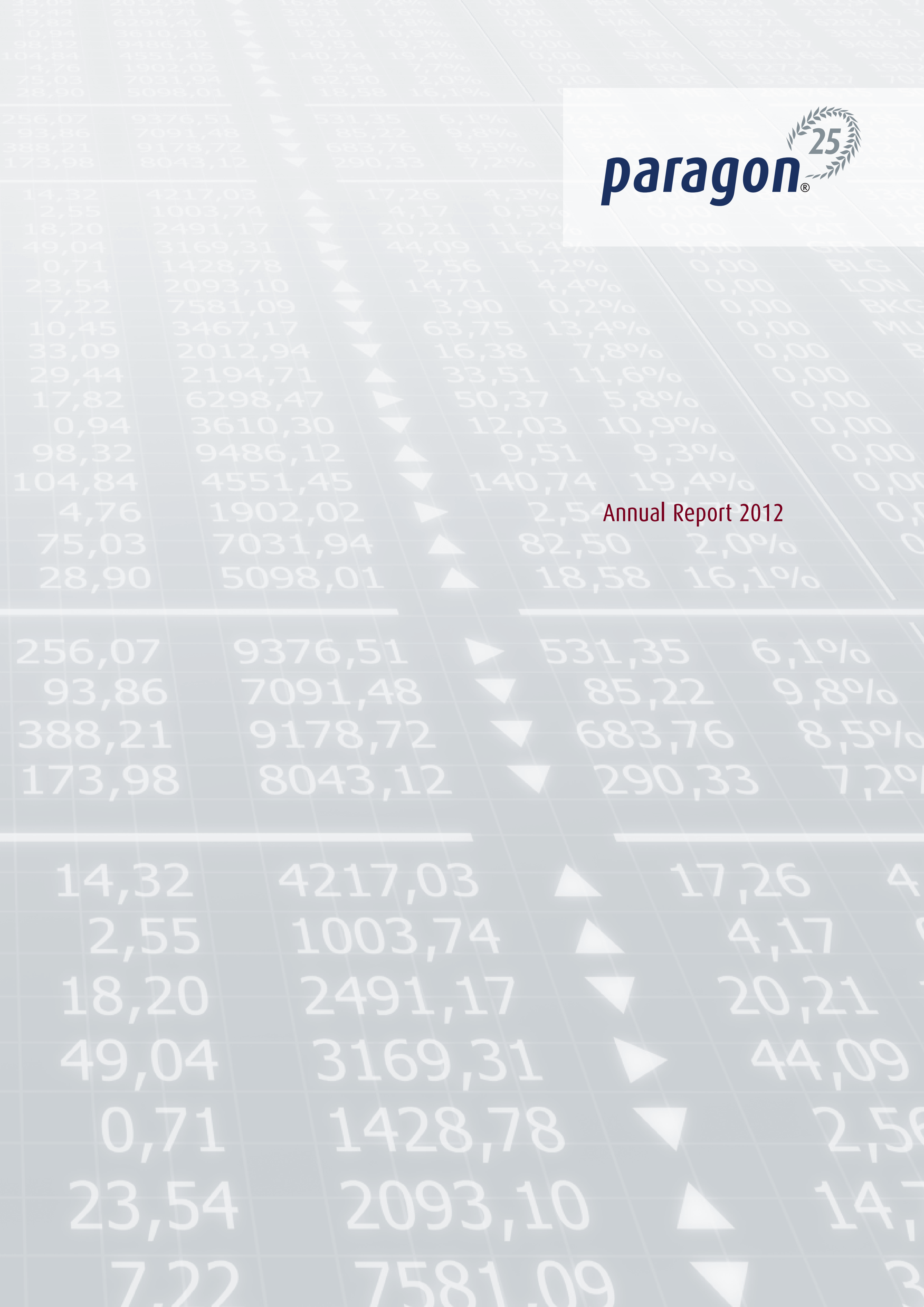


paragon® 25

Annual Report 2012

At a glance

Key Indicators

in EUR thousands	01.01.2012 to 31.12.2012	01.01.2011 to 31.12.2011	Change in %
Sales	70,446	67,055	5.1
EBITDA	11,797	12,995	- 9.2
EBITDA margin in %	16.7	19.4	
EBITDA (adjusted)*	13,211	12,995	1.7
EBITDA margin (adjusted)* in %	18.8	19.4	
EBIT	7,777	8,821	- 11.8
EBIT margin in %	11.0	13.2	
EBIT (adjusted)*	9,191	8,821	4.2
EBIT margin (adjusted)* in %	13.0	13.2	
Net income	4,635	5,335	- 13.1
Earnings per share in EUR	1.13	1.30	- 13.1
Total assets	43,965	41,425	6.1
Total equity	13,028	9,798	33.0
Equity to assets ratio in %	29.6	23.7	
Free cash flow	10,060	11,195	- 10.1
Interest-bearing liabilities	14,652	15,188	- 3.5
Net debt	7,802	8,142	- 4.2
Operating cash flow	5,804	8,578	- 32.3

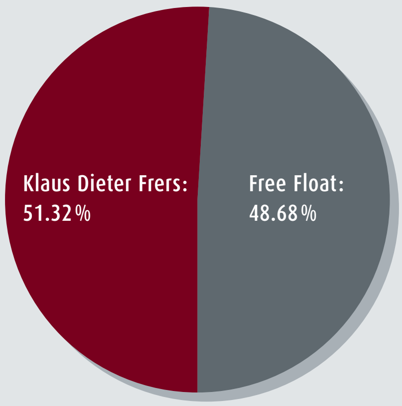
* adjusted for expenses in connection with the Artega asset deal and expenses for the build-up of promising new fields of activity

Share

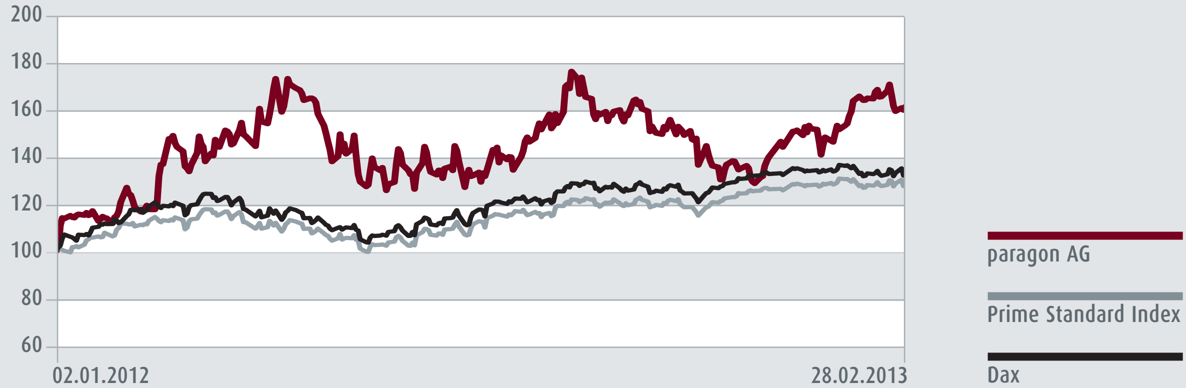
Share data

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. 28, 2013:	9.79 Euro
Market capitalization on Feb. 28, 2013:	EUR 40.28 million
Average trading volume (52 weeks) as at Feb. 28, 2013:	13,836 shares a day

Shareholder structure



Price developments (indexed)



Contents

Klaus Dieter Frers, Chairman of the Managing Board

Dear Shareholders,

We are more than satisfied with our progress in fiscal 2012. After a surprisingly strong start in the first few months, the course of business developed as anticipated during the rest of the year. Single-digit sales growth and outstanding earnings, which place us among the top group in the industry, are especially notable in a business environment that was by no means easy.

Numerous factors impacted economic developments in 2012. Paramount among these was the financial crisis in the Euro zone. Thanks to political intervention, national bankruptcies in the countries of Southern Europe were avoided. Nevertheless, strong turbulence led to significant irritation in the capital markets and also to pressures on economic developments.

Furthermore, the automotive market showed large differences in 2012. Our great advantage is that we have the right customers. Those manufacturers who are struggling with weak sales contribute little to our sales. While paragon's customers, the globally organized, premium German manufacturers, were able in many cases to report record figures and were especially well positioned in growth markets such as China, other volume manufacturers had to cope with serious problems. Unfortunately, not all market observers have a nuanced view, but rather regard the entire automotive industry critically.

Optimized organization

We undertook an important organizational change in the Company as at July 1, 2012. Since then the development and sale of new products, including project management, are separate from ongoing series production. Under the leadership of the Managing Board the five business segments – Sensors, Acoustics, Cockpit, Electro-mobility and Body Works Kinematiks – are engaged in further innovation without being impacted by the day-to-day challenges in production and in dialogue with customers. The responsibility for existing business has been transferred to the newly created customer teams.

This change entails key advantages for all participants. Our engineers can concentrate fully on developing innovative solutions to improve health, comfort, communication and efficiency when driving. As a result we will expand our range of products even more rapidly and become yet more valuable partners for our customers. After all, automotive manufacturers especially like working with suppliers who provide creativity and innovation.

In addition to our well-known leadership in innovation, which we plan to nurture and expand, other goals are important to paragon on its way to becoming an integrated technology group. We intend to impress manufacturers with optimal customer service, as well as leadership in quality and cost. The customer teams have taken over these important tasks. Continuous improvements in the areas of purchasing, logistics and quality, as well as first-class performance in executing orders, contribute equally to a high degree of customer retention.

It has quickly become apparent that the new organization represents a tangible improvement. Internal and external processes are now geared to essentials, so that we can safeguard our growth course in future as well. It is precisely with regard to the goal of expanding our activities that the redistribution of responsibilities from traditional account managers to business segments and customer teams is the right step.

Larger range of action

For many years paragon's innovative products have made driving more comfortable, safer and more efficient. Creative solutions for the man-machine interface relieve and support the driver in various areas. We are of course not making any reductions in this segment, in which we are very well established and accepted as a brand by passenger car manufacturers, and will exploit our potential in full.

paragon components and modules are built into current vehicles by the millions and are the basis of our business activities. I would like to point out at this stage that considerable opportunities for further expanding our business have arisen especially in the areas of air quality, power train and acoustics. Despite a high global market share of over 85 percent, for instance, our air quality sensor, AQS, offers very interesting growth opportunities, since the share of new cars with this 'little helper' is growing worldwide.

These core strengths of our Company will be progressively extended with higher-quality systems and a new development stage will be reached. Our objective is clear: By expanding our range of action we want to develop a greater share in the car construction value creation chain. An even wider product range of 200 plus products will not only raise the opportunity for 'more euros per car', it will also ensure that we are less dependent on volume fluctuations among individual manufacturers or vehicle platforms.

We utilized 2012 successfully to develop additional fields of activity in the area of electro-mobility. An initial step was to set up manufacturing for a battery module, which took place at our headquarters at Delbrück. As exclusive partner of the Swedish firm Alelion Batteries AG of Göteborg, we are utilizing their know-how on the design of battery systems accumulated over many years in our own production. We create battery packs from the battery modules, which are used in a variety of electronic cars.

Now, with this energy storage option, we are in a position to produce the 'heart' of an electronic car completely in-house. This know-how makes our construction kit for electro-mobility even more valuable. In addition to the battery pack, a motor controller, a DC/DC converter and an onboard charger are fixed components of the zero emission system. In contrast to our products for the man-machine interface, here we are focusing less on the large passenger car series and more on commercial vehicles for inter-company and inter-city traffic.

Body Works Kinematiks has developed into another exciting field of activity this past year. Our close cooperation with KarTec GmbH is already bearing fruit. We received specific orders for movable car parts more quickly than anticipated. For instance, a tail wing actuator for the new super sports car of a renowned German manufacturer will roll off our Delbrück assembly lines in the course of 2013. Manufacturing preparations for another tail wing for yet another car manufacturer are beginning at the same time. We are very proud of these successes, since they show that, in addition to contributing to sales and earnings, the strategy of expanding our range of action is working.

Silver anniversary

Production is once again moving to our Company's headquarters – quite fitting for the 25th anniversary of our Company that we are celebrating in 2013. paragon started with industrial electronics manufacture in Delbrück in 1988. Shortly after the takeover of the former robotron plant in Zella-Mehlis, we shifted all production to Thuringia in the mid-nineties and built an ultra-modern plant in Suhl. As part of the continuous expansion of our business relationships with manufacturers, one of the most modern manufacturing sites for automotive electronics in all of Europe was created there.

The addition of higher-quality systems is resulting in paragon's resuming production in Delbrück 17 years later. It is extremely useful in expanding the recent business segments of Electro-mobility (since 2011) and Body Works Kinematiks (since January of 2012) that employees in the areas of development, construction and production are close to one another. These conditions apply in our Company headquarters to a greater extent than at our other sites. A milestone in this respect has been the takeover of assets from the former Artega Automobil GmbH & Co. KG as at October 1, 2012. The modern premises and qualified employees are very useful to us in our further development into an integrated technological company. By the way, this transaction involves capital investments pulled forward, which would have been carried out anyway to open up new business opportunities for paragon.

By the way: We shall celebrate our existence of 25 years together with our shareholders at the Annual General Meeting on May 15, 2013. We will have a small ceremony for the anniversary after completion of the agenda.

Positive outlook

The most recent forecasts for the economy on the whole and especially for the automotive industry assume a positive, although moderate, upswing in 2013. The upcoming year is anticipated to show low single-digit growth in global production. As usual the automotive sector is likely to be varied. The economic institutes and associations anticipate growth in the premium segment, which should benefit more greatly from higher demand from the emerging countries than the volume business of especially affordable cars.

Since the start of 2013 was marked by lengthy holiday plant shut-downs for most manufacturers, growth in the first quarter of the New Year is likely to be still restrained. On the whole the Managing Board is expecting a modest growth in sales of around 5 %, similar to the prior year, and a stable EBIT margin. For the medium term a more accelerated growth rate is expected, not least because of the course set in 2012.

I wish to thank all our employees especially for their commitment and dedication in fiscal 2012. I express my heartfelt thanks to you, too, dear shareholders, for your loyalty to our Company, which in some cases has already lasted many years. paragon will once again impress with exciting ideas in 2013 and follow a targeted growth course.

Klaus Dieter Frers

Premium for the car

"It is no special feat to see an opportunity. The special feat is to be the first to see it."

paragon's activities are true to this saying of Benjamin Franklin, who showed extremely broad vision as early as the 18th century. A marked pioneer spirit imbues all our activities from research and development through production to after sales service.

This orientation was already apparent at the time of the Company's foundation in 1988, unrelated to cars at the time. The Company's name is from the old English; literally, paragon means 'an example' or 'a model'. The founder, Klaus Dieter Frers, built an exemplary production facility for industrial electronics together with committed comrades-in-arms at the Delbrück headquarters. The clear goal: paragon did not want to do everything differently, but wanted to do many things better.

In the mid-nineties paragon transferred the virtues of courage, creativity and surprise to the development of in-house products for the automotive industry. The Company's ideas were accepted quickly. The air quality sensor, AQS, for instance, became a mega-hit. paragon expanded the product range gradually, always with reference to the same question: How can we make driving even more pleasant?

The Company's engineers, for instance, adopted approaches that no-one had yet thought of. Constant striving for the unique resulted in solutions that others believed to be impossible or had not even considered. True to its name, paragon developed fascinating ideas, which have today become standard in the automotive industry. The Company advanced to the position of a recognized brand among the suppliers with this unmistakable profile. The novel approach to active product development finally led to a maxim that has become paragon's creed: A better car is possible!

The paragon principle has remained the same until the present, regardless of the complexity and size of the products. Refinements of details have improved and updated the core of this recipe for success. If a Company, after 25 years of existence, opens the door to higher-quality systems in addition to sensors and solutions for the interior, this always occurs on a tried-and-true foundation. Immediate benefits for passengers and car buyer are always the focus. Relationships with manufacturers that extend over many years assist in this process.

As a pioneer, paragon is creating new markets. Niche products gain recognition with clearly developed unique characteristics and high mass production potential. The Company has been able to develop high-margin fields of activity by means of extensive manufacturing automation. paragon focuses on four aspects in developing its products: health, comfort, communication and efficiency.

Health. Clean ambient air increases the wellbeing of the passengers. Attention and reaction speed are important in today's traffic conditions.

Comfort. The car is as comfortable as a living room nowadays and as functional as an office. Comfortable travel no longer depends on large expenditures.

Communication. Connection with mobile end devices is a challenge for manufacturers. The goal is to network personal data.

Efficiency. The finite nature of fossil fuels compels one to rethink. Sustainable economic solutions are in high demand from both a financial and ecological perspective.

The consistent premium approach is and remains decisive in the success of paragon products. This is how we have been successful in attracting customers who are globally committed manufacturers, who can show positive developments overall even during economic phases of weakness in individual markets.

