



Letter to Shareholders	6
Report of the Supervisory Board	11
Investor Relations	14
Guiding Theme	18
Group Management Report	28
Consolidated Financial Statements	48
Notes to the Financial Statements	54

Key Indicators

in EUR thousands	Jan. 1 – Dec. 31, 2013	Jan. 1 – Dec. 31, 2012	Change in %
Sales	73,879	70,446	4,9
EBITDA	12,515	11,797	6,1
EBITDA margin in %	16.9	16.7	
EBIT	7,938	7,777	2.1
EBIT margin in %	10.7	11.0	
Net income	3,949	4,635	- 14.8
Earnings per share in EUR	0.96	1.13	- 14.8
Total assets	51,937	43,965	18.1
Equity	15,893	13,028	22.0
Equity-to-assets ratio in %	30.6	29.6	
Unrestricted cash	16,333	10,060	62.4
Interest-bearing liabilities	23,061	14,652	57.4
Net debt*	6,728	4,592	46.5
Operating cash flow	5,100	5,804	- 12.1

* Interest-bearing liabilities ./. Unrestricted cash

Innovative

paragon finds solutions
no one else has thought of.

Creative

paragon solves problems
no one else has seen yet.

Bold

paragon is a proven pioneer
with staying power.

Letter to Shareholders	6
Report of the Supervisory Board	11
Investor Relations	14
Guiding Theme	
Electromobility	18
Group Management Report	
Group Fundamentals	28
Corporate Structure	28
Business Activity	28
Group Management	29
• Managing Board	29
• Supervisory Board	29
Management Systems	29
Remuneration of the Managing Board	30
Principles of Financial Management	30
Research and Development	31
Supplier and Client Management	31
Environmental Protection and Occupational Safety	32
Economic Report	
General Economic Conditions	33
• Developments in the Automotive Industry	33
Course of Business and Situation of the Group	34
• Revenue by Business Segments	34
• Employees	36
• Capital Expenditure	36
• Net Assets and Financial Position	37
• Results of Operations	38
Events after the Balance Sheet Date	39
Risks and Opportunities Report	
• Accounting-based Internal Control System	40
• Overall Economy	40
• Market and Industry	40
• Research and Development	41
• Procurement and Production	41
• Information Technology	42
• Liquidity and Financing	42
• Overall Risk	42
Forecast Report	
• Development of the General Economy and the Industry	43
• Corporate Development	44
Information Relevant to Takeover	
Capital	45
Change of Control	46
Declaration on Corporate Governance	46
Consolidated Financial Statements	
Consolidated Balance Sheet	48
Consolidated Statement of Comprehensive Income	49
Consolidated Cash Flow Statement	50
Consolidated Statement of Changes in Equity	51
Notes to the Financial Statements	54
Independent Auditor's Report	86



Klaus Dieter Frers, Chairman of the Managing Board

Dear Shareholders,

Fiscal 2013 was a successful year for paragon AG. As we forecasted, a very strong fourth quarter was the main reason for that success. Due to long holiday closures on the part of our clients, sales were more than 4% behind prior-year figures after the first nine months of the year, and our EBIT margin was even 7% lower than expected due to capital expenditure in new business segments. Strong earnings in the fourth quarter, however, allowed us to continue to grow as expected and to improve our margin considerably. A 5% increase in sales to almost EUR 74 million for the year as a whole and an on-target, double-digit EBIT margin underscore the reliability of our forecasts.

The above figures are not our only benchmark, however. Although we are very satisfied with our current results, we continue to look ahead, bearing in mind what the year 2013 means for paragon's future. This is evidenced by the key strategic decisions we took in the past year for the years to come. As early as 2011, one of our clear objectives was to

generate "more euros per car", meaning that we want to create more added value for paragon on every car that rolls off the assembly line. In order to achieve that, we need to increase our focus on vehicle systems.

In that respect, we are building on the broad foundation of expertise we have acquired over many years in the development of innovative components and modules. Our know-how, in combination with our design, engineering, electronics and mechanics, has always been paragon's unique selling point, and will continue to be the driving force behind the development of our business. In order to achieve our objective of creating more added value per car using these competencies, we not only want to increase the actual number of systems in the vehicles of premium manufacturers, but above all, their quality. At the same time, we also intend to develop new target groups in which we see great potential for the future.

