenses for payments occurring after the cessation of employment relationships, we refer to disclosures in the section entitled "Provisions for pensions."

Treu-Union Treuhandgesellschaft mbH, Steuerberatungsgesellschaft in Paderborn rendered services in the amount of EUR 53 thousand in fiscal 2011 under an existing agreement. Mr. H. Börnemeier, member of the Supervisory Board of paragon AG, is also the director of the aforementioned company.

Members of the Supervisory Board received fixed remuneration in the calendar year just ended. Total remuneration of the Supervisory Board in the period under review amounted to EUR 60 thousand (prior year: EUR 29 thousand), all of which consisted of fixed remuneration. No expenses in connection with share-based payments were incurred during the period under review (prior year: EUR 0 thousand).

As of the balance sheet date, the Managing Board held 2,111,730 of a total of 4,114,788 shares.

Rent payments of EUR 84 thousand (prior year: EUR 80 thousand) were made to Frers Grundstückverwaltungs GmbH & Co. KG, Delbrück, in 2011 for buildings and for other plant and office furniture and equipment. Of that amount, EUR 62 thousand (prior year: EUR 36 thousand) related to an office building in Delbrück.

As of the balance sheet date, a fixed liability guarantee from Mr. Klaus Dieter Frers existed with respect to paragon AG's liabilities to banks in the amount of EUR 153 thousand (prior year: EUR 153 thousand).

An agreement also existed on the reporting date between the State of Thuringia (represented by Thuringer Aufbaubank, Erfurt) and Mr. Klaus Dieter Frers concerning a co-debtor obligation under public law, in accordance with which Mr. Frers, in addition to paragon AG, assumes liability for repayment as the recipient of grants. The liability would arise if the State of Thuringia requested the Company to repay an investment grant in the amount of EUR 1,048 thousand (prior year: EUR 1,048 thousand), of which EUR 1,048 thousand (prior year: EUR 1,048 thousand) had been paid out as of the balance sheet date.

(24) Corporate bodies of the Company

During the period from January 1 to December 31, 2011, the Managing Board of paragon AG comprised the Chairman of the Managing Board, Mr. Klaus D. Frers.

Name	Profession	Memberships in Supervisory Boards and other committees
Hans, J. Zimmermann Chairman (from September 30, 2010)	Managing Director of HSBC Trinkaus Private Wealth GmbH and HSBC Trinkaus Consult GmbH	Supervisory Board Memberships: • Schaltbau AG, Munich (Chairman) • Merkur Bank KGaA, Munich (Deputy Chairman) • GARANT Schuh + Mode AG, Düsseldorf (Chairman) Other board memberships • ante-holz GmbH, Bromskirchen-Somplar (Chairman of the Advisory Board) • Rheinzink GmbH & Co. KG, Datteln (Member of the Board of Directors)
Hermann Börnemeier	Specialist in Tax Law and Tax Adviser, Managing Director of Treu-Union Treuhandgesellschaft mbH	
Walter Schäfers	Attorney, Partner in Societät Schäfers Rechtsanwälte und Notare	

(25) Share-based payments

paragon AG grants its senior management stock options that entitle the holder to purchase one share for each option after the expiration of the blocking period at a previously set subscription price ("plain vanilla" options). No employee stock options existed as of December 31, 2011. The authorization to grant options from conditional capital remains in effect until April 30, 2012.

(26) Auditor's fee

The expense recorded during the period under review from January 1 to December 31, 2011 as fees for the audit of paragon AG's single-entity financial statements prepared in accordance with the German Commercial Code and for the audit of paragon AG's separate financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, conducted by Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft amounted to EUR 63 thousand (prior year: EUR 95 thousand).

(27) Risk management

The Company's risk management strategy is explained in the management report.

(28) Declaration of compliance with the German Corporate Governance Code

The declaration of compliance with the German Corporate Governance Code required under Section 161 of the AktG was last submitted on March 10, 2011; shareholders have permanent access to this statement on the Company's website (www.paragon-online.de).

(29) Responsibility statement

"To the best of my knowledge, and in accordance with the applicable reporting principles, the single-entity financial statements pursuant to Section 325 (2a) of the German Commercial Code for the fiscal year from January 1 to December 31, 2011 give a true and fair view of the assets, liabilities, financial position and profit or loss of paragon AG, and the management report includes a fair review of the development and performance of the business and the position of paragon AG, together with a description of the principal opportunities and risks associated with the expected development of paragon AG."

Delbrück, February 24, 2012

paragon AG
The Managing Board



Klaus Dieter Frers
paragon AG

We have audited the individual financial statements prepared by paragon AG, Delbrück, consisting of the balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement and the notes – including the book-keeping and the management report for the fiscal year January 1 through December 31, 2011. The book-keeping and the preparation of the individual financial statements and the management report in accordance with the IFRS, as adopted by the EU, and the requirements of German commercial law pursuant to Section 325, paragraph 2a. of the German Commercial Code are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion of the individual financial statements, including the bookkeeping system, and the management report based on our audit.

We conducted our audit of the individual financial statements in accordance with section 317 of the 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 and violations materially affecting the presentation of the net assets, financial position and results of operations in the individual financial statements, in accordance with the applicable financial reporting framework, and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company 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 books and records, the individual financial statements and the management report are examined primarily on a test basis within the framework of the

audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the individual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the individual financial statements comply with the IFRS, as adopted by the EU, and the additional provisions under German commercial law pursuant to section 325, paragraph 2a, of the HGB and provide a fair presentation of the financial position and financial performance of the Company in accordance with these requirements. The management report is consistent with the individual financial statements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Nuremberg, March 2, 2012

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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German public accountant	German public accountant



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