General stock market environment

In 2012 the atmosphere in the stock markets was strongly influenced by the European economic and financial crisis. The confidence of investors, however, was strengthened by numerous political measures and aid packages, especially for Greece, so that the German Stock Index (DAX) was able to develop positively during the year. Of course there were temporary setbacks that influenced individual shares to a greater or lesser extent. The overall situation, nevertheless, was positive.

The leading index started on January 2, 2012 at a little over 6,000 points. Due to the healthy development of the economy and employment figures, the DAX managed to surpass the 7,000 point mark for the first time during the year under review on March 15 at 7,079 points. This high level, however, could not be sustained. Tangible nervousness in the capital markets resulted in ups and downs; at the beginning of June the index even fell below the 6,000 point mark.

The DAX experienced a trend reversal in the third quarter, rising from 6,496 points on July 2 to 7,216 points on September 28. The upward trend of the leading index continued from October to December 2012 as well. The DAX reached its highest level on December 20 at 7,672 points. On the last trading day of 2012 it closed at 7,612 points, 26 percent up from the same time in the previous year.

Performance of the paragon share

The paragon share, too, was able to increase significantly compared to the previous year. The security, however, did take a roller coaster trip in 2012 with highs in April and September. The paragon share, however, could not fully sustain the considerable interim gains through the end of the year.

After EUR 6.09 on the first trading day, the paragon share's value rose above EUR 7.00 on January 12 and EUR 8.01 on February 22 to EUR 9.17 on March 26. Even after this the security rose steeply, reaching its interim high on April 20 and April 26 at EUR 10.50 on both days. For no discernible reason the price dropped to EUR 7.64 on June 14 only to climb to EUR 10.69, its peak, on September 14. A decline once again followed

and the share closed the year at EUR 8.75. Nevertheless, the paragon share achieved price gains of almost 44 percent during 2012.

There was a short-term change in the shareholder structure in the first quarter of 2012. Axxion, S.A., Munsbach, Luxembourg reported the acquisition of 3.04 % of shares in paragon, but withdrew below the reporting threshold of 3 % again in the second quarter. Since then, the free float as defined by the Deutsche Börse AG is once again at the high level of 48.65 %.

Financial market communications

paragon continued its ongoing information exchange with shareholders, investors, analysts, journalists and an interested public in 2012. The Company reported 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 cited in the cross-regional financial press in numerous reports. Continuous reporting resulted in relevant publications, for instance in the Börsen Zeitung (Stock Exchange News). In addition, the Company published three issues of the company newsletter 'paragon fakt' in 2012.

There were several high points in financial market communication during the year. On March 22 paragon presented its annual financial statements for fiscal 2011 in a press conference at the Delbrück headquarters. This information and the outlook for fiscal 2012 was also a focus of interest at the DVFA Small Cap Forum on April 17 in Frankfurt am Main. On June 11 a road show for potential investors followed in Hamburg.

paragon was able to welcome numerous representatives of the capital markets at two events in the second half of 2012. At the DTM weekend at the Nuremberg ring the Company provided information on August 18 and 19 as part of an exclusive event held right at the race track. paragon used the opportunity of its appearance at the International Auto Show (IAA) on September 20 to hold an Investor Relations lunch. The Managing Board presented interested attendees with the newest developments and future plans at this venue.

Quarterly reporting on financial developments formed the basis for continuous analyst reports on the paragon share. In the spring of 2012, the Company commissioned a second research firm, Close Brothers Seydler Research AG, Frankfurt am Main, with regular reporting (coverage), in addition to Dr. Kalliwoda Research GmbH, Frankfurt am Main.

Financial calendar 2013

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

March 21, 2013:	Press conference on the financial statements for fiscal 2012
March 21, 2013:	Annual report on fiscal 2012
April 17, 2013	DVFA Small Cap Forum SCF
May 15, 2013:	Interim report January 1, 2013, to March 31, 2013
May 15, 2013:	12th Annual General Meeting for fiscal 2012
August 21, 2013:	Mid-year report January 1, 2013, to June 30, 2013
November 20, 2013:	Interim report January 1, 2013, to September 30, 2013

In principle, paragon AG's Managing Board and Supervisory Board welcome the suggestions of the German Corporate Governance Code. These recommendations promote transparency and thereby strengthen 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, 2012, paragon was able to comply with the principles of the German Corporate Governance Code to the greatest extent possible.

Shareholders and Annual General Meeting

During fiscal 2012 paragon continued its intensive dialogue with analysts and journalists in the capital markets. The Company pays particular attention to timely information and a comprehensive response to questions and suggestions from shareholders. The Managing Board attended a number of events at the central financial location of Frankfurt am Main and presented the Company's current situation and prospects. Furthermore, paragon participated in information sessions at other locations, such as Hamburg and Hanover.

The approval by shareholders of the Company's management was expressed in the voting results as well at the 11th Annual General Meeting that took place in the town hall of Delbrück on May 9, 2012. Almost 100 percent of the shareholders agreed to all recommendations submitted by the Managing Board and Supervisory Board. This was also true for the special payment of dividends in the amount of EUR 0.25 per share that was paid out on January 3, 2013.

Cooperation between the Managing Board and Supervisory Board

The Managing Board and Supervisory Board, which has been in office since the General Meeting of September 30, 2010, continued to work together closely and trustfully. The Managing Board continuously informed the Supervisory Board members, Hans J. Zimmermann (Chairman), Hermann Börnemeier (Deputy Chairman) and Walter Schäfers on all relevant questions regarding 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, 2012. During the period from January 1 to December 31 of 2012, 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 confirmed.

Supervisory Board

The three elected members belonged to the paragon AG Supervisory Board throughout the year under review. The Supervisory Board under the leadership of Hans J. Zimmermann monitored the work of the Managing Board and assisted the latter in an advisory capacity. No conflicts of interest arose among the members during fiscal 2012 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

Regular and timely information to all capital market participants regarding the Company's financial situation is one of paragon AG's transparency principles. Ongoing reporting in accordance with stock exchange requirements included the annual report for fiscal 2011 (published on March 22, 2012), the quarterly report of March 31, 2012 (published May 9, 2012), the mid-year report as at June 30, 2012 (published August 22, 2012) and the interim report as at September 30, 2012 (published on November 21, 2012). At the same time the Company published the relevant ad hoc announcements and press releases, which included personal assessments by the Managing Board regarding business developments, in accordance with its duties and on a timely basis.

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 7,000 shares as at December 31, 2012.

Accounting

The financial statements as at December 31, 2012, 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, 2012, to December 31, 2012.

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 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 fulfils 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, 2012 (item 6.6).

Due to its medium-sized corporate structure it is not practical for paragon AG to fully comply with the aforementioned recommendations of the German Corporate Governance Code.

Delbrück, February 20, 2013

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 during fiscal 2012. The Supervisory Board has intensively advised the Managing Board in its guidance of the Company, in addition to monitoring the proper management of operations. Decisions of fundamental importance are in principle always discussed early on. Thanks to the excellent team work of the Supervisory Board members, pending decisions could always be quickly addressed.

Activities of the Supervisory Board

The Managing Board provided the Supervisory Board with both oral and written information, promptly and in depth, concerning general business development, strategic future development and the Company's current situation. In addition to meetings and telephone calls with all members of the Managing and Supervisory Boards, the Chairman of the Supervisory Board and the Chairman of the Company also regularly coordinated on important topics by phone or email.

During fiscal 2012 the Supervisory Board held four meetings where all physically attended and four telephone conference meetings. All meetings of the Supervisory Board included the Managing Board.

The joint meetings were opened at an extraordinary session of the Supervisory Board at the premises of Orrick, Hölters & Elsing Rechtsanwaltsgesellschaft in Frankfurt on February 8, 2012. The focus of this meeting was the Company's current course of business, possible capital measures and various acquisition projects. Furthermore, the Supervisory Board was occupied early on with preparing the Annual General Meeting on May 9, 2012, at which numerous contingent resolutions were to be renewed. The Supervisory Board suggested redesigning the stock option plan for purposes of additional motivation.

In its first ordinary session on March 12, 2012, in Delbrück, the Supervisory Board concentrated on confirming and endorsing the annual financial statements of fiscal 2011 and discussing the agenda for the Annual General Meeting on May 9, 2012. Dr. Keller from Rödl & Partner Wirtschaftsprüfungsgesellschaft explained the audit, which resulted in an unqualified audit opinion for the financial statements and management report of fiscal 2011.

The Supervisory Board adopted the definitive version of the invitation to the Annual General Meeting, which took place on May 9, 2012, in the Delbrück town hall, in a telephone conference on March 20, 2012. The second ordinary session of the Supervisory Board on May 8, 2012, in Hövelhof was for preparation of its content. In this context the Chairman of the Supervisory Board provided information on the results of the efficiency review of the Supervisory Board's work. The self-assessment submitted by members of the Supervisory Board confirmed the long-term efficient work of the Supervisory Board. In turn the Managing Board reported on the satisfactory business developments which the Supervisory Board acknowledged with approval.

The Managing Board presented the Supervisory Board with the structural reorganization based on the introduction of customer teams in their third ordinary session on August 21, 2012, in Delbrück. Furthermore, an intense exchange of ideas regarding the possible takeover of the assets of the insolvent Artega Automobil GmbH & Co. KG in Delbrück took place. The Supervisory Board agreed with a suitable approach under certain conditions and requested the Managing Board to conduct the necessary negotiations. Telephone conferences on September 21, 2012, September 24, 2012, and September 26, 2012, served to further fine-tune this issue.

The four ordinary sessions of the Supervisory Board on the premises of the paragon location in Nuremburg shaped the status of the Artega assets takeover and business developments in the third quarter of 2012. The Supervisory Board, moreover, coordinated with the Managing Board about the strategic future development of the Company. At the same time the members of the Supervisory Board used the opportunity to acquire information regarding the equipment and situation of the Nuremberg location while on site.

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, 2012, by resolution of the Annual General Meeting dated May 9, 2012, and commissioned by the Chairman of the Supervisory Board accordingly. The annual financial statements as at December 31, 2012, as well as paragon AG's management report for fiscal 2012, 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 20, 2013.

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, 2012, have been confirmed.

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

The Supervisory Board thanks all paragon AG employees and its Managing Board for their commitment and dedication in the past year.

Delbrück, March 15, 2013

Hans Jakob Zimmermann
Chairman of the Supervisory Board

Management Report

A. Business and Framework Conditions

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 are traded on the Frankfurt Stock Exchange in the Prime Standard segment. The Company develops, produces and sells electronic components, sensors and modules for the automotive industry.

During the fiscal year from January 1, 2012, to December 31, 2012, paragon was able to smoothly proceed on its positive course from the previous year. The single-digit sales growth forecast by the Managing Board at the beginning of the year was comfortably achieved despite uneven developments in the automotive industry. The Company benefited from the current customer range and other factors, since German premium manufacturers such as Audi, VW, Daimler, BMW and Porsche performed very well competitively compared to other high-volume suppliers.

Earnings results would have developed even more favorably had paragon invested less in assuring a sound future. In addition to a selective build-up of competent personnel, the Company over the past year invested especially in new patents, in the maintenance and reconstruction of buildings, in various manufacturing start-ups, as well as in expanding its own development capacities. Nevertheless, paragon succeeded in considerably raising the equity-to-assets ratio once again and thus enhancing financial stability. The reduction in liabilities undertaken as announced also had a positive impact.

Economic Situation

The German economy was able to continue its growth trajectory on average during 2012, albeit at a low level. According to the Federal Bureau of Statistic (Destatis), the German economy proved robust and defied the European recession. Price-adjusted gross domestic product (GDP) was 0.7% higher than the previous year.

Destatis calculated a higher GDP growth rate in 2012 of 0.9 % adjusted for the Christmas holidays, the timing of which resulted in three fewer working days than in 2011. The difference between exports (+4.1 %) and imports (+2.3 %) contributed 1.1 percentage points to GDP growth and was thus the most important growth driver of the German economy in 2012.

Domestic demand took a different path. Private consumer expenditures (+0.8%) and government expenditures (+1.0 %) increased, but capital expenditure decreased significantly in part. Construction expenditure shrank by 1.1 % and equipment expenditure by as much as 4.4 %.

Gross domestic product generated in 2012 was characterized by disparate trends in the two main parts of the economy. The service sector increased significantly vis-à-vis 2011 in certain areas in price-adjusted gross value creation terms. On the other hand, the industrial sector (excluding construction) declined (-0.8 %), as did the construction sector (-1.7 %).

The overall positive development in the German economy brought about a sixth consecutive record in the job market. In 2012 the number of employed persons increased to 41.6 million. Productivity per employee rose by 0.4%, because employee work volume increased less than GDP.

The government budgets were on a consolidation course in 2012. Federal and regional government, municipalities and social security finished up the year with a surplus of approximately EUR 2.2 billion. This a surplus percentage of 1.1 % relative to the gross domestic product, which means that a balanced budget was achieved for the first time since 2007.

Consumer prices rose on average in 2012 by 2.0 % over the previous year according to Destatis. The annual rate of inflation decreased slightly compared to 2011 (+2.3 %), but continued considerably above the annual price increases of 2010 (+1.1 %) and 2009 (+0.4 %). Above-average price increases in energy products

(+ 5.7 %) contributed significantly to inflation. The inflation rate in December of 2012 stood at 2.1 %, which was a little higher than in November (+1.9 %) as measured by the consumer price index.

Economic Performance in the Eurozone

The Statistical Office of the European Union (Eurostat) calculated a considerable surplus for the Eurozone in trade with the rest of the world during 2012. In November of 2012 alone this figure reached approximately EUR 13.7 billion; the surplus rose significantly in this month compared to the previous year (EUR +4.9 billion). Germany achieved the highest surplus by a wide margin in trade among individual member states. The amount totaled EUR 157.7 billion through the months from January to October 2012. The Netherlands (EUR +41.0 billion) and Ireland (EUR +35.6 billion) were also well-positioned, while the United Kingdom (EUR -139.8 billion), France (EUR -69.1 billion), Spain (EUR -29.3 billion) and Greece (EUR -13.2 billion) posted high deficits.

According to Eurostat information, the annual inflation rate in the Eurozone was 2.2 % in December of 2012, reaching the level of 2010; in 2011, it was still 2.7 %. The lowest average values over twelve months were to be found in Sweden (0.9 %), Greece (1.0 %) and Germany (2.1 %); the highest figures in Hungary (5.7 %) and Estonia (4.2 %).

Developments in the Automotive Industry

The international automotive markets were stable on the whole in 2012. The US, Brazil, Russia, India, and China showed solid growth. The Japanese passenger car market reported the best registration level since 2006 with 4.6 million new vehicles. Western Europe, including Germany, posted a reduction in sales. Irrespective of developments in the home markets, the German premium manufacturers were able to once again increase their shares in the most important future markets and thus expand their already strong competitive position.

The market for light vehicles (passenger cars and light trucks) rose by a full 13 % in the US, where 14.4 million vehicles were sold in 2012. In December alone the volume rose by 9 % to 1.35 million units. The German manufacturers accelerated even more rapidly in the US and raised revenues by over 21 % to roughly 1.27 million units.

In China, too, the passenger vehicle market continued to grow. 13.2 million new vehicles were sold in total, an increase of 8 % over the previous year. The German manufacturers, who were able to grow their market share by approximately 22 %, also benefited from this positive development.

Double-digit growth rates were to be found in the Indian and Japanese passenger car markets. From January to December of 2012, sales in India climbed by just over 10 % to 2.8 million units. Passenger vehicle demand rose even more substantially in Japan; there, the market volume grew by approximately 30 % to slightly below 4.6 million new vehicles. The pent-up demand triggered as a result of the Fukushima disaster and a subsidy program that ran through September of 2012 contributed to this extraordinary result.

In Russia, too, the market rose significantly. Light vehicles sales were up overall in 2012 by roughly 11 % to 2.9 million units, reaching the pre-crisis levels of 2008. German manufacturers grew faster than the market in this area as well, expanding their share by 2.9 % to approximately 21 %. Brazil, too, showed its robust constitution; sales increased there by 6 % to 3.6 million vehicles. Every fifth vehicle sold in Brazil sports a German company logo.

The market in Western Europe was unable to keep up with these positive developments. New registrations declined by 8 % to just under 11.8 million units. In the last month of the previous year, there was no recovery to be seen; rather, there was a further drop of 16 %. The United Kingdom showed a pleasing overall result for 2012 with an increase of over 5 %. Despite the slight drop of 3 %, new registrations in Germany proved to be a support to the Western European market.

Private vehicle registrations in Germany reached a volume of around 3.1 million units in Germany in the past year. The expectations of the Automotive Industry Association (VDA), which assumed a moderate decline, were thus confirmed. The representatives of the association, however, were cheered by the very dynamic automotive economy beyond Western Europe, in which the German manufacturers participate more than manufacturers from other countries.