Dynamic growth in Electromobility and Body Works Kinematics

An important strategic step on this path was implementing both of our still relatively new business segments Body Works Kinematics and Electromobility. After a successful start-up phase in 2012, fiscal year 2013 was characterized by further expansion in both segments.

In Body Works Kinematics, we ensured that we were strategically well positioned in the past year owing to the complete takeover of KarTec GmbH and by building corresponding production halls in Delbrück for the first tail wing actuators. An assembly line for spoilers that was installed in September has already been available since the end of the past year. 2013 was also a complete success in terms of new orders. Of the four significant orders that were granted across the globe in this segment, three went to paragon. Anything more would be almost unthinkable. Our contact network is so well developed that we can legitimately expect to be contacted with regard to every significant order in the future and to be involved in relevant talks with practically all premium manufacturers. We will continue to expand Body Works Kinematics' share in sales in 2014, but here as well our sights are set on the long term. Within the coming five years, we want to be one of the two leading market participants in this segment worldwide.

In our Electromobility segment, I like to speak of paragon's very own "energy revolution". Increased environmental awareness, combined with the desire to promote resource conservation among users, have shifted our focus to achieving greater efficiency and thus especially to electromobility. For that reason, we already decided to expand this segment years ago to develop solutions that are one step ahead of the current technology. In developing our battery packs, for example, we focused fully on lithium ion technology, beginning with a small production range already in 2012.

Breakthrough with an ideal mid-market partner

During the past year, we made our breakthrough. A long-term systems partnership with Vossloh Kiepe, the world market leader in electrically powered buses, brought us our first major order. As a first step, we signed an agreement to deliver 42 battery packs to equip trolleybuses in Switzerland. Already in the second half of 2013 we expanded our production significantly for that purpose, and are expecting sales in the high single-digit million range for 2014 alone. The key factors in the success of our partnership with Vossloh Kiepe are ideal for paragon - the pragmatic corporate culture of a mid-market company paired with the highest level of forward-thinking technological innovation. And we are sure that the groundbreaking step we took in the past year will be followed by many others in the years to come.

Overall, both of the exemplary developments in 2013 described above show that our approach of developing and marketing systems solutions is contributing to our success and should generate a sustained increase in our sales.

It goes without saying that the substance, know-how and experience of our other business segments are helping to ensure our success with systems solutions. And we can demonstrate outstanding figures in those areas as well as in terms of market position. Our Sensors business segment has a market share of about 90 percent for air quality sensors, and is a leader in ionization technology for interior air and in the innovation of transmission sensors. Our Acoustics segment is number two in Europe for microphones, and has the only seatbelt microphone in the world. And finally our Cockpit segment, which globally maintains its significant market position with stepper motors for analog displays, media interfaces, and center console instruments.

paragon on solid financial ground

The few examples mentioned above of our work over the past year and our plans for the future demonstrate the high level of dynamism with which we operate at paragon. A mid-market company that is exposed to global competition and that only works for large automotive manufacturers has one special requirement - a substantial, solid financial foundation. By issuing a corporate bond for EUR 10 million during the past year, we have taken an important step toward long-term stability in this area as well. The funds generated by the bond will enable us to continue to expand our market position and provide us with a healthy basis for continued profitable growth, investments in both of our new business segments, and last but not least, our international expansion.

Already in the past we took successful steps to establish ourselves internationally. We were in the US, Japan, and other European countries before we had to focus entirely on our national core business at the beginning of the decade. With the experience we have gained, we are now once again shifting our strategic focus to the international arena, to regions that are of strategic importance to us and in which our clients operate.

Automotive manufacturers produce on-site in their most important markets, and they expect a successful supplier to be there alongside them. With regard to keeping transport costs low, this also makes sense when you consider that today suppliers like paragon are responsible for as much as 60% of the added value in cars. And it must be remembered that production volumes are increasing abroad too. Although 25% of all cars were still made in Europe in 2007, that number was only about 15% in 2013.