B. Course of Business and Situation of paragon AG

During fiscal 2012 paragon AG's sales and earnings figures hovered within the framework expected by the Managing Board. In a relatively heterogeneous market environment, the Company asserted itself as well as it did, because its major customers – the German premium manufacturers – were able to gain additional market share in global competition. paragon supported their success with innovative product ideas, as well as with the reliable delivery of components and modules for a variety of platforms and vehicles.

paragon developed a new structure with five business areas in 2012 by consolidating product groups and taking on new segments: Sensors, Acoustics, Cockpit, Electro-Mobility and Body Work Kinematics. Competences for new developments and sales are consolidated in these powerful units, while the traditional series business is serviced by the newly created customer teams.

During the past fiscal year paragon placed strong emphasis on the future development of the Company, both in terms of substance and organization. The Company presented intelligent solutions for electro-mobility for commercial vehicles at the International Auto Show (IAA) in Frankfurt am Main in the autumn. The individually configurable building kit 'Zero Emission System' and products for optimizing driver assistance can turn an electro-mobile into a technically and economically efficient vehicle. A further big step was the takeover of all assets of the insolvent Artega Automobil GmbH & Co. KG as at October 1, 2012. An ultra-modern technology center with integrated manufacturing is being created on the premises on the Artegastrasse at the Company's headquarters in Delbrück.

Branches

paragon maintains branches in Suhl, St. Georgen and Nuremberg in addition to the Company headquarters at Delbrück. In 2012, as well, the business segments and product groups were arranged by individual location, so as to allow for efficient processing of development, requests and orders.

Until June 30, 2012

Delbrück headquarters
Managing Board, Marketing, Sales, Purchasing, Finance
Development of sensors, acoustics, electro-mobility

Suhl branch
Central production plant

St. Georgen branch
Development and production of stepper motors

Nuremberg branch
Development of Cockpit, Body Work Kinematics.

As of July 1, 2012

Delbrück headquarters
Managing Board, Marketing, Purchasing, Finance
Customer teams
Business segments Sensors, Acoustics, Electro-Mobility
Production electro-mobility

Suhl branch
Central production plant

St. Georgen branch
Development and production of stepper motors

Nuremberg branch
Development of Cockpit, Body Work Kinematics.

Management Systems

Flat hierarchies, fast processes and an efficient workflow organization pervade paragon's daily activities, as does a high level of innovative dynamism. The Company has the character of a medium-sized, owner-managed company and combines these advantages with the integrative power of a large company. Thanks to this special approach, paragon is in a position to successfully compete with significantly larger groups and to firmly anchor its position as direct supplier to renowned automotive manufacturers.

paragon has implemented a comprehensive planning and control system in order to systematically assure success. 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 Supervisory Board of paragon AG receive detailed risk reporting based on monthly reports of business developments. These reports document potential deviations from planned figures in an actual to target comparison and form the basis for decision-making. An additional important management tool lies in the regular meetings of the expanded management circle, which elucidate current business developments in the individual business segments and include an outlook over medium-term and long-term perspectives.

Net Assets and Financial Position

Total assets rose by EUR 2.6 million to EUR 44.0 million as at December 31, 2012 (prior year: EUR 41.4 million). This increase can be traced back primarily to expenditure on non-current assets in the amount of EUR 1.5 million.

Non-current assets climbed from EUR 17.1 million to EUR 18.6 million. This change is due above all to investment in intangible assets and property, plant and equipment in the course of the period under review. Current assets rose by EUR 1.1 million to EUR 25.4 million (prior year: EUR 24.3 million), related chiefly to an increase in trade receivables of EUR 1.3 million. Trade receivables are subject to a factoring commitment as in the previous year. As a result of the purchase of receivables by GE Capital Bank, AG paragon has additional cash resources in the amount of EUR 4.2 million (prior year: EUR 2.8 million) at its immediate disposal as at the balance sheet date. paragon significantly strengthened its financial resources with this important short-term financing instrument. Interest is applied to this credit account in accordance with market conditions.

Cash and cash equivalents of EUR 14.1 million include, in addition to current bank deposits (EUR 5.9 million) and deposits from factoring (EUR 4.2 million), the insolvency escrow account in the amount of EUR 0.3 million (prior year: EUR 0.5 million) and the escrow account for the 'insolvency dividend payout' in the amount of EUR 3.7 million (prior year: EUR 3.7 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 9.0 million had been paid out as at December 31, 2012.

The capital structure is characterized by the rise in equity of EUR 3.2 million, which, along with higher total assets, has led to an improvement in the equity-to-assets ratio to 29.6 % (prior year: 23.7 %). Equity rose by a third in nominal terms during the period under review.

The Company's share capital in the amount of EUR 4,114,788.00, divided into 4,114,788 bearer shares with a notional share in capital of EUR 1.00 per share, was increased by EUR 1,028,697.00 to EUR 5,143,485.00, in accordance with the rules of the German Stock Corporation Act concerning capital increases from company resources (sections 207 et seqq. of the German Stock Corporation Act). This was accomplished by converting a partial amount of EUR 1,028,697.00 of the capital reserves reported in the share capital as of December 31, 2011. The capital increase took place without issuing new shares by increasing the notional share in the Company's share capital allocated to each share. Subsequently, for the purpose of repayment of a portion of share capital to the Company's shareholders in the form of a cash dividend in the amount of EUR 0.25 for each issued share, the share capital was reduced by EUR 1,028,697.00 to EUR 4,114,788.00 according to the rules of the German Stock Corporation Act pertaining to ordinary capital reductions (sections 222 of the German Stock Corporation Act et seqq.) from EUR 5,143,845.00 distributed over 4,114,788 bearer shares, with a notional share in the Company' share capital of EUR 1.25 each. The capital reduction took place by reducing the notional share in share capital allocated to each share. The payment of the reduction amount of EUR 1,028,697.00 took place once the capital reduction had been recorded in the commercial register and the six-month legal blocking period had elapsed, and after any potentially required collateralization or satisfaction of creditors according to section 225 of the German Stock Corporation Act distributed over the shares in circulation at that period of time, i.e. shares not held by the Company itself. The resolution on the capital reduction was recorded in the commercial register of the district court of Paderborn on June 22, 2012, and published on June 26, 2012. The special dividend payment adopted by the Annual General Meeting of May 2012 in the amount of EUR 1.0 million was reported as other liability at the balance sheet date and paid out on January 3, 2013.

Non-current provisions and liabilities decreased in the period under review by EUR 0.1 million. This small reduction was due to the repayment of long-term loans of EUR 0.3 million, the release of the special item for grants in the amount of 0.6 million and the rise in pension provisions of EUR 0.7 million.

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.

Under non-current provisions, the provision for pensions rose by EUR 0.7 million to EUR 2.7 million (prior year: EUR 2.0 million), due to the low interest rate levels as at the balance sheet date.

Current provisions and liabilities fell by EUR 0.5 million to EUR 13.9 million year-on-year. Current provisions are composed primarily of provisions for outstanding credit notes in the amount of EUR 0.6 million (prior year: EUR 1.3 million), as well as provisions for warranty claims of EUR 0.2 million (prior year: EUR 0.1 million).

Cash flow from operating activities amounted to EUR 5.8 million as at December 31, 2012 (prior year: EUR 8.6 million). The decrease is due especially to higher receivables of EUR 1.3 million and higher tax payments of EUR 0.8 million. Net cash used for investment activities increased by EUR 2.9 million to EUR 6.2 million (prior year: EUR 3.3 million). This is due to higher capital expenditures in the following areas: Property, plant and equipment in the amount of EUR 0.6 million, intangible assets of EUR 1.4 million and the acquisition of assets of Artega Automobil GmbH & Co. KG in the amount of EUR 0.8 million. The increase in cash flow from financing activities is the result in particular of taking out investment loans in the amount of EUR 2.2

million and lower repayments of long-term loans of EUR 2.8 million (prior year: EUR 6.4 million). Financing resources include only cash and cash equivalents.

Results of Operations

paragon achieved sales of EUR 70.4 million (prior year: EUR 67.1 million) in fiscal 2012. This equates to an increase of 5.1 % over the previous year. In March of 2012 the Managing Board issued a forecast that predicted single-digit sales growth in fiscal 2012.

Cost of materials rose by EUR 3.3 million to EUR 37.0 million (prior year: EUR 33.7 million) due to higher third-party services and merchandise costs. Personnel costs are higher by EUR 2.1 million, which is attributable to qualified new hires and to the takeover of 14 employees of the insolvent Artega Automobil GmbH & Co. KG as at October 1, 2012.

EBIT was down from EUR 8.8 million to EUR 7.8 million, primarily due to higher expenses for materials and personnel. The EBIT margin was 11.0% (prior year: 13.2%). EBITDA decreased from EUR 13.0 million to EUR 11.8 million. The EBITDA margin thus came to 16.7% (prior year: 19.4%). If the expenses associated with the Artega asset deal and the expenses for building up future-oriented fields of activity were to be eliminated, the absolute earnings figures and earnings margins of the previous year would have been achieved once again.

paragon improved its financial result by EUR 0.2 million to EUR 1.1 million (prior year: EUR 1.3 million), since financing costs have dropped compared to 2011 due to scheduled repayments.

Income taxes amounted to EUR 2.1 million in fiscal 2012 (prior year: EUR 2.2 million).

All in all, period income as at December 31, 2012, amounted to EUR 4.6 million (prior year: EUR 5.4 million). Consequently, earnings per share equaled EUR 1.13 with 4,115 million shares outstanding (prior year: EUR 1.30).

Overall Assessment of paragon AG's situation

The Managing Board is satisfied with the development of paragon AG in 2012. Despite numerous negative omens due to the Euro crisis and uneven developments in the automotive sector, the Company was able to achieve its goals.

C. Employees

As at December 31, 2012, paragon engaged 389 employees and 45 contract workers at the Company's four locations in Germany. The number of employees rose compared to the previous year (December 31, 2011: 343), while the number of contract workers fell (December 31, 2011: 60). The following figures applied to the various locations as at December 31, 2012: (employees/contract workers): Delbrück (87/1), Suhl (209/41), Nuremberg (37/3) and St. Georgen (56/0).

Personnel expenses during the period under review were EUR 18.8 million. EUR 14.6 million (prior year: EUR 12.6 million) represented salaries and wages and EUR 2.3 million (prior year: EUR 2.0 million) social security costs. Due to the first-time application of IAS 19 (revised), EBIT will no longer be impacted by actuarial gains and losses starting in 2012, since the valuation of the pension provision will be recorded directly in the revaluation reserve without impacting income. Expenses for contract workers amounted to EUR 1.9 million in the period under review (prior year: EUR 2.2 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

paragon AG undertook capital expenditures in machinery, facilities and tools for new products and development projects totaling EUR 6.3 million (prior year: EUR 3.4 million) in fiscal 2012. Furthermore, the Company invested in qualified personnel, new patents, maintenance and reconstruction of buildings, various manufacturing processes and the expansion of its development capacities. This expense is a contribution towards assuring the Company's future.

The 2013 fiscal year investment plan for paragon AG includes EUR 4.0 million for both replacement expenditure and new facilities.

F. Principles of Financial Management

paragon's financial management focuses on a solid equity-to-assets ratio with which the Company has established an excellent position in the ranking of German industrial companies. The Company was able to continue to improve this important indicator in the past fiscal year and to strengthen its financial power over the long term. paragon built up equity to EUR 13.0 million as at December 31, 2012, from EUR 4.5 million (December 31, 2010) and EUR 9.8 million (December 31, 2011). This translates into an equity-to-assets ratio of 29.6 %; two years previously the equity-to-assets ratio was 10.3 %.

paragon continued to reduce debt financing by means of scheduled and special repayments. Adherence to financial indicators ('financial covenants') was not demanded by the key financing bank.

G. Research and Development

As an innovative company that distinguishes itself from the market with active product development and inspired approaches to solutions, paragon places a high value on special competence and sufficient capacities in the research and development area. Owing to the internal restructuring implemented as at July 1, 2012, the responsibility for developing new products now lies in the following five business segments: Sensors, Acoustics, Cockpit, Electro-Mobility and Body Work Kinematics. New ideas can be implemented in the shortest time due to the direct integration with sales.

The development of a new generation of the air quality improvement system AQI®, which enables the air in the vehicle interior to be purified, a suspension unit with level sensors, a chassis sensor and a gear selector with driver identification are among the most important projects in the Sensors business segment. Main areas of focus in the Acoustics business segment are the further development of the seat belt microphone, belt-mic®, and an in-house microphone module, which can be used in a variety of ways due to its flat construction and which offers high wind protection.

The business segment Cockpit was engaged in projects that included wireless charging for the universal phone tray for cell phones, optimizing the cTablet Docking Station for additional applications, a building kit concept for the next generation of on-board clocks and improved stepper motors. The new business segments, too, achieved promising development successes:
The business segment of Electro-Mobility focused on developing high-performance lithium ion battery packs, while the Body Work Kinematics segment concentrated on a tail wing actuator and several spoiler modules.

In total paragon invested EUR 7.6 million (prior year: EUR 5.4 million) in the area of research and development in fiscal 2012. The Company thus increased its commitment in this future-oriented area by 40.7 % in the period under review. This is due in large part to the recruitment of qualified personnel in additional fields of activity, to investment in the development of new projects, and to higher expenses related to patent registrations.

H. Procurement

paragon's materials management department works according to unambiguous principles that have proven themselves for years. Close cooperation with a select group of high-performance suppliers and a systematic purchasing policy were once again the cornerstones of the procurement philosophy in fiscal 2012. This approach has the advantage that the at times very ambitious production goals in the case of urgent and high-volume orders received from automotive manufacturers can be met.

Merging the materials management and customer relations departments under uniform leadership constituted a long-term change. As a result paragon can satisfy the customers' wishes with the greatest possible precision and at the same time optimize cost structures. The Company has thus standardized the entire logistics chain, from purchasing through planning and procurement to sales for existing business, in line with supply chain management philosophy.

Cost of materials amounted to EUR 37.0 million in fiscal 2012 (prior year: EUR 33.7 million). This results in a cost of materials ratio (materials in relation to revenues) of 52.5%; this figure was 50.2% at the previous year's balance sheet date. The difference is due primarily to significantly higher tool costs, which were billed to customers.

I. Risks and Opportunities Report

paragon has established a comprehensive risk management system in order to determine 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 continue to 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 ystem 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. The objectives are as follows:

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 Company's 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 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 of accounting-based information.

Market and Industry

paragon AG has maintained a strong market position as an established and innovative direct supplier to automotive manufacturers for many years. Fiscal 2012 was characterized by significant differentiation in developments in the automotive industry. paragon has a great advantage in that its core customers are among the winners in the industry and continue to have excellent prospects. The German manufacturers with their global set-ups – Audi, VW, BMW, Daimler and Porsche – continued to book impressive business successes in contrast to other high-volume manufacturers. The close bond to these core customers and a concentration on interesting market niches leave their imprint on the Company's situation.

The economic development of the automotive industry will continue to have a significant influence on paragon's sales and earnings situation in future, as well. paragon identifies sales opportunities and risks through its comprehensive sales control system. An analysis of market and competition data, a rolling short-term and medium-term plan and regular coordinating discussions between sales, production and development are set components in this system. A comparatively broad portfolio of approximately 200 individual products emphasizes the Company's independence from individual product segments and customers. The loss of a major customer might, nonetheless, have an enormous impact. The loss of a core customer would be identified early on due to the multi-year contract terms of individual series. paragon addresses this risk by means of wide-ranging development work, a constant flow of new products and outstanding customer service, as well as with the help of detailed order level analysis as part of early risk identification.

Active product development that takes into consideration the interests and wishes of the end customers (the car's passengers) shapes paragon's daily work. The Company does not simply wait for manufacturers' requests and specifications, but works autonomously on novel solutions that are implemented together with pilot customers and subsequently offered to a broad group of customers. There are a great number of different market opportunities for an electronics manufacturer such as paragon, since a majority of automotive innovations concern the electrics/electronics area. It cannot be ruled out, however, that a product developed may not reach the anticipated number of units.

Research and Development

paragon AG supports the successes of manufacturers via diverse development projects and novel solutions, in close exchange with the core customers' development departments. Major deviations from project goals in terms of timing or money could entail cost and legal risks (contractual penalties). paragon limits such risks by means of an ongoing development and project control process. Past experience has shown that paragon can generate additional business with new products by using its existing sales channels. New customers as well may be attracted by the presentation of in-house developments. paragon can ensure that the Company's equipment satisfies the exacting demands of the automotive industry by continually investing in machinery and equipment.

Procurement and Production

During the past fiscal year most raw materials hovered at a high price level. paragon exploited global price competition in relevant areas and locked in a majority of its procurement prices by means of framework contracts, annual agreements and long-term supplier relationships. 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 within the industry average. The major purchasing currency is the euro, with a small share also in US dollars (2012: USD 3.0 million; 2011: USD 3.7 million). paragon optimized flexibility in manufacturing and at the same time improved the liquidity situation by once again introducing consignment warehouses at the central production plant in Suhl.

Information Technology

Due to the widespread use of information technology (IT) and comprehensive networking via the Internet, risks such as hardware failure or unauthorized access to the Company’s data and information arise. To prevent possible risks, paragon has collaborated with specialized service providers to establish modern security solutions in order to protect data and IT infrastructure.

The Company also initiated a long-term modernization of its IT infrastructure this past fiscal year. This included replacing obsolete PCs and server hardware, the use of modern storage media at all locations, the installation of new data back-up systems and the replacement of security systems, such as firewalls or virus scanners. On top of this, there was an update of the PPS system XPert by INFOR (especially for the automotive industry) and the development of a new reporting system.

Liquidity and Financing

Currency risks on the procurement and sales sides have had only a limited effect on paragon AG to date, since business activities are primarily concentrated in Germany or the Eurozone. Nevertheless, the Company monitors certain risks in this area on the basis of ongoing reviews of currency 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 short, medium and long 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. paragon has an additional option for short-term financing via a factoring agreement with 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

The Managing Board of paragon AG regularly assesses risks in close consultation with the Supervisory Board. The renewed significant repayments of liabilities and the consistent accumulation of additional equity has continued to strengthen the Company and once again during 2012 reduced its overall risk. Further development at paragon, however, remains closely bound to the economic development of the automotive industry and especially of its core customers.

The Company must safeguard itself against general market risks in the future as well. The exposed position as direct supplier of renowned automotive manufacturers and the long-standing, successful business relationships with these companies on the other hand significantly limit these risks. The existing customer contacts also imply considerable opportunities for placing additional products in the traditional business segments, as well as the new areas of activity, Electro-Mobility and Body Work Kinematics.

At the time that the annual financial statements as at December 31, 2012, were authorized by the Managing Board, the tax authorities had not yet rendered a final decision regarding the waiver of corporation tax on the recapitalization gain of the 2010 assessment period. As in the case of previous balance sheet dates, no provisions for income taxes were recorded as at December 31, 2012, associated with recapitalization gains. This decision was based on the premise that income taxes on the recapitalization gains in 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, (BStBI 2003 I p. 240 et seqq.) 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 as a going concern.

At the time of publication of this report, no additional risks have been identified that might jeopardize the Company's continued existence as a going concern. A nuanced view of the developments in the automotive industry show that the Company is positioned in a forward-looking market segment, that it maintains promising relationships with its customers and that it has unique niche products often offered solely by paragon.

J. Capital Structure, Managing Board and Change of Control

Pursuant to the provisions of section 289, paragraph 4, of the German Commercial Code, paragon AG provides the following comments:

Capital

paragon AG's capital stock as at December 31, 2012, consisted of 4,114,788 shares with a notional par value of EUR 1.00. Subscribed capital amounted to EUR 4,114,788.

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.

A conditional increase of share capital by EUR 410,000 by means of an issue of up to 410,000 new bearer shares with no par value (common shares) was resolved at the Annual General Meeting of May 9, 2012 (conditional capital 2012/I). Conditional capital 2012/I is used only to secure subscription rights, issued based on the authorization of the Annual General Meeting in the context of the stock option plan 2012 in the period up to May 8, 2017, to members of the Managing Board and employees of the Company. The Managing Board was authorized to implement a stock option plan in the same resolution of the Annual General Meeting. Furthermore, a conditional EUR 1,647,394 increase in share capital by means of an issue of up to 1,647,394 new bearer shares with no par value (common shares) was resolved at the Annual General Meeting of May 9, 2012 (conditional capital 2012/II). Conditional capital 2012/II is exclusively designated for granting shares to the holders or creditors, respectively, of warrant and/or convertible bonds, which are issued or guaranteed, respectively, by the Company on the basis of the authorization resolution of the Annual General Meeting through May 8, 2017. In the same Annual General Meeting resolution, the Managing Board was authorized to issue at one or several points in time, with the consent of the Supervisory Board, bearer warrant and/or convertible bonds to a total par value of up to EUR 100,000,000.00 with a term of up to 20 years; furthermore, it is authorized to grant or impose on bearers or creditors of the relevant bonds, warrant or conversion rights and/or obligations of up to a total of 1,647,394 of the Company's bearer shares at no par value (common shares) with a proportional amount of share capital totaling EUR 1,647,394.00 as further stipulated in the respective bonds.

Managing Board

The Managing Board of paragon AG consisted of one member as at December 31, 2012: 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 Commercial 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.ag/Investor Relations/Corporate Governance and is printed in the annual report in the section on Corporate Governance.

L. Environmental Protection and Occupational Safety

Comprehensive environmental protection and occupational safety is part of paragon AG's corporate philosophy. Many years ago the Company had already implemented wide-ranging measures and training on occupational safety in its internal processes, which have fully proven themselves. These measures resulted in improved working conditions and less stress on employees, as well as a continuously low risk of accidents.

Furthermore, paragon is actively engaged in environmental protection by means of regular reviews of the manufacturing processes. Compliance with statutory regulations, too, is guaranteed by strict inspections. paragon's production locations are certified according to the environmental standard DIN EN ISO 14001. At the same time paragon assures that commodities and energy resources are carefully handled by using the most up-to-date manufacturing techniques. This level of environmental management, which is firmly rooted in the Company, together with its well-founded quality management, contributes significantly to the Company's commercial success.

M. Events after the Balance Sheet Date

The following event of special significance occurred after the end of the fiscal year. On January 3, 2013, the special dividend in the amount of EUR 1,028,697.00 that had been resolved in the Annual General Meeting of May 9, 2012, was paid out.

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, as required.

Development of the General Economy and Industries

After a weak phase at the end of 2012, the economic institutes are anticipating that the global economy will slowly recover. According to information provided by the IfW (Institute for the World Economy) in Kiel, the global economy will pick up speed in the next two years, although it is not expected to be very dynamic initially. After growth of 3.2 % in gross domestic product in the last year, the researchers in Northern Germany anticipate an increase in the global economy of 3.4 % in 2013; the economy is expected to accelerate again in 2014 and achieve growth of 3.9 %. This development will be driven by China, India, East Asia, Russia and Latin America.

Economic developments in Germany are closely connected to the crisis in the Eurozone, according to IfW assessments from December of 2012. Price-adjusted gross domestic product should, therefore, rise only by 0.3 % in 2013; the institute in Kiel predicts growth of 1.5 % for 2014. The German Institute for Economic Research (DIW) in Berlin expressed greater optimism in January of 2013. They anticipate that the German economy will grow by 0.9 % as early as the current year; an average annual growth rate of over two percent is possible for 2014. The DIW offers two reasons for this forecast: Demand for German export products will pick up again during 2013. The situation in the job market is so positive that consumer demand should increase sharply.

The German Automotive Industry Association (VDA) foresees a challenging year for the industry. Experts anticipate a very dynamic economy for the automotive sector, especially beyond Western Europe, and German manufacturers and suppliers should have a very large share in this growth. The global passenger car market, which grew by four percent to slightly over 68 million units in 2012, will continue its growth trajectory and target the 70 million mark. This dynamism will be kept aloft above all by the Chinese market and the strengthening US lead market. It is not surprising, then, that the association perceives growth prospects in the international markets. Previews of the domestic passenger car market are more subdued; the VDA is predicting a decrease to approximately 3 million new registrations in 2013.

Corporate Development

Fiscal 2012 confirmed the predictions of paragon AG's Managing Board. The Company was able, as announced, to achieve single-digit sales growth of 5.1 % in a heterogeneous automotive market in which paragon's core customers managed to reach record figures, while other manufacturers struggled with significant sales problems. paragon sent out an important signal regarding its financial stability after further reducing its debt and increasing its equity-to-assets ratio to 29.6 % over the long term.

The EBIT forecast, too, has almost been achieved, not taking into account the purchase of Artega assets as at October 1, 2012, and the expenses incurred in building up additional forward-looking fields of activity (both factors had not yet been known to the Managing Board when it provided its forecast). On March 22, 2012, the Managing Board forecast a repetition of the EBIT ratio in relation to the previous year's sales; this implied an EBIT margin of 13.2 %. When adjusted for temporary financial effects, paragon achieved an EBIT margin of 13.0 % during fiscal 2012.

The fourth quarter of 2012 was, above all, imbued with general pessimism about the economy, especially in relationship to the future outlook in the automotive industry. The purchasing restraint in Southern and Western Europe induced by the sovereign debt crisis, the special problems of manufacturers such as Peugeot-Citroen, Renault and Fiat, and above all the massive crisis at Opel have influenced public opinion in such a way that another automotive crisis, as experienced in 2008/2009, is expected to be lurking around the corner. It is true that the terrain is certainly not becoming any easier, but a more precise analysis of the global market tells a different story. The Asian region, especially China, as well as North America, is driving sales. It is precisely the German premium manufacturers, paragon's core customers, who benefit from this development. Losses in other regions were offset as a result. A crisis such as that of several years ago is not anticipated among these manufacturers.

The premium manufacturers too, however, allowed themselves to be infected by the general uncertainty in the second half of 2012 and planned conservatively, which impacted paragon's sales figures precisely in the last quarter of the past year. As a result the pace of growth in the first half of 2012 could not be maintained. If the course of business in the fourth quarter of 2012 had replicated the average of the previous three quarters, a sales increase of 9.1 % over the previous year and an EBIT margin of 13.0 %, without normalization effects, would have been achieved.

The nonetheless good results in 2012 were helped especially by new orders for various microphones; sales in these products rose 21.6 % over 2011 to EUR 10.8 million (prior year: EUR 8.8 million). The contribution of business in the AQS, AQI and start-stop sensor products was above average, with a rise of 11.8 % compared to the previous year to EUR 25.7 million (prior year: EUR 23.0 million).

Restraint on the part of automotive manufacturers can to some extent be felt at the beginning of 2013, although levels are already higher. A direct comparison to the beginning of 2012 is not possible, especially because of the special factors involved. Gradually, 2013 is beginning to take shape and it is becoming clear that, after a mild rise compared to the sales figures from October to December of 2012, a more significant recovery in sales is once again developing in the course of 2013.

The Managing Board of paragon AG has laid important foundations in 2011 and 2012 for future corporate development. The separation of ongoing business from new business has entailed a decisive reorganization. Customer servicing of series orders takes place in a dedicated customer team, which works closely together with production and planning. The acquisition of new orders is now the responsibility of five business segments, each of which covers development, sales and project management of one product group.

Since January 1, 2012, the new business segment of Body Work Kinematics has been among them. This segment is involved with movable parts of the car body. The range of products extends from aerodynamics (e.g. spoiler systems, windshields, radiator blinds) through comfort (e.g. window blinds, arm rests, luggage compartment covers) and convertible cover peripherals (e.g. rear side flaps, hinges, rear wind screen systems) to safety and security (e.g. partition nets, charger socket locks).

paragon is counting on a big share of the value creation chain in the Body Work Kinematics segment as well. The Company is covering all project phases, from idea to series production to after-sales service, in cooperation with KarTec GmbH. Development to date shows that this concept is working. In 2013 the first spoiler systems for well-known cars will roll off the assembly line at paragon.

The business segment of Electro-Mobility, set up in 2011, achieved its first successes in the past year. The licensing-in of the highly developed battery building kit from the firm Alelion (Göteborg, Sweden), proved to be a strategically important and correct step, which will lead to a breakthrough in the manufacturing of battery packs in 2013.

paragon exhibited for the second time at the leading trade fair for electro-mobility, eCarTec, in 2012 and was able to demonstrate the new performance capacity. At the same time, assembly of the battery pack in Delbrück was expanded. A significant increase in assembly capacity is imminent on account of new orders that are expected in the first quarter of 2013.

paragon opened a sales branch in Shanghai, China, on May 1, 2012. For the time being, two employees are engaged there; after an initial market analysis phase, they are building up customer contacts and supplying interested parties with samples. On January 1, 2013, the sales office relocated to new suitable premises in the BEA Finance Tower of the Pudong New Area of Shanghai. The Managing Board anticipates that these activities will lead to local production within the next two years in the vicinity of Shanghai; an appropriate industrial area has already been identified.

Set-up of a technology center in the former Artega Automobil GmbH & Co. KG building in Delbrück was started in the fourth quarter of 2012; this serves to strengthen paragon's corporate headquarters over the long term. In addition to expanding the development team, the Company is also aiming at an expansion of prototype construction, pilot plants and test rigs, as well as at building up customer-specific application services. In addition, paragon will again manufacture in greater numbers in Delbrück, starting in 2013, specifically with respect to the young business segments of Body Work Kinematics and Electro-Mobility.

paragon AG's Managing Board anticipates sales growth for 2013 at around five percent, as in the previous year. An above-average increase in sales in the AQS, FSA and AQI products is anticipated. Earnings before interest and taxes (EBIT) as a proportion of sales will remain stable according to the Managing Board's planning.

Disclaimer

DThe 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.

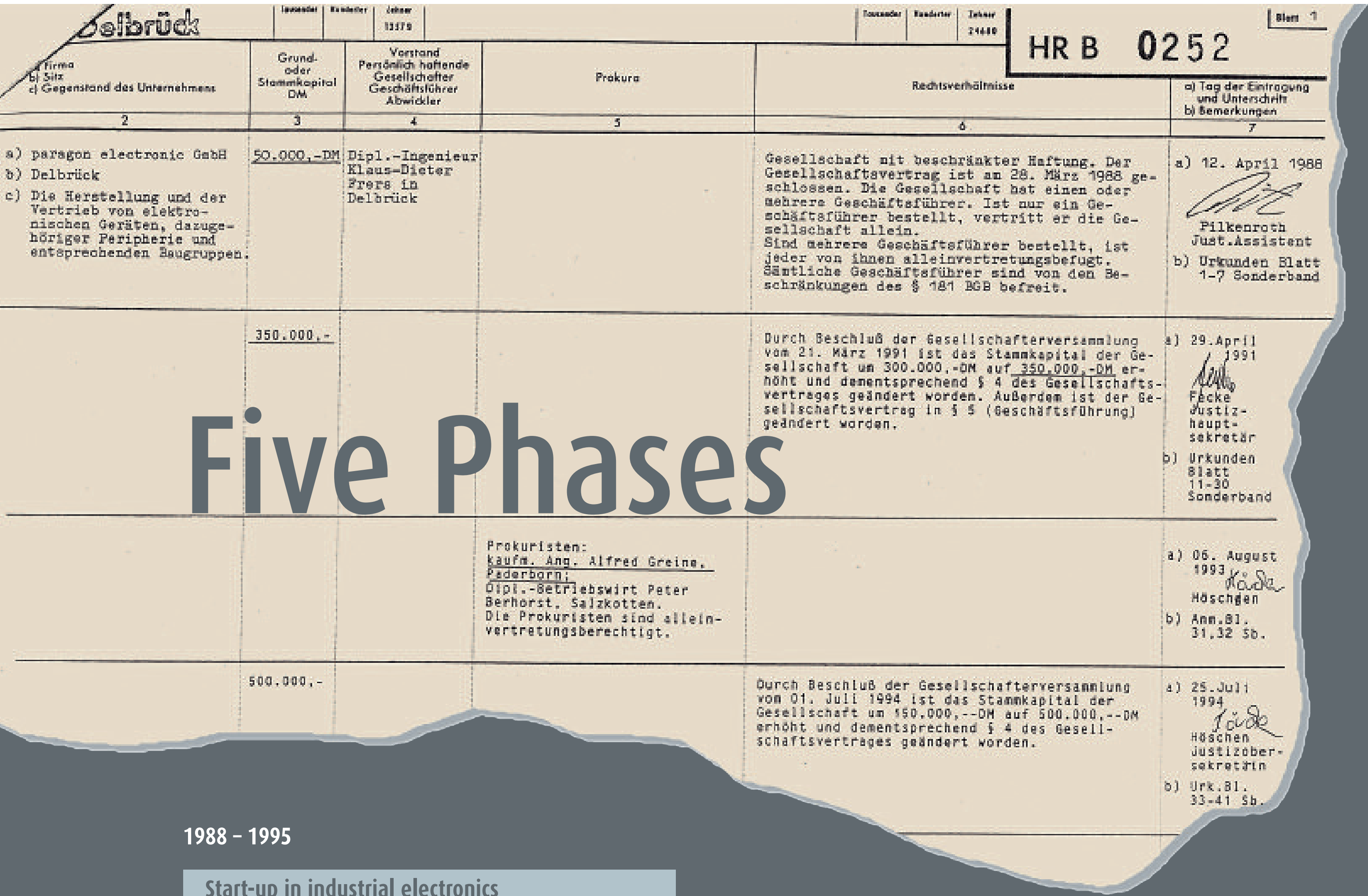
Delbrück, February 28, 2013

Klaus D. Frers

Klaus Dieter Frers
Chairman of the Managing Board

Guiding Theme:

25 years of paragon



Delbrück

HR B 0252 Blatt 1

a) Firma b) Sitz c) Gegenstand des Unternehmens	Grund- oder Stammkapital DM	Vorstand Persönlich haftende Gesellschafter Geschäftsführer Abwickler	Prokura	Rechtsverhältnisse	a) Tag der Eintragung und Unterschrift b) Bemerkungen
2	3	4	5	6	7
a) paragon electronic GmbH b) Delbrück c) Die Herstellung und der Vertrieb von elektronischen Geräten, dazugehöriger Peripherie und entsprechenden Baugruppen.	50.000,-DM	Dipl.-Ingenieur Klaus-Dieter Frers in Delbrück		Gesellschaft mit beschränkter Haftung. Der Gesellschaftsvertrag ist am 28. März 1988 geschlossen. Die Gesellschaft hat einen oder mehrere Geschäftsführer. Ist nur ein Geschäftsführer bestellt, vertritt er die Gesellschaft allein. Sind mehrere Geschäftsführer bestellt, ist jeder von ihnen alleinvertretungsbefugt. Sämtliche Geschäftsführer sind von den Beschränkungen des § 181 BGB befreit.	a) 12. April 1988 Pilkenroth Just.Assistent b) Urkunden Blatt 1-7 Sonderband
	350.000,-			Durch Beschluß der Gesellschafterversammlung vom 21. März 1991 ist das Stammkapital der Gesellschaft um 300.000,-DM auf 350.000,-DM erhöht und dementsprechend § 4 des Gesellschaftsvertrages geändert worden. Außerdem ist der Gesellschaftsvertrag in § 5 (Geschäftsführung) geändert worden.	a) 29.April 1991 Fecke Justizhauptsekretär b) Urkunden Blatt 11-30 Sonderband
			Prokuristen: kaufm. Ang. Alfred Greine, Paderborn; Dipl.-Betriebswirt Peter Berhorst, Salzkotten. Die Prokuristen sind alleinvertretungsberechtigt.		a) 06. August 1993 Höschgen b) Anm.Bl. 31,32 Sb.
	500.000,-			Durch Beschluß der Gesellschafterversammlung vom 01. Juli 1994 ist das Stammkapital der Gesellschaft um 150.000,--DM auf 500.000,--DM erhöht und dementsprechend § 4 des Gesellschaftsvertrages geändert worden.	a) 25.Juli 1994 Höschen Justizobersekretärin b) Urk.Bl. 33-41 Sb.