Working the US market with our own brand of battery packs

In 2014, we would like to continue the great success we have had with battery packs in the past year in the US as well - the most interesting market in that area. We are already exploring the possibilities of setting up production in Texas, and want to move into the electromobility segment there with a strategy focused on the US market, our own business model, and our own brand. For 2015, we are planning to set up local production in Mexico to follow an important premium manufacturer from which we have received corresponding orders. We hope to implement that production with the help of a German partner that is already there on the ground, providing us with a strong North American production platform that will work closely with our main plants in Germany.

The road to China – decided but cautious

China remains firmly in our sights as well. The Chinese market is unquestionably a very interesting one, and is already the world's largest car market with over 20% of new registrations worldwide... and it is showing double-digit growth every year. We already have a distribution office in Shanghai through which we have fulfilled requests in areas such as air quality. For the near future, our approach will continue to be decided but cautious. Decided, because the decision has already been made to go to China and we will be there no later than 2016. But also cautious, because we cannot afford to be hasty. The important thing is getting it right, which is the most important condition in a market that is characterized by tough competition, increasing quality requirements, and growing cost pressure. The right partner, the right time, the right path – that is our guideline.

In all of these decisions we remain true to our fundamental strategy:

We focus on niche markets, creating innovative solutions in comfort, security and efficiency from the point of view of the end user. As a result, paragon is not dependent on individual technologies, products or clients.

We actively develop our products. A multi-stage process in which new solutions are sought and found ensures a high probability of success. In general, paragon has a well-filled product pipeline for the future.

Our three pillars are innovation, integrative power and strength of implementation. Streamlined processes and quick decision-making procedures shape our internal operations. With a high degree of automation, we ensure optimal production quality.

We have unique selling points. In many cases, there are no other suppliers with comparable products. Thanks to our many years of experience and specialized projects, paragon has complete vehicle competence.

With the above strategy and the key strategic decisions we have taken in the recent past, we are in good shape for the coming years.... but there is still a lot of work to be done. During the current fiscal year 2014, we are budgeting a further increase in sales and a sustained high level of profitability. In precise terms, we are expecting sales growth of about 8% and an EBIT margin of at least 10%. Although we are somewhat optimistic with regard to future developments in the automotive industry, we will be relying first and foremost on our own strengths in all of our business segments.

At the end of 2013, a business magazine announced: the "mid-market global player is a success story". At paragon, we will continue to do all we can to write our own chapter in that success story.



Klaus Dieter Frers

The Supervisory Board of paragon AG performed its advisory and control duties with great care in compliance with legal and statutory provisions, the Corporate Governance Code, and the rules of procedure during fiscal 2013. As part of its ongoing monitoring of management, the Supervisory Board was consistently satisfied with the legality, correctness, expediency and efficiency of the Company's management of operations. In addition, the Supervisory Board was available to advise the Managing Board concerning all Company decisions, and was involved in discussions and decision-making during the Supervisory Board meetings concerning all decisions of fundamental importance to the Company. Thanks to the excellent teamwork of the Supervisory Board members, pending decisions were always addressed in a timely manner.

The Managing Board and Supervisory Board of paragon AG identify with the objectives of the German Corporate Governance Code and are committed to good corporate governance. No conflicts of interest concerning individual members of the Managing Board or Supervisory Board occurred during fiscal 2013. The notes to the financial statements contain a list of all positions held by members of the Supervisory Board.

In February 2014, the Managing Board and Supervisory Board issued an updated declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (AktG), which was made available under the Investor Relations section of paragon AG's website. The Corporate Governance Report, which is also published on the Company's website, includes explanations concerning any deviations from the Code, as well as other relevant information on corporate governance.

Activities of the Supervisory Board

The Managing Board informed the Supervisory Board, both orally and in writing, in a comprehensive manner concerning all matters of material significance, general business development and the current situation of the Company. Such communication particularly involved the topics of strategy, planning, business development, risk

assessment and risk management. The reports of the Managing Board were reviewed and discussed in detail during the meetings of the Supervisory Board. In addition to regularly scheduled meetings and conference calls between all members of the Managing and Supervisory Boards, the chairman of the Supervisory Board and the Managing Board discussed all important issues by telephone or email whenever necessary. The Supervisory Board was kept fully informed concerning extraordinary events that might impact the assessment of the year's results.

During fiscal 2013, the Supervisory Board held four ordinary meetings and one extraordinary session, as well as three telephone conference calls. Two resolutions were also passed in writing outside of those occasions. All Supervisory Board meetings took place in the presence of the Managing Board. The entire Supervisory Board was present on each occasion.