Five Phases

1988 – 1995

Start-up in industrial electronics

paragon was founded in March of 1988 as an electronics manufacturer. The Company manufactured on order for renowned companies in the Ostwestfalen (East Westphalia) - Lippe region and increasingly in all of Germany and its neighboring countries.

1996 – 2000

Entry into the automotive market

In the mid-nineties paragon achieved a break-through into the automotive industry with its air quality sensor, AQS. Gradually the Company became a recognized developer and producer of components and modules.

2001 – 2008

Emergence as a systems supplier

paragon created the conditions for strong internal and external growth with its IPO in November of 2000.

The initiation of the spin-off of Artega as a reference object brought far-reaching systems competence to the Company.

2009 – 2011

Concentration on the car

The consolidation occurred at the same time as the creation of additional business segments. This created the basis for future growth.

2012 – 2013 and beyond

Expansion to higher-quality systems

Entry into the fields of Electro-mobility and Body Works Kinematiks significantly extended the Company's range of action. The next goal is to internationalize the business.

1988

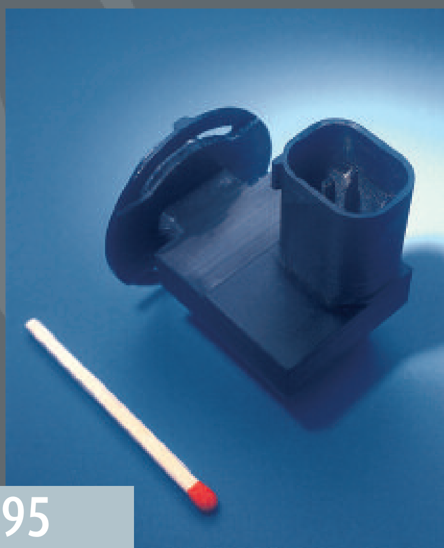
Establishment as electronics producer in Delbrück
Klaus Dieter Frers manufactured the first component assembly in his living room. Shortly thereafter the first company building in Delbrück was constructed.

1991

Plant for Electronic Services in Zella-Mehlis
As part of German reunification, paragon took over the earlier robotron site. A high-performance subsidiary plant quickly developed as a result.

1993

Start of the development and manufacture of sensors
In addition to contract manufacture, paragon soon was focusing on its own products. Engineers began with the development of modern air quality sensors.



1995

Break-through in automotive electronics
paragon achieves its entry into the large series business with the smallest air quality sensor worldwide that prevents the penetration of harmful gasses into the car interior.

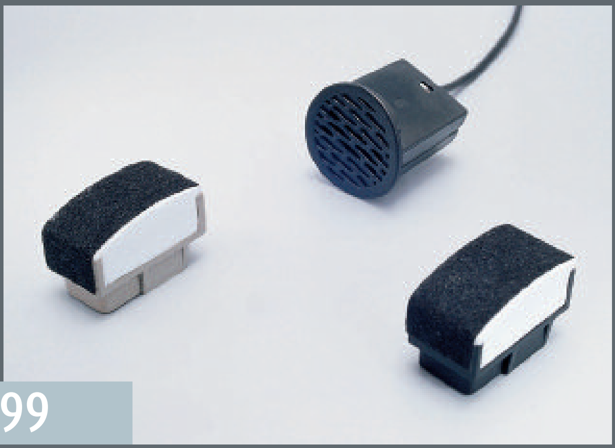
1988 – 1995

1997

Concentration of production in Suhl
Striving for the highest quality and continuous growth resulted in the new construction of a manufacturing site in the county seat not far from Zella-Mehlis.

1998

Production of components for operating elements
Gradually paragon utilized its greater know-how in the automotive industry for further innovations in the interior that are a good fit with air quality.



1999

Premieres for patents for acoustic sensors
paragon even positioned itself early on in the area of voice quality. Signs of the victory march for mobile communication were already apparent.

2000

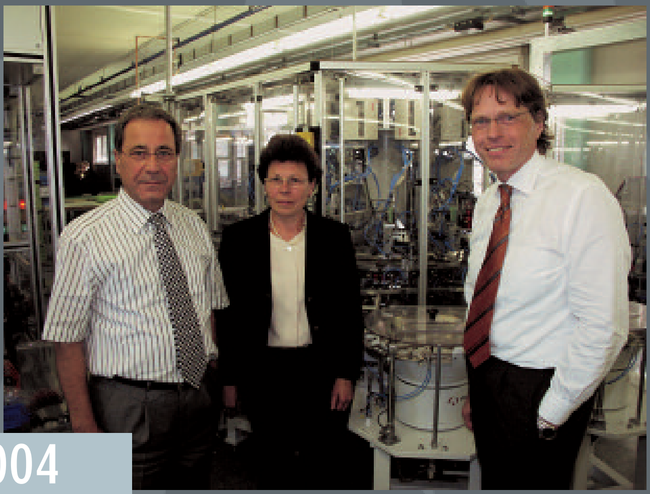
IPO as paragon AG in Frankfurt am Main
paragon relies on external growth for expansion of competences. The transformation to an AG and the IPO clear the path.

1996 – 2000

2001 – 2008

2003

Acquisition of air quality sensor division from Bosch
With another acquisition, paragon ensures the capability to design and manufacture its own sensor elements.



2004

Start of the business with dashboard instruments
The takeover of Andreas Haller GmbH & Co. KG allowed paragon to get a foothold in the area of on-board clocks and other displays.

2005

Entry into the market for car media systems
The third step in the expansion strategy was the purchase of Cullmann GmbH, which had special skills as a pioneer in the field of hands-free communication equipment.

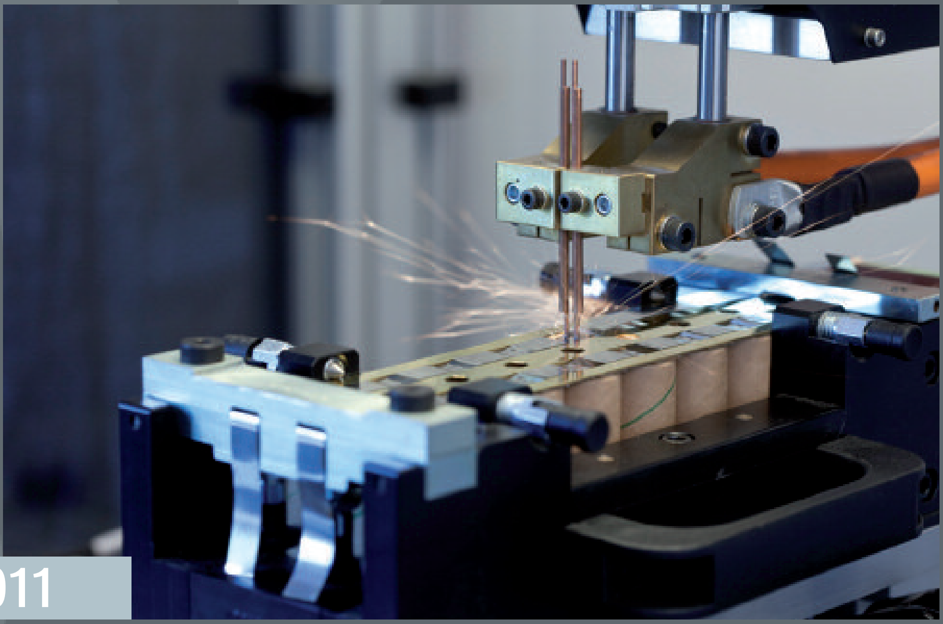
2007

Initiation of the reference object Artega GT
The construction work on the German sports car was in line with paragon's higher positioning. Since then, systems competence has been a priority.

2009 – 2011

2010

Full concentration on the automotive industry
In recent restructuring paragon withdrew from industrial electronics. The Company shall concentrate only on automotive electronics from here on out.



2011

Development of a construction kit for electro-mobility
paragon amazes with its introduction of a holistic, modular zero emissions system at the International Auto Show in Frankfurt am Main.

paragon 25

2012

Entry into Body Works Kinematiks

Movable parts of the auto body complement paragon's portfolio. Within a very short period of time the Company received its first orders in this domain.

2013

Expansion of the sales branch in China

The German premium car makers and main customers are very successful in China. paragon is sounding out market opportunities on location with a distribution office in Shanghai.

2012 – 2013 and beyond

Annual Financial Statements

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

Balance Sheet of paragon AG, Delbrück, as of December 31, 2012

in EUR thousands	Notes	31.12.2012	31.12.2011	01.01.2011*
Assets				
Non-current assets				
Intangible assets	D (1)	4,914	3,281	3,080
Property, plant and equipment	D (2)	13,537	13,272	14,250
Other assets		122	159	151
Deferred tax assets	C (9)	4	430	718
Total non-current assets		**18,577**	**17,142**	**18,199**
Current assets				
Inventories	D (4)	7,313	6,865	6,472
Trade receivables	D (5)	1,792	486	3,910
Income tax claims		483	230	196
Other assets	D (6)	1,717	1,372	904
Cash and cash equivalents	D (7)	14,083	15,330	13,790
Total current assets		**25,388**	**24,283**	**25,272**
Total assets		**43,965**	**41,425**	**43,471**

in EUR thousands	Notes	31.12.2012	31.12.2011	01.01.2011*
Liabilities				
Equity				
Subscribed capital	D (8)	4,115	4,115	4,115
Capital reserves	D (8)	2,450	3,478	7,753
Revaluation surplus	D (8)	- 803	- 426	- 473
Profit / loss carried forward		2,631	- 2,704	- 10,101
Net income		4,635	5,335	3,169
Total equity		**13,028**	**9,798**	**4,463**
Non-current provisions and liabilities				
Non-current finance lease obligations	D (9)	239	224	444
Non-current borrowings	D (10)	12,024	12,298	14,728
Investment grants	D (13)	2,091	2,709	3,467
Pension provisions	D (11)	2,726	2,015	1,914
Total non-current provisions and liabilities		**17,080**	**17,246**	**20,553**
Current provisions and liabilities				
Current borrowings of finance lease obligations	D (9)	319	220	441
Short-term loans and current portion of non-current borrowings	D (10)	2,070	2,446	5,890
Trade payables	D (12)	3,042	3,070	2,071
Other provisions	D (14)	301	875	980
Income tax liabilities	D (15)	425	700	408
Other current liabilities	D (12)	7,700	7,070	8,665
Total current provisions and liabilities		**13,857**	**14,381**	**18,455**
Total equity and liabilities		**43,965**	**41,425**	**43,471**

* Please refer to Note (6) Accounting Policies in the notes to the financial statements

Statement of Comprehensive Income of paragon AG, Delbrück, for the period from January 1 to December 31, 2012

in EUR thousands	Notes	01.01. – 31.12.2012	01.01. – 31.12.2011	01.01. – 31.12.2011*
Sales revenues	C (1), D (22)	70,446	67,055	67,055
Other operating income	C (2)	2,015	1,863	1,863
Increase or decrease in inventory of finished goods and work in progress		567	63	63
Other own work capitalized	C (3)	2,025	1,343	1,343
Total operating performance		**75,053**	**70,324**	**70,324**
Cost of materials	C (4)	- 36,952	- 33,670	- 33,670
Gross profit		**38,101**	**36,654**	**36,654**
Personnel expense	C (5)	- 18,854	- 16,721	- 16,787
Depreciation of property, plant and equipment and amortization of intangible assets	C (7)	- 3,885	- 4,068	- 4,068
Impairment of property, plant and equipment and intangible assets	D (1)	- 135	- 106	- 106
Other operating expenses	C (6)	- 7,450	- 6,938	- 6,938
Earnings before interest and taxes (EBIT)		**7,777**	**8,821**	**8,755**
Financial income	C (8)	44	34	34
Finance costs	C (8)	- 1,121	- 1,353	- 1,353
Financial result		**- 1,077**	**- 1,319**	**- 1,319**
Income before taxes (EBT)		**6,700**	**7,502**	**7,436**
Income taxes	C (9)	- 2,065	- 2,167	- 2,147
Net income		**4,635**	**5,335**	**5,289**
Earnings per share (basic)	C (10)	1.13	1.30	1.29
Earnings per share (diluted)	C (10)	1.13	1.30	1.29
Average number of shares outstanding (basic)	C (10)	4,114,788	4,114,788	4,114,788
Average number of shares outstanding (diluted)	C (10)	4,114,788	4,114,788	4,114,788
Other comprehensive income				
Actuarial gains and losses	D (8)	- 376	0	47
Comprehensive income		**4,259**	**5,335**	**5,336**

* Please refer to Note (6) Accounting Policies in the notes to the financial statements

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

in EUR thousands	Notes	01.01. – 31.12.2012		01.01. – 31.12.2011	
Earnings before income taxes		6,700		7,436	
Depreciation/amortization of non-current assets		3,885		4,068	
Financial result		1,077		1,318	
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets		0		- 42	
Increase (+), decrease (-) in other provisions and pension provisions		- 239		- 1,761	
Income from the reversal of the special item for investment grants		- 619		- 758	
Other non-cash income and expense		- 108		- 150	
Increase (-), decrease (+) in trade receivables, other receivables and other assets		- 1,647		165	
Impairment of intangible assets		135		106	
Increase (-), decrease (+) in inventories		- 448		- 393	
Increase (+), decrease (-) in trade payables and other liabilities		475		1,425	
Interest paid		- 1,011		- 1,249	
Income taxes paid		- 2,396		- 1,587	
Cash flow from operating activities	D (21)		**5,804**		**8,578**
Cash receipts from disposals of property, plant and equipment		32		60	
Cash payments to acquire property, plant and equipment		- 2,691		- 2,062	
Cash payments to acquire intangible assets		- 2,803		- 1,352	
Cash payments for investments at Artega Automobil GmbH & Co. KG		- 800		0	
Cash inflow/outflow from investment grants		70		0	
Interest received		41		33	
Cash flow from investment activities	D (21)		**- 6,151**		**- 3,321**
Cash repayments of borrowings		- 2,822		- 6,399	
Amounts paid on insolvency ratio		0		- 292	
Cash proceeds from issuing loans		2,171		639	
Cash repayments for liabilities from finance lease		- 249		- 441	
Net cash inflow from factoring		0		2,776	
Cash flow from financing activities	D (21)		**- 900**		**- 3,717**
Cash-effective change in liquidity		**- 1,247**			**1,540**
Cash and cash equivalents at beginning of period		15,330			13,790
Cash and cash equivalents at end of period	D (7), D (21)	14,083			15,330

Statement of Changes in Equity of paragon AG, Delbrück

in EUR thousands	Subscribed capital	Capital reserve	Revaluation surplus	Accumulated profit: Loss carried forward	Accumulated profit: Net income	Total
January 1, 2011	**4,115**	**7,753**	**0**	**- 7,405**	**0**	**4,463**
First-time application of IAS 19 rev.	0	0	- 473	473	0	0
January 1, 2011 (adjusted)	**4,115**	**7,753**	**- 473**	**- 6,932**	**0**	**4,463**
Net income	0	0	0	0	5,335	5,335
Actuarial gains and losses	0	0	47	- 47	0	0
Other comprehensive income	0	0	47	- 47	0	0
Comprehensive income	0	0	47	- 47	5,335	5,335
Transfer from capital reserves	0	- 4,275	0	4,275	0	0
December 31, 2011	**4,115**	**3,478**	**- 426**	**- 2,704**	**5,335**	**9,798**

in EUR thousands	Subscribed capital	Capital reserve	Revaluation surplus	Accumulated profit: Profit carried forward	Accumulated profit: Net income	Total
January 1, 2012	**4,115**	**3,478**	**- 426**	**2,631**	**0**	**9,798**
Net income	0	0	0	0	4,635	4,635
Actuarial gains and losses	0	0	- 377	0	0	- 377
Other comprehensive income	0	0	- 377	0	0	- 377
Comprehensive income	0	0	- 377	0	4,635	4,258
Capital increase from capital reserve	1,028	-1,028	0	0	0	0
Dividend payout	- 1,028	0	0	0	0	- 1,028
December 31, 2012	**4,115**	**2,450**	**- 803**	**2,631**	**4,635**	**13,028**

Shares held by members of the Managing and Supervisory Boards as at Dec. 31, 2012

Capital stock: 4,114,788 shares	Shares as of 31.12.2012
Managing Board, total	2,111,730
Supervisory Board, total	7,000
Boards, total	2,118,730
as % of share capital	51.49

Notes to the Financial Statements

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, 2012 and the management report for the period from January 1 to December 31, 2012 to the Supervisory Board on February 28, 2013.

The financial statements prepared for the period from January 1 to December 31, 2012, and the management report of paragon AG are submitted to the electronic Federal Gazette and are available on the Company's website (www.paragon.ag).

(2) Information on the asset deal with Artega Automobil GmbH & Co. KG pursuant to IFRS 3

Based on a notarial agreement dated October 1, 2012, paragon acquired movable non-current assets, all intangible assets and inventories, and assumed all continuing obligations, other contracts and employment relationships from Artega Automobil GmbH & Co. KG, Delbrück, within the framework of a so-called asset deal.

The aim of the asset deal was to establish a technology center in Delbrück. The associated increases in capacity – in terms of both floor space and human resources – are intended to strengthen the development departments and the production facility in Delbrück. Additional objectives include the expansion of prototype construction, pilot workshops and test rigs as well as setting up a bespoke application service for customers. The former production facilities will be used in future by the divisions Electromobility and Kinematics.

The purchase price for the assets acquired and contractual relationships and rights assumed amounted to EUR 800 thousand and was due immediately. In addition, paragon assumed a liability with a fair value of EUR 57 thousand associated with the financed leased assets in relation to a hire purchase agreement.

The purchase price would have been higher or lower by 10% of the amount by which the value of the inventories according to a preliminary assessment, which was used as the basis for the purchase agreement, would have exceeded or fallen below and further would have exceeded an allowance amount of EUR 200 thousand. The final assessment of inventories did not result in a requirement to adjust the purchase price.

The following fair values were used for the assets acquired:

in EUR thousands	
Assets	
Intangible assets	10
Motor vehicles	453
Machinery (including hire purchase agreement)	187
Operating and office equipment	62
Inventories	120
Tools	25
Liabilities	
Liabilities from hire purchase agreement	-57
Purchase price	**800**

B. Basis of accounting and accounting policies

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

These financial statements of paragon AG as of December 31, 2012 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 Interpretations Committee (IFRIC).

(2) Going Concern

The financial statements for the reporting period from January 1 to December 31, 2012 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, 2012 were authorized for issue by the Managing Board and submitted to the Supervisory Board for issue on February 28, 2013. All information available up to that date with regard to the circumstances on the balance sheet date must be taken into account.

One event of special significance occurred after the close of the fiscal year, as detailed below:

- Effective January 3, 2013, a dividend payout was made in the amount of EUR 1,029 thousand, as resolved by the Annual General Meeting on May 9, 2012.

(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, 2012:

- 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 European Union endorsed the amendments on December 13, 2012. The amendments have been applied since January 1, 2012.

As of the date the financial statements for the reporting period from January 1 to December 31, 2012 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 December of 2010, the IASB published two minor amendments to IFRS 1 – First-time Adoption of 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 January 1, 2013. Early adoption is permitted. The European Union has endorsed the amendments. The amendment is not expected to have a significant impact 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, 2012. The European Union has endorsed the amendments. The amendment is not expected to have a significant impact on the financial statements.

- 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 endorsed the amendments on December 13, 2012. The Company will evaluate the expected effects and determine a date for initial application.

- In May of 2011, the IASB completed its improvements to requirements for off-balance sheet activities and Joint Arrangements with the publication of IRFS 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, 2014. Early adoption is possible. The European Union endorsed the new standards and the amendments on December 11, 2012. 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 endorsed the amendments on December 11, 2012. The amendment will become effective for fiscal years starting on or after January 1, 2013. Early adoption is permitted. The amendment is expected to have no significant 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 endorsed the amendments on June 5, 2012. The revised IAS 19 is mandatory for fiscal years starting on or after January 1, 2013. The Company applied earlier the amended version of IAS 19 already in fiscal year 2012. Please refer to the explanations on pension provisions in Note 11 for related effects.

- 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. Early adoption is permitted, however. The European Union endorsed the amendments on June 5, 2012. 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 endorsed the amendments on December 11, 2012. 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.

- IIn October of 2011, the IASB published amendments to IAS 32 – Financial Instruments: Presentation and IFRS 7 – Financial Instruments: Disclosures. 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 endorsed the amendments on December 13, 2012. 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.

- In October of 2012, the IASB published amendments to IFRS 10, IFRS 12 and IAS 27. These amendments are only required to be applied by companies that meet the definition of an investment entity. The European Union has not yet endorsed the changes. The amendments are required to be applied for fiscal years beginning on or after January 1, 2014 and will have no effects on the financial statements.

- In June 2012, the IASB issued amendments to IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, and IFRS 12 – Disclosure of Interests in Other Entities. The amendments clarify the transitional provisions for the first-time application of IFRS 10. In addition, the amendments to IFRS 10, IFRS 11 and IFRS 12 introduce reliefs for the first-time application of these standards to the effect that adjusted comparative information only have to be disclosed for the immediately preceding period. The European Union has not yet endorsed the changes. The amendments apply to fiscal years beginning on or after January 1, 2013.

- In May of 2012, the IASB published Annual Improvements to IFRSs (2009–2011 Cycle), with the following changes to standards:

  - IFRS 1 First-time Adoption of International Financial Reporting Standards: legitimacy of repeated application of IFRS 1; disclosure of prior-period comparative information for borrowing costs in connection with qualifying assets where the date of capitalization is before the transition to IFRS
  - IAS 1 Presentation of Financial Statements: clarification of the requirements for prior-period comparative information
  - IAS 16 Property, Plant and Equipment: clarification on how to classify servicing equipment
  - IAS 32 Financial Instruments: Presentation: income tax consequences of distributions to holders of equity instruments have to be accounted for in accordance with IAS 12 Income Taxes
  - IAS 34 Interim Financial Reporting: consistency of disclosures in relation to total segment assets to enhance compliance with IFRS 8 Operating Segments

The Company will evaluate the expected effects and determine a date for initial application. The European Commission has not yet endorsed these changes. The amendments apply to fiscal years beginning on or after January 1, 2013.

- In March of 2012, the IASB published amendments to IFRS 1 – First-time Adoption of the International Financial Reporting Standards. The amendment is intended to clarify how a first-time adopter has to account for government loans granted at a below-market interest rate at the date of transition to IFRS. These loans are excluded from full retrospective application of IFRS at the date of transition to IFRS. The objective of the amendments to IFRS 1 is to give first-time adopters the same relief as existing preparers of IFRS financial statements in connection with IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance. The European Union has not yet endorsed the changes. The amendments apply to fiscal years beginning on or after January 1, 2013. Early adoption is permitted.

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
	01–12/2012		01–12/2011	
U.S. dollar (USD)	1.3186	1.2850	1.2932	1.3922

(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 24 thousand (prior year: EUR 50 thousand) and exchange rate gains in the amount of EUR 22 thousand (prior year: EUR 26 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 June of 2011, the IASB published a revised version of IAS 19 required to be applied for fiscal years beginning on or after January 1, 2013. The Company decided voluntarily to account for pension provisions in accordance with the amended standard already for fiscal 2012. The key change is the elimination of the possibility to recognize actuarial gains and losses on an accrual basis, using the so-called corridor method, and the related introduction of recognizing actuarial gains or losses in the full amount directly in equity in retained earnings. The changes to the new rules have to be applied retrospectively in accordance with IAS 8.22, with any adjustments to be recognized directly in equity. The adjustments are explained in Note 11 Provisions for pensions.

The financial statements were prepared in euro (EUR). Pursuant to IAS 21 – The Effects of Changes in Foreign Exchange Rates, the reporting currency is the euro. Unless stated otherwise, all amounts are disclosed in thousands of euro (EUR thousand). The reporting period for paragon in these financial statements extends from January 1 to December 31, 2012. 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 recognized in the balance sheet at cost, taking into account ancillary acquisition costs and cost reductions.

Research costs are recognized as expenses in the period in which they are incurred. Development costs arising in connection with the development of patents and client-specific solutions are recognized as intangible assets at cost, provided the unambiguous attribution of expenses required by IAS 38 is possible, technical feasibility and marketability are assured, and the anticipated realization of future economic benefits 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 are incurred. After their initial recognition, development costs are recognized in the balance sheet at cost less any accumulated amortization and accumulated impairment losses.

If intangible assets have limited useful lives, they are generally amortized on a straight-line basis in accordance with their useful economic lives. Amortization starts as soon as the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Intangible assets with indefinite useful lives are subject to annual impairment tests. At each 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. Where such indications exist, 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 recognized in the balance sheet and depreciated individually. Depreciation is generally undertaken on a straight-line basis. In the case of buildings, the useful life is considered to be 20 to 25 years, for technical plant five to ten years, and for other plant and office furniture and equipment three to ten years.

Fully depreciated items of property, plant and equipment are presented under cost and accumulated depreciation until the asset is retired. Depreciated cost and accumulated depreciation are deducted from the revenue derived from retired assets. The profit or loss contributions of retired assets (disposal proceeds less residual carrying amounts) are shown in the 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 recognized in the balance sheet for the same amount. Subsequent measurement takes place using the effective interest method at amortized cost. The amortization methods and useful lives correspond to those of assets acquired in a similar manner.

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

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

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

Impairment of non-financial assets

At each balance sheet date, an assessment takes place to ascertain whether any indication exists that non-financial assets (in particular intangible assets 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 costs 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 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 inancial assets. If no market prices are available, fair value is calculated using recognized valuation models and by referring to current market parameters.

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

Financial liabilities generally refer to contractual obligations to deliver cash or another financial asset. 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 to paragon or (2) the substantial risks and rewards associated with the asset have neither been transferred nor retained, but paragon has received the power of disposition over the asset.

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

Financial assets and liabilities that are not denominated in euro 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 a positive or negative impact 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 and if there is a legally enforceable right to set off current tax assets against current tax liabilities. Deferred taxes are reported as non-current in accordance with IAS 1.70.

Inventories

Inventories are measured at the lower of cost and net realizable value. In accordance with IAS 2 – Inventories, the costs of conversion include 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 because these costs do not meet the criteria of qualifying assets. Inventory risks resulting from the storage period and reduced usability are taken into account during the calculation of the net realizable value by applying appropriate write-downs. Lower values at year-end stemming from reduced selling prices are also taken into account. 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 the revised IAS 19 – Employee Benefits. In June of 2011, the IASB published a revised version of IAS 19 required to be applied for fiscal years beginning on or after January 1, 2013. The Company decided voluntarily to account for pension provisions in accordance with the amended standard already from fiscal 2012. The key change is the elimination of the possibility to recognize actuarial gains and losses on an accrual basis, using the so-called corridor method, and the related introduction of the full recognition directly in equity in the revaluation surplus.

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

Other provisions

In accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, provisions are recognized when an 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 (multiple element arrangements), such as varying remuneration agreements in the form of prepayments, milestone payments, and similar payments, a review takes place to ascertain whether 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.

Sales revenues from services are recognized on the basis of the stage of completion on the reporting date.

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:

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

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

Capitalized development costs

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

Inventories

In specific cases, inventories are measured based on anticipated 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.

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

Other assets and liabilities

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

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

Statement of Fixed Assets as at December 31, 2011

	ACQUISITION COST					DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES					CARRYING AMOUNTS	
in EUR thousands	01.01.2011	Additions	Disposals	Reclas-sifications	31.12.2011	01.01.2011	Current depreciation and amortization	Impairments	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.

Statement of Fixed Assets as at December 31, 2012

	ACQUISITION COST					DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES						CARRYING AMOUNTS	
in TEUR	01.01.2012	Additions	Disposals	Reclas-sifications	31.12.2012	01.01.2012	Additions	Impairments	Disposals	Reclas-sifications	31.12.2012	31.12.2011	31.12.2012
Intangible assets													
Licenses, patents, software	18,186	116	0	86	18,388	15,911	972	0	0	0	16,883	2,275	1,505
Capitalized development costs	1,502	1,742	0	0	3,244	496	86	135	0	0	716	1,007	2,528
Advance payments made for intangible assets	0	944	0	- 63	881	0	0	0	0	0	0	0	881
Total intangible assets	**19,688**	**2,803**	**0**	**23**	**22,514**	**16,407**	**1,058**	**135**	**0**	**0**	**17,600**	**3,281**	**4,914**
Property, plant and equipment													
Land and buildings	13,744	191	0	4	13,939	5,253	699	0	0	0	5,952	8,491	7,987
Technical equipment and machinery	16,945	331	- 6	1,938	19,208	15,003	1,309	0	- 1	0	16,312	1,942	2,896
Other plant, office furniture and equipment	8,177	1,050	- 137	722	9,812	6,637	818	0	- 110	0	7,345	1,540	2,467
Payments on account	1,299	1,575	0	- 2,687	187	0	0	0	0	0	0	1,299	187
Total property, plant and equipment	**40,165**	**3,146**	**- 143**	**- 23**	**43,146**	**26,893**	**2,827**	**0**	**- 111**	**0**	**29,609**	**13,272**	**13,537**
Total	**59,853**	**5,949**	**- 143**	**0**	**65,660**	**43,300**	**3,885**	**135**	**- 111**	**0**	**47,209**	**16,554**	**18,451**

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

Deferred tax assets

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

Domestic deferred taxes were computed as of December 31, 2012 at a combined income tax rate of 29.8 % (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, 2012, the discount rate decreased from 5.45 % on December 31, 2011 to 4.00 % in anticipation of the long-term trend in market interest rates.

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 70,446 thousand (prior year: EUR 67,055 thousand), domestic sales accounted for EUR 49,699 thousand (prior year: EUR 44,104 thousand) and foreign sales for EUR 20,747 thousand (prior year: EUR 22,951 thousand).

In the period under review, other sales revenues generated in connection with development services came to EUR 3,797 thousand (prior year: EUR 1,700 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 619 thousand (prior year: EUR 758 thousand), income from the reversal of other provisions of EUR 714 thousand (prior year: EUR 117 thousand) and income from the reversal of specific valuation allowances of EUR 30 thousand (prior year: EUR 259 thousand). In addition, this item includes income from government assistance and government grants, exchange rate differences and use of company cars by employees.