The focus of the first ordinary meeting of the Supervisory Board held in Delbrück on March 20, 2013, was the audit and presentation of the annual financial statements for fiscal 2013, and the preparations for the Annual General Meeting on May 15, 2013. In this connection, the Supervisory Board was involved in nominating the auditors for fiscal 2013, suggesting Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft (formerly Rölfs RP AG Wirtschaftsprüfungsgesellschaft), Düsseldorf, as the new auditors. The Supervisory Board was also briefed on current business development and provided advice on alternate possibilities to finance further growth.

During a conference call on April 4, 2013, the Supervisory Board adopted the definitive version of the invitation to the Annual General Meeting, which took place on May 15, 2013 in the Delbrück town hall. In light of paragon AG's 25th anniversary, the Supervisory Board also resolved to consent to the proposal to pay a special dividend in the amount of 10 cents per share.

The content of the Annual General Meeting was prepared during the second ordinary meeting of the Supervisory Board held on May 14, 2013, in Hövelhof. In this context the chairman of the Supervisory Board provided



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

information on the results of the efficiency review of the Supervisory Board's work in fiscal 2012. The self-assessment submitted by members of the Supervisory Board confirmed the long-term effectiveness of its work. As during all other meetings, the Managing Board briefed the Supervisory Board concerning business development. The Supervisory Board also discussed the possibility of issuing a corporate bond to finance further growth.

On June 13, 2013 the Supervisory Board then passed a resolution out of session to issue a bond with a volume of up to EUR 20 million.

The third ordinary meeting of the Supervisory Board took place on August 16 in Delbrück. Important topics discussed included the Managing Board's report on current business development, the use of the additional funds generated from issuing the bond, as well as other topics relating to corporate strategy. In this connection, a potential investment in the Bilster Berg Drive Resort

was also discussed, as it is a company that provides the vehicle and supplier industry with ideal conditions for vehicle and component testing.

On September 13, 2013, the Supervisory Board passed a resolution out of session to acquire a small stake in Bilster Berg Drive Resort GmbH & Co. KG.

On November 9, 2013, the Supervisory Board discussed the possibility of expanding the Managing Board. The Supervisory Board also addressed the proposal for paragon AG to buy the properties at 11-13 Bösendamm and 1 Artegastraße from Frers Grundstücksverwaltungs GmbH & Co. KG.

The focus of the fourth ordinary meeting of the Supervisory Board, which took place on December 3, 2013 in Delbrück, was the Managing Board's report on business development, key objectives for 2014, and personnel matters. The Supervisory Board also addressed the plans to expand a production site in the US. During this meet-

ing, the Supervisory Board passed a resolution to purchase the properties at 11-13 Bösendamm and 1 Artegastraße during fiscal 2014.

During an additional conference call on December 9, 2013, the Supervisory Board passed a resolution concerning the final version of a contract for the appointment of a new member to the Managing Board of paragon AG. In the absence of the chairman of the Managing Board, the Supervisory Board also discussed the most significant points envisaged in the intended new contract for the chairman of the Managing Board. The Supervisory Board agreed to discuss the final version of the new contract with Mr. Frers during the next Supervisory Board meeting.

As in the past, the Company's three-member Supervisory Board dispensed with forming committees in fiscal 2013, preferring instead to let the entire Board deal with all key issues as a united whole.

Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, were appointed as external auditors for the fiscal year from January 1 to December 31, 2013, by resolution of the Annual General Meeting dated May 15, 2013, and commissioned by the Chairman of the Supervisory Board accordingly. The Supervisory Board is in possession of a statement of independence from the auditors in accordance with Section 7.2.1 of the German Corporate Governance Code. The subject of the annual audit was the annual financial statements as of December 31, 2013, and the management report of paragon AG for fiscal year 2013. Upon completion of their audit, Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, issued an unqualified auditor's report concerning the annual financial statements and management report. The auditors also established that the information and monitoring system set up by the Managing Board is suited to comply with the applicable statutory requirements and to recognize in a timely manner developments that could inhibit the Company's ability to continue as a going concern. The documenta-

tion 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, was made available by the audit firm to each member of the Supervisory Board for review. The documentation was discussed and reviewed in detail in the presence of the auditors during the financial statements meeting on March 12, 2014. During that meeting, the Supervisory Board also advised the Managing Board concerning the appropriation of net profits for the year.

Based on its own detailed review and discussion of the annual financial statements and the management report, the Supervisory Board approved the findings of the auditors and endorsed the annual financial statements. Accordingly, the financial statements as of December 31, 2013, have been ratified.

The Supervisory Board did not make use of its right to inspect the books and records of the Company during the past fiscal year.

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

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

Delbrück, March 12, 2014

Hans Jakob Zimmermann
Chairman of the Supervisory Board

General stock market environment

The German stock index (DAX) and most German stocks showed noticeable gains in the trading year 2013. Progress in remedying the euro crisis and comparatively low rates for fixed-interest forms of investment created the ideal environment for the German stock market. Especially in the second half of the year, Germany's blue-chip index picked up a great deal of speed.

Having closed at 7,612 points at the end of 2012, the DAX even managed to get over the 8,000 point mark for a short time during the first quarter of 2013, but then fell back again to complete a sideways trend overall. During the second quarter, the DAX did not manage to remain over the 8,000 mark either, falling back to 7,959 points on June 28.

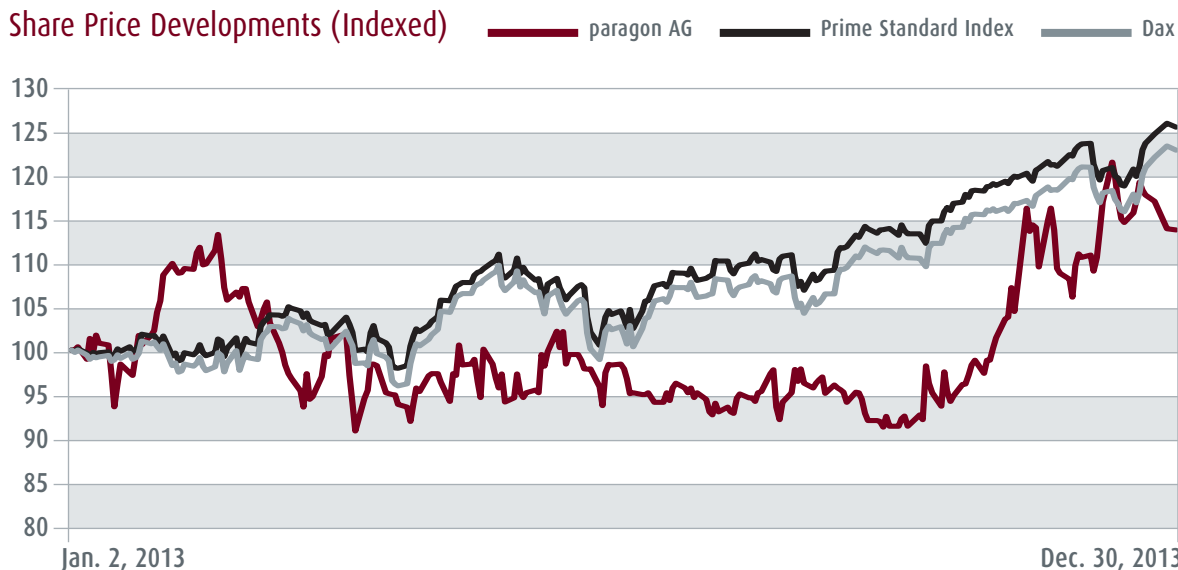
In the months from July to September 2013, however, a continuous upwards trend began that lasted until the end of the year. The index closed the third quarter on September 30 at a high of 8,594 points. The DAX then continued its upwards trend and got over the 9,000 point mark for the first time on October 29. Towards the end of the year, the index grew yet again, finishing the 2013 trading year at 9,552 points, or a gain of 25.5%.

ISIN:	DE0005558696
WKN:	555869
Ticker symbol:	PGN
Market segment:	Regulated Market
Transparency standard:	Prime Standard
Sector:	Technology
Industry:	Automobile supplier
Stock exchange:	Frankfurt (XETRA)
Also traded in:	Berlin, Düsseldorf, Hamburg, München, Stuttgart
Number of shares:	4,114,788
Share price on Feb. 28, 2014:	EUR 11.21 (XETRA)
Market capitalization on Feb. 28, 2014:	EUR 46.13 million
Average trading volume (52 weeks) as at Feb. 28, 2014:	9,889 shares a day
Designated Sponsor:	Close Brothers Seydler Bank AG

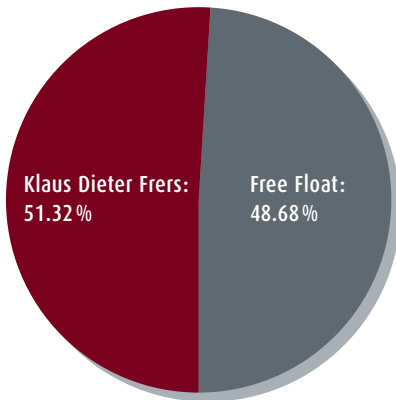
Performance of the paragon share

From its closing price of EUR 8.75 in 2012, the paragon share initially showed even stronger growth than the DAX (EUR 10.35 on February 19, 2013), but was also unable to entirely maintain that level up to the end of the first quarter, falling back to EUR 9.27. That sideways trend continued from April to June, with the paragon share initially reaching an annual low of EUR 8.30 (April 5), and then recovering by the end of the second quarter to EUR 9.15.

Share Price Developments (Indexed)



Shareholders Structure



Contrary to general market development, the paragon share dropped noticeably for no particular reason during the third quarter, ending at EUR 8.35 on September 30. In line with paragon's positive business development, however, the share rose sharply during the fourth quarter, reaching an annual high of EUR 11.11 on December 9. Finishing at a price of EUR 10.40 on December 30, the share showed a clear increase of 18.9% for the year 2013 as a whole.

paragon bond

The corporate bond issued by paragon AG during the third quarter of 2013 developed positively from the outset, showing itself to be extremely stable with rates

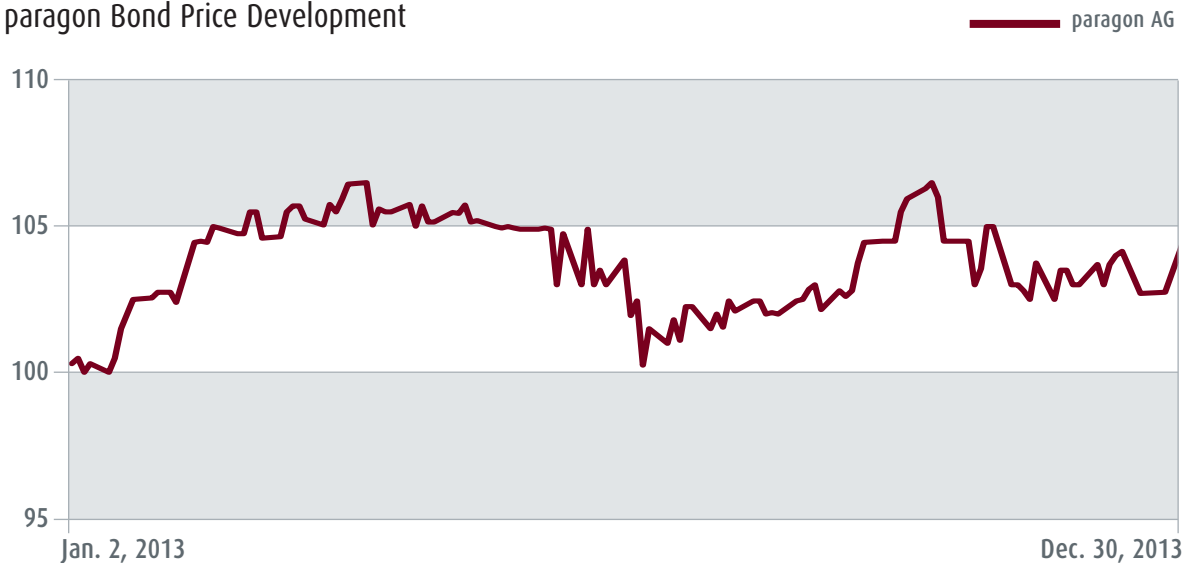
ISIN:	DE000A1TND93
WKN:	A1TND9
Ticker symbol:	PGNA
Market segment:	