(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 were also reported in other own work capitalized.

in EUR thousands	01.01. – 31.12.2012	01.01. – 31.12.2011
Project-related development costs	1,742	1,144
Cost of test equipment	283	199
Other own work capitalized	**2,025**	**1,343**

(4) Cost of materials

in EUR thousands	01.01. – 31.12.2012	01.01. – 31.12.2011
Raw materials and supplies	34,016	31,292
Cost of purchased services	2,936	2,378
Cost of materials	**36,952**	**33,670**

(5) Personnel expense

Personnel expense amounted to EUR 18,854 thousand in the period under review (prior year: EUR 16,721 thousand) and can be broken down as follows:

in EUR thousands	01.01. – 31.12.2012	01.01. – 31.12.2011 (restated)	01.01 – 31.12.2011
Wages and salaries	14,622	12,594	12,594
Social security contributions/ pension expenses	2,351	2,033	1,967
Expenses for temporary staff	1,881	2,160	2,160
Personnel expense	**18,854**	**16,787**	**16,721**

Personnel levels changed as follows compared to the previous year:

	01.01. – 31.12.2012	01.01. – 31.12.2011
Salaried employees	182	159
Wage-earning employees	182	160
Average number of employees	**364**	**319**

(6) Other operating expenses

Other operating expense relates chiefly to costs of building rent and energy costs (EUR 1,820 thousand, prior year: EUR 1,440 thousand), IT and phone costs (EUR 723 thousand, prior year: EUR 649 thousand), vehicle costs (EUR 683 thousand, prior year: EUR 525 thousand), maintenance costs (EUR 614 thousand, prior year: EUR 700 thousand), legal and consulting costs (EUR 605 thousand, prior year: EUR 745 thousand), advertising and marketing costs (EUR 270 thousand, prior year: EUR 384 thousand), and plant insurance and leasing costs (EUR 261 thousand, prior year: EUR 263 thousand). Other taxes recorded under other operating expenses during the period under review amounted to EUR 31 thousand (prior year: EUR 30 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. – 31.12.2012	01.01. – 31.12.2011
Financial income	**44**	**34**
Interest income	44	34
Finance costs	**- 1,121**	**- 1,353**
Other finance costs and interest expense	- 1,121	- 1,353
Financial result	**- 1,077**	**- 1,319**

Interest expenses owed to banks of EUR 822 thousand (prior year: EUR 1,124 thousand) are reported in other financing and interest expenses.

(9) Income taxes

in EUR thousands	01.01. – 31.12.2012	01.01. – 31.12.2011 (restated)	01.01. – 31.12.2011
Current taxes	**1,479**	**1,880**	**1,880**
Current domestic taxes	1,479	1,880	1,880
Deferred taxes	**586**	**267**	**287**
Deferred domestic taxes	586	267	287
Income taxes	**2,065**	**2,147**	**2,167**

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, 2012 at a combined income tax rate of 29.8% (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 change of the combined income tax rate of 29.2% in the prior year to 29.8% in the reporting year is attributable to changes of trade tax assessment rates in two municipalities in which the Company has permanent establishments.

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, receivables and other assets, as well as pension provisions. Deferred tax liabilities as of the end of the period under review refer exclusively to domestic taxes and are largely the result of temporary differences in the measurement of intangible assets that are not eligible for capitalization under German tax laws.

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

in EUR thousands	31.12.2012		31.12.2011	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	0	753	0	294
Property, plant and equipment	316	0	298	0
Receivables and other assets	152	298	0	4
Provisions for pensions	587	0	430	0
Deferred tax assets and liabilities prior to offsetting	**1,055**	**1,051**	**728**	**298**
Offset	- 1,051	- 1,051	- 298	- 298
Deferred tax assets and liabilities after offsetting	**4**	**0**	**430**	**0**

The rise in deferred tax liabilities of EUR 753 thousand is primarily the result of the capitalization of development costs for intangible assets undertaken during the year under review. The growth of deferred tax assets in the amount of EUR 327 thousand mainly results from the increase in carrying amount differences in pension provisions (EUR 157 thousand) as well as in other assets (EUR 152 thousand). In the reporting period, of the total amount of deferred tax assets, EUR 160 thousand (prior year: EUR 19 thousand) were reported directly in equity in the revaluation surplus. This corresponds to the amount of deferred tax assets related to the portion of other comprehensive income.

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. – 31.12.2012	01.01. – 31.12.2011 (restated)	01.01. – 31.12.2011
Net income for the period before income taxes	6,700	7,436	7,502
Calculatory tax expense at a tax rate of 29.8 % (prior year: 29.2 %)	1,997	2,171	2,191
Prior-period tax expenses	92	0	0
Non-deductible expenses and tax-free income	- 25	- 14	- 14
Other	1	- 10	- 10
Current tax expense	**2,065**	**2,147**	**2,167**

(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 4,635 thousand (prior year: EUR 5,335 thousand), the basic earnings per share amount to EUR 1.13 (prior year: EUR 1.30).

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. No option rights to the purchase of paragon AG shares existed in the fiscal year from January 1 to December 31, 2012.

Due to the earlier application of IAS 19 (revised), (basic and diluted) earnings per share reported in the prior year are reduced by EUR 0.01.

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

Capitalized development costs

Development costs of EUR 2,528 thousand (prior year: EUR 1,007 thousand) have been capitalized under intangible assets. Total development costs for the period amounted to EUR 7,648 thousand (prior year: EUR 5,544 thousand). Of this amount, internal development costs of EUR 1,742 thousand (prior year: EUR 1,144 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.

Amortization and impairment losses during the period under review amounted to EUR 86 thousand (prior year: EUR 68 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 135 thousand in the year under review (prior year: EUR 106 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 and impairment losses during the period under review amounted to EUR 2,827 thousand (prior year: EUR 3,023 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 677 thousand as of December 31, 2012 (prior year: EUR 768 thousand). The corresponding payment obligations from future lease installments amounted to EUR 558 thousand (prior year: EUR 444 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.

Advance payments made for machinery amounted to EUR 187 thousand in the reporting year (prior year: EUR 1,299 thousand).

In the year under review, the Company acquired items of property, plant and equipment of Artega Automobil GmbH & Co. KG in the amount of EUR 458 thousand, effective October 1, 2012. These items mainly related to motor vehicles and operating and office equipment.

In the period under review, the expense from the disposal of property, plant and equipment came to EUR 32 thousand (prior year: EUR 18 thousand).

(3) Financial assets

The shares held in KarTec GmbH, Forchheim, are recognized for the first time. The accounting basis is the purchase agreement dated December 21, 2011 between the holder of the shares and paragon on the purchase of all shares in KarTec GmbH subject to the condition precedent that either the holder of the shares or paragon represent to the respective other party in writing within the time period from January 1, 2013 to June 30, 2013 that the purchase agreement shall become legally effective (so-called put call option). In the most recent financial statements available, the company had equity of EUR 25 thousand as well as net income of EUR 0 thousand. Within the scope of the existing collaboration agreement, advance payments were made in the reporting year to KarTec GmbH on intangible assets (EUR 500 thousand), and income was generated in the amount of EUR 81 thousand.

(4) Inventories

Inventories consist of the following:

in EUR thousands	31.12.2012	31.12.2011
Raw materials and supplies	3,677	3,547
Work in process and finished goods and services	3,615	3,126
Advance payments on inventories	21	192
Inventories	**7,313**	**6,865**

Write-downs on inventories were recorded neither in the reporting period nor in the prior year. As in the previous year, no write-ups were recognized. The carrying amount of inventories recorded at net realizable value (fair value less costs to sell) was EUR 0 thousand as of December 31, 2012 (prior year: EUR 0 thousand). As of the balance sheet date, inventories in the amount of EUR 5,683 thousand (prior year: EUR 5,297 thousand) were used as collateral for liabilities.

(5) Trade receivables

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

in EUR thousands	31.12.2012	31.12.2011
Trade receivables, gross	1,814	493
less impairment losses	- 22	- 7
Trade receivables	**1,792**	**486**

The increase in the level of receivables as compared to the previous year is due primarily to changes between the reporting dates in connection with the sale of trade receivables under 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	31.12.2012	31.12.2011
Impaired receivables before allowances for losses	25	12
Allowances for losses	- 22	- 7
Impaired receivables after allowances for losses	**3**	**5**

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	31.12.2012	31.12.2011
Other current assets		
Purchase price retentions from factoring	963	392
Prepaid expenses	341	360
Creditors with debit balances	131	53
Input tax refunds	0	538
Miscellaneous assets	282	29
Other current assets	**1,717**	**1,372**

in EUR thousands	Carrying amount	of which neither impaired nor past due	of which past due but not impaired, as follows			
31.12.2012			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
Trade receivables	1,789	741	54	31	225	738
31.12.2011			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
Trade receivables	481	38	75	22	20	326

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			
31.12.2012			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
Other current assets	1,717	1,717	0	0	0	0
31.12.2011			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
Other current assets	1,372	1,372	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, 2012.

(7) Cash and cash equivalents

Cash on hand and bank deposits are shown at nominal value. Cash and cash equivalents include EUR 11 thousand (prior year: EUR 9 thousand) in cash on hand and EUR 14,072 thousand (prior year: EUR 15,321 thousand) in bank deposits. Cash and cash equivalents also include the escrow account in the amount of EUR 345 thousand (prior year: EUR 466 thousand) and the escrow account "insolvency dividend payout" in the amount of EUR 3,678 thousand (prior year: EUR 3,669 thousand). Both accounts are under the sole power of disposal of the former insolvency administrator. 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 January 1 to December 31, 2011 and for the reporting period from January 1 to December 31, 2012 are presented in the statement of changes in equity.

Share capital

paragon AG's share capital as of December 31, 2012 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. Upon a resolution of the Annual General Meeting on May 9, 2012, the Company's share capital was increased to EUR 5,143,485 pursuant to sections 207 et seqq. of the German Stock Corporation Act (Aktiengesetz, AktG) concerning capital increases from company resources by transferring a partial amount of EUR 1,028,697 from the capital reserve as reported in the balance sheet as of December 31, 2011. The increase in the share capital was made without new shares being issued, but instead by increasing the notional share in the Company's share capital attributable to each share. Subsequently, for the purpose of repaying a portion of the share capital to the Company's shareholders in the form of a cash dividend in the amount of EUR 0.25 for each issued share, the total share capital of EUR 5,143,485 - divided into 4,114,788 bearer shares with a notional share in the share capital of EUR 1.25 each - was reduced pursuant to sections 222 et seqq. of the German Stock Corporation Act related to ordinary capital reductions by EUR 1,028,697 to EUR 4,114,788. This capital reduction was effected by reducing the notional share in the Company's share capital attributable to each share. The payment of the reduction amount totaling EUR 1,028,697 took place once the capital reduction had been recorded in the commercial register on January 3, 2013.

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

Conditional capital

Conditional Capital III pursuant to the resolution by the Annual General Meeting on May 22, 2007

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 2007).

The conditional capital increase exclusively serves the purpose of granting shares to the holders or creditors of conversion rights and/or options from bonds which were issued pursuant to the authorization of the Annual General Meeting of May 22, 2007 to issue convertible bonds and/or bonds with warrants in return for cash pursuant to the terms of the bond. During the fiscal year 2012, no option rights were issued until the expiration of the authorization on April 30, 2012. Upon the resolution adopted by the Annual General Meeting on May 9, 2012, Conditional Capital III in the amount of EUR 1,750,000 was eliminated pursuant to Article 5 (6) of the Articles of Incorporation.

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

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

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

A conditional capital increase of EUR 1,647 thousand by issue of up to 1,647,394 new no par-value shares was resolved by the Annual General Meeting of May 9, 2012 (Conditional Capital 2012/II). The conditional capital increase 2012/II exclusively serves the purpose of granting shares to holders or creditors of bonds with warrants and/or convertible bonds that are issued or guaranteed until May 8, 2017 by the Company or by Group companies within the meaning of section 18 of the German Stock Corporation Act, where the Company has a shareholding of at least 90%, based on the authorization by the Annual General Meeting on May 9, 2012.

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

Capital reserve

As of December 31, 2012, the capital reserve amounted to EUR 2,450 thousand (prior year: EUR 3,478 thousand). By transferring an amount of EUR 1,029 thousand from the capital reserve as reported in the balance sheet as of December 31, 2011, the Company's share capital was increased pursuant to sections 207 et seq. of the German Stock Corporation Act related to capital increases from capital reserve, based on a resolution adopted by the Annual General Meeting on May 9, 2012.

Revaluation surplus

To comply with the requirement to recognize actuarial gains and losses from pension provisions directly in equity in accordance with the revised IAS 19 – Employee Benefits, the amounts recorded in profit or loss in the prior years in the amount of EUR - 473 thousand after deferred taxes were reclassified from profit/loss carried forward to the revaluation surplus. In the reporting period, an amount of EUR 376 thousand after deferred taxes was recognized in the revaluation surplus.

Dividend

It will be proposed to the Annual General Meeting that a dividend of EUR 0.25 per share shall be paid out for the period ended December 31, 2012.

(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:

The interest rates for liabilities to banks range from 3 % to 6 % and are fixed for all loans. There is, therefore, no interest rate risk.

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	31.12.2012	31.12.2011
Minimum lease payments	342	248	0	590	477
Future interest payments	- 23	- 9	0	- 32	- 33
Finance lease obligations (reduction of principal)	**319**	**239**	**0**	**558**	**444**
of which reported under non-current liabilities				239	224
of which reported under current liabilities				319	220

(10) Liabilities to banks

Current and non-current liabilities to banks totaled EUR 14,094 thousand (prior year: EUR 14,745 thousand); collateral for liabilities to banks existed in the amount of EUR 14,094 thousand (prior year: EUR 14,745 thousand).

Liabilities to banks are secured by property charges for loan liabilities in the amount of EUR 7,693 thousand (prior year: EUR 6,854 thousand) and by collateral assignment of property, plant and equipment of EUR 1,885 thousand (prior year: EUR 566 thousand) as well as collateral assignment of inventories in the amount of EUR 5,683 thousand (prior year: EUR 5,297 thousand). The previous collateralization of loan liabilities by assigning trade receivables was ended in July of 2011.

Liabilities to banks have the following terms:

(11) Provisions for pensions

A provision for a defined benefit pension plan was recognized in accordance with the revised IAS 19 – Employee Benefits. This relates to a commitment of a fixed amount at age 65 based on an individual contract. In addition to this existing pension agreement, a new commitment was made in fiscal year 2005. This involves a commitment at age 65 established under an individual contract that is based on length of employment and salary level. Pension provisions exist for pension commitments to members of the Managing Board. Based on a decision by the Supervisory Board on August 31, 2009, 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 in fiscal 2010.

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	31.12.2012	31.12.2011
Liabilities to banks	2,070	5,579	6,445	14,094	14,745
of which reported under non-current liabilities				12,024	12,298
of which reported under current liabilities				2,070	2,446

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

This new accounting principle did not result in a change of the method of recognition used for pension provisions for the prior year. Accordingly, there is no change between the closing balance in the prior year and the opening balance in the current year in accordance with IAS 1.39. The effects on the income statement are shown in the following table in accordance with IAS 8.28f and IAS 8.29c:

Effect in EUR thousands Gain (-) / loss (+)	31.12.2011 before adjustment	31.12.2011 before adjustment	Adjust- ments
Personnel expense	- 16,721	- 16,787	- 66
Earnings before taxes	7,502	7,436	- 66
Taxes	- 2,167	- 2,147	20
Net income	5,335	5,289	- 46

An actuarial loss of EUR 376 thousand (prior year: actuarial gain of EUR 47 thousand) was recognized in other comprehensive income.

The following assumptions underpin the actuarial computations:

in %	31.12.2012	31.12.2011
Discount rate	4.00	5.45
Expected return on plan assets	0.00	0.00
Salary increase (recommitment based on individual contracts until 2009, 0% thereafter)	10.00	10.00
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 have an impact on the level of equity and 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	31.12.2012	31.12.2011
Present value of defined benefit obligation at beginning of year	2,015	1,914
Service cost	65	64
Interest cost	110	103
Pension payments	0	0
Actuarial gains (-), losses (+)	536	- 66
Present value of defined benefit obligation on balance sheet date	**2,726**	**2,015**

The actuarial losses incurred in fiscal 2012 were recognized directly in equity in the revaluation surplus in accordance with the revised IAS 19. Changes in demographic assumptions had no effect on the level of actuarial losses in the reporting year.

Net amount of recognized defined benefit obligation:

in EUR thousands	31.12.2012	31.12.2011
Present value of defined benefit obligation	2,726	2,015
less fair value of plan assets	0	0
Unfunded defined benefit obligation	**2,726**	**2,015**

The net amount changed as follows:

in EUR thousands	31.12.2012	31.12.2011
Unfunded defined benefit obligation at beginning of year	2,015	1,914
Pension expense	175	167
Actuarial gains (-), losses (+)	536	- 66
Contributions paid	0	0
Unfunded defined benefit obligation	**2,726**	**2,015**

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

in EUR thousands	31.12.2012	31.12.2011
Service cost	65	64
Interest cost	110	103
Expected return (-) on plan assets	0	0
Actuarial gains (-) / losses (+)	536	- 66
Pension expense	**711**	**101**

The actuarial gains and losses of the reporting year and the prior years were fully reclassified to other comprehensive income.

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	31.12.2012	31.12.2011
Present value of defined benefit obligation	2,726	2,015
less fair value of plan assets	0	0
Unfunded defined benefit obligation	**2,726**	**2,015**

Disclosures on sensitivities and risks:

in EUR thousands	31.12.2012
DBO as of Dec. 31, 2012 (interest rate: 3.75 %)	2,846
DBO as of Dec. 31, 2012 (interest rate: 4.25 %)	2,612
DBO as of Dec. 31, 2012 (pension increase: 1.75 %)	2,641
DBO as of Dec. 31, 2012 (pension increase: 2.25 %)	2,815

Sensitivities related to salary increases are not disclosed since there have been no such salary increases since the service period 2010. There are no material extraordinary or company-specific risks in connection with the reported pension provisions.

(12) Other liabilities

Other liabilities include the following items:

in EUR thousands	31.12.2012	31.12.2011
Other current liabilities		
Financial liabilities		
Old debt measured at insolvency ratio	3,678	3,670
Deferred income (provisions)	2,497	3,196
Liabilities for special distribution of funds	1,029	0
Other current liabilities	35	29
	7,239	6,895
Liabilities from other taxes	461	175
Other current liabilities	**7,700**	**7,070**

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	31.12.2012	31.12.2011
Other liabilities	7,700	0	0	7,700	7,070
of which reported under non-current liabilities				0	0
of which reported under current liabilities				7,700	7,070

(13) Investment grants

This involves government investment grants, which are reported as liabilities in accordance with IAS 20. In the reporting period, the Company received EUR 70 thousand (prior year: EUR 0 thousand) in government assistance.

(14) Other provisions

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

in EUR thousands	01.01. 2012	Utilization	Re-versal	Addition	31.12. 2012
Guaranties and ex gratia payments	112	0	0	69	181
Litigation risks	763	145	618	120	120
Other provisions	**875**	**145**	**618**	**189**	**301**

(15) Income tax liabilities

This relates to EUR 92 thousand in trade tax for the current reporting period and EUR 333 thousand in trade tax for the prior year.

(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, 2012 and December 31, 2011:

December 31, 2012

	Nominal amount		Amortized cost		Fair value			
	Cash reserve		Loans and receivables		Held for trading		Available for sale	
in EUR thousands	BW	FV	BW	FV	BW	FV	BW	FV
ASSETS								
Cash and cash equivalents	14,083	14,083						
Trade receivables			1,792	1,792				
Other assets			1,839	1,839				
Financial assets					0	0	0	
Total assets	**14,083**	**14,083**	**3,631**	**3,631**	**0**	**0**	**0**	**0**
EQUITY AND LIABILITIES								
Liabilities to banks			14,094	14,531				
Finance leases			558	566				
Trade payables			3,042	3,042				
Other liabilities			7,239	7,239				
Total equity and liabilities	**0**	**0**	**24,933**	**25,378**	**0**	**0**	**0**	**0**

December 31, 2011

	Nominal amount		Amortized cost		Fair value			
	Cash reserve		Loans and receivables		Held for trading		Available for sale	
in EUR thousands	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					0	0	0	0
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			6,895	6,895				
Total equity and liabilities	**0**	**0**	**25,153**	**24,788**	**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. – 31.12.2012	01.01. – 31.12.2011
Receivables	14	205
Financial liabilities at amortized cost	0	196
Net gains	**14**	**401**

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 prior year's 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, 2012.

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, 2012 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 dentify 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 22 thousand as of December 31, 2012 (prior year: EUR 19 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, 2012:

in EUR thousands	31.12.2012		31.12.2011	
	USD	Other	USD	Other
Transaction-related currency risk				
Currency risk from balance sheet items	218	2	157	26
Currency risk from pending transactions	0	0	0	0
	218	**2**	**157**	**26**
Items economically hedged through derivatives	0	0	0	0
Net exposure to currency risk	**218**	**2**	**157**	**26**
Change in currency exposure resulting from a 10% appreciation of the euro	22	0	16	3

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, 2012, 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, 2012, cash and cash equivalents in the amount of EUR 14,083 thousand (prior year: EUR 15,330 thousand) were available to paragon. No free credit lines were available as of December 31, 2012. 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, 2012:

in EUR thousands	2013	2014 – 2017	2018 and thereafter
Non-derivative financial liabilities			
Liabilities to banks	2,842	7,634	8,662
Liabilities from finance leases	341	249	0
Trade payables	3,042	0	0
Other financial liabilities	7,700	0	0
Total non-derivative financial liabilities	**13,925**	**7,883**	**8,662**
Derivative financial liabilities	**0**	**0**	**0**
Total:	**13,925**	**7,883**	**8,662**

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	31.12.2012	31.12.2011
Cash and cash equivalents	14,083	15,330
Total liquidity	**14,083**	**15,330**
Current financial liabilities and current portion of non-current financial liabilities	2,389	2,666
Non-current financial liabilities	12,263	12,522
Total financial liabilities	**14,652**	**15,188**
Net debt (2011: net assets)	**- 569**	**142**

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, 2012, no fundamental changes in capital management goals, methods, or processes were introduced.

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, 2012 in association with financing provided by lending banks.

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

As of December 31, 2012, the Company had no commitments or off-balance sheet contingent assets or contingent 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	31.12.2012	31.12.2011
Capital commitments	12,376	0	0	12,376	12,619
Lease obligations	974	3,393	5,783	10,150	3,741
Other liabilities	794	874	24	1,692	1,072
Other financial liabilities	**14,144**	**4,267**	**5,807**	**24,218**	**17,432**

(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 current cash inflows and outflows that result from the factoring agreement entered into in 2011 with GE Capital Bank are allocated to the cash flow from operating activities as from the reporting year 2012.

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	31.12.2012	31.12.2011
Bank deposits	14,072	15,321
Cash on hand	11	9
Cash and cash equivalents	**14,083**	**15,330**

Cash and cash equivalents also include the escrow account in the amount of EUR 345 thousand (prior year: EUR 466 thousand) and the escrow account "insolvency dividend payout" in the amount of EUR 3,678 thousand (prior year: EUR 3,669 thousand). Both accounts are under the sole power of disposal of the former insolvency administrator. paragon did not acquire cash and cash equivalents within the context of the asset deal with Artega Automobil GmbH & Co. KG.

(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 seven reportable segments of Air Quality, Power Train, Acoustics, Electromobility, Kinematics, Cockpit, and Media Interfaces. The five former product groups are allocated to the Delbrück site, while the two latter product groups are allocated to the Nuremberg site (Cockpit and Media-Interfaces) and the St. Georgen site (Cockpit). 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 subdivisions. 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.

Sales revenues in EUR thousands	01.01. – 31.12.2012	01.01. – 31.12.2011 (restated)	01.01. – 31.12.2011
Delbrück			
Air Quality, Drive Train, Acoustics, Kinematics, Electromobility	37,187	32,259	32,259
Nuremberg			
Media Interfaces, Cockpit	27,894	27,106	27,106
St. Georgen			
Cockpit	5,365	7,690	7,690
Total	**70,446**	**67,055**	**67,055**
Reconciliation to comprehensive income			
Income	4,606	3,269	3,269
Expense	- 67,275	- 61,569	- 61,502
Financial result	- 1,077	- 1,319	- 1,319
Income taxes	- 2,065	- 2,147	- 2,168
Net income	**4,635**	**5,289**	**5,335**

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.

A portion of 33.1% (prior year: 27.8%) of sales revenues or EUR 23,243 thousand (prior year: EUR 18,666 thousand) are attributable to one single customer and a further 18.8% (prior year: 21.2%) of sales revenues or EUR 13,210 thousand (prior year: EUR 14,279 thousand) to a second customer.

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

(23) Related Party Disclosures

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

Total remuneration of the Managing Board includes salaries and non-recurring payments in the amount of EUR 1,073 thousand (fiscal year 2011: EUR 1,027 thousand) and includes fixed (EUR 505 thousand; fiscal year 2011: EUR 473 thousand) and variable (EUR 568 thousand; fiscal year 2011: EUR 554 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 81 thousand in fiscal 2012 (prior year: EUR 53 thousand) under an existing agreement. Mr. Hermann-Josef 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 60 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). The members of the Supervisory Board held 7,000

in EUR thousands	Germany 01.01. – 31.12.2012	Germany 01.01. – 31.12.2011	EU 01.01. – 31.12.2012	EU 01.01. – 31.12.2011	Other countries 01.01. – 31.12.2012	Other countries 01.01. – 31.12.2011	Total 01.01. – 31.12.2012	Total 01.01. – 31.12.2011
Sales revenue	49,699	44,104	17,885	19,077	2,862	3,874	70,446	67,055
Non-current assets (property, plant and equipment and intangible assets)	18,451	16,553	0	0	0	0	18,451	16,553

shares as of the balance sheet date (prior year: EUR 0 thousand) of a total of 4,114,788 shares.

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

Rent payments of EUR 336 thousand (prior year: EUR 84 thousand) were made to Frers Grundstückverwaltungs GmbH & Co. KG, Delbrück, and to con-seq Unternehmensberatung GmbH, Delbrück in 2012 for buildings and for other plant and office furniture and equipment. Of that amount, EUR 286 thousand (prior year: EUR 62 thousand) related to office buildings in Delbrück.

A portion of the assets acquired within the framework of the asset deal with Artega Automobil GmbH & Co. KG (mainly raw materials and work in process) was sold to Frers Fahrzeugbau GmbH & Co. KG, Delbrück, at a total purchase price of EUR 270 thousand by way of a notarial agreement dated December 21, 2012, with the sale taking effect on October 1, 2012. The assets were sold because they were not needed for the business activities of paragon AG.

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.

For transactions between paragon and its affiliated companies, we refer to our disclosures in section D.3 Financial assets.

(24) Corporate bodies of the Company

During the period from January 1 to December 31, 2012, the Managing Board of paragon AG comprised the Chairman of the Managing Board, Mr. Klaus D. Frers.

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

Name	Profession	Memberships in Supervisory Boards and other committees
Hans, J. Zimmermann Chairman	Managing Director of HSBC Trinkaus Private Wealth GmbH and HSBC Trinkaus Consult GmbH (until December 31, 2012)	Supervisory Board Memberships: • Schaltbau AG, München (Chairman) • SIAG Nordseewerk AG, Emden (Deputy Chairman) • Merkur Bank KGaA, Munich (Deputy Chairman) • GARANT Schuh + Mode AG, Düsseldorf (Deputy Chairman) Other board memberships • ante-holz GmbH, Bromskirchen-Somplar • 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

Stock Option Plan 2007

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. No employee stock options existed as of December 31, 2012. The authorization given by the resolution of the Annual General Meeting on May 22, 2007 to grant options from Conditional Capital III remains in effect until April 30, 2012. In the reporting year, no options rights existed under the Stock Option Plan 2007.

Stock Option Plan 2012

Based on a resolution passed by the Annual General Meeting on May 9, 2012, the Managing Board was authorized, subject to the consent of the Supervisory Board, to issue, on one or more occasions, subscription rights for up to 410,000 shares of the Company up to and including May 8, 2017 in accordance with the following rules. The Supervisory Board is authorized accordingly, to the extent that members of the Company's Managing Board are involved.

Group of beneficiaries

The group of beneficiaries includes members of the Company's Managing Board and employees of the Company. The actual group of beneficiaries and the scope of the relevant offer are determined by the Managing Board, subject to the consent of the Supervisory Board. The Supervisory Board determines the group of beneficiaries to the extent that members of the Managing Board are affected.

Breakdown of subscription rights

The breakdown of the subscription rights amongst the individual groups of beneficiaries is shown below:

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

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

Purchase period

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

Term

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

Holding period

The subscription rights may be exercised initially after a period of four years after the issue date of the subscription rights.
In the reporting year, no options rights were issued under the Stock Option Plan 2012.

(26) Auditor's fee

The expense recorded during the period under review from January 1 to December 31, 2012 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 63 thousand).

(27) Risk management

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

(28) Declaration in accordance with section 160 (1) no. 8 of the German Stock Corporation Act

In the reporting year, the following notifications were issued pursuant to section 26 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) that must be notified by the Company in accordance with section 160 (1) No. 8 of the Stock Corporation Act:

paragon AG, Delbrück WKN 555869, notification pursuant to section 26 (1) of the Securities Trading Act
On February 6, 2012, LBBW Asset Management Investmentgesellschaft mbH, Stuttgart, Germany notified us of the following in accordance with section 21 (1) of the Securities Trading Act:
"LBBW Asset Management Investmentgesellschaft mbH, Stuttgart, Germany herewith notifies, pursuant to section 21 (1) of the Securities Trading Act, that its share in the voting rights of paragon AG, Schwalbenweg 29, 33129 Delbrück, Germany, WKN 555869, fell below the 5% threshold on February 6, 2012 and amounted to 4.81% (corresponding to 198,000 voting rights) on that date. Pursuant to section 22 (1) sentence 1 No. 6 of the Securities Trading Act, 4.81% of the voting rights can be attributed to the company via Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte."

paragon AG, Delbrück WKN 555869, notification pursuant to section 26 (1) of the Securities Trading Act / correction of notification
On February 6, 2012, LBBW Asset Management Investmentgesellschaft mbH, Stuttgart, Germany notified us of the following in accordance with section 21 (1) of the Securities Trading Act:
"Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen, Germany herewith notifies that its share in the voting rights of paragon AG, Schwalbenweg 29, 33129 Delbrück, Germany, WKN 555869, fell below the 5% threshold on February 6, 2012 and amounted to 4.81% (corresponding to 198,000 voting rights) on that date."

paragon AG, Delbrück WKN 555869, notification pursuant to section 26 (1) of the Securities Trading Act
On February 7, 2012, LBBW Asset Management Investmentgesellschaft mbH, Stuttgart, Germany notified us of the following in accordance with section 21 (1) of the Securities Trading Act:
"Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen, Germany herewith notifies, pursuant to section 21 (1) of the Securities Trading Act, that its share in the voting rights of paragon AG, Schwalbenweg 29, 33129 Delbrück, Germany, WKN 555869, fell below the 5% threshold on February 7, 2012 and amounted to 4.81% (corresponding to 198,000 voting rights) on that date."

paragon AG, Delbrück WKN 555869, notification pursuant to section 26 (1) of the Securities Trading Act
On February 29, 2012, LBBW Asset Management Investmentgesellschaft mbH, Stuttgart, Germany notified us of the following in accordance with section 21 (1) of the Securities Trading Act:
"LBBW Asset Management Investmentgesellschaft mbH, Stuttgart, Germany herewith notifies, pursuant to section 21 (1) of the Securities Trading Act, that its share in the voting rights of paragon AG, Schwalbenweg 29, 33129 Delbrück, Germany, WKN 555869, fell below the 3% threshold on February 28, 2012 and amounted to 2.92% (corresponding to 120,000 voting rights) on that date. Pursuant to section 22 (1) sentence 1 No. 6 of the Securities Trading Act, 2.92% of the voting rights can be attributed to the company via Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte."

paragon AG, Delbrück WKN 555869, notification pursuant to section 26 (1) of the Securities Trading Act
On March 1, 2012, LBBW Asset Management Investmentgesellschaft mbH, Stuttgart, Germany notified us of the following in accordance with section 21 (1) of the Securities Trading Act:
"Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen, Germany herewith notifies, pursuant to section 21 (1) of the Securities Trading Act, that its share in the voting rights of paragon AG, Schwalbenweg 29, 33129 Delbrück, Germany, WKN 555869, fell below the 3% threshold on February 28, 2012 and amounted to 2.92% (corresponding to 120,000 voting rights) on that date."

paragon AG, Delbrück WKN 555869, notification pursuant to section 26 (1) of the Securities Trading Act
On March 26, 2012, Axxion S.A., Munsbach, Luxembourg notified us of the following in accordance with section 21 (1) of the Securities Trading Act:
"Axxion S.A., Munsbach, Luxembourg herewith notifies, pursuant to section 21 (1) of the Securities Trading Act, that its share in the voting rights of paragon AG, Schwalbenweg 29, 33129 Delbrück, Germany, WKN 555869, exceeded the 3% threshold on March 20, 2012 and amounted to 3.04% (corresponding to 125,000 voting rights) on that date."

paragon AG, Delbrück WKN 555869, notification pursuant to section 21 (1) of the Securities Trading Act
On May 7, 2012, Axxion S.A., Munsbach, Luxembourg notified us of the following in accordance with section 21 (1) of the Securities Trading Act:
"Axxion S.A., Munsbach, Luxembourg herewith notifies, pursuant to section 21 (1) of the Securities Trading Act, that its share in the voting rights of paragon AG, Schwalbenweg 29, 33129 Delbrück, Germany, WKN 555869, fell below the 3% threshold on May 3, 2012 and amounted to 2.49% (corresponding to 102,463 voting rights) on that date."

(29) 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 February 20, 2013; shareholders have permanent access to this statement on the Company's website (www.paragon.ag).

(30) 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, 2012 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 28, 2013

paragon AG
The Managing Board

Klaus Dieter Frers

We have audited the single-entity 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, 2012. 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 14, 2013

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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German public accountant	German public accountant

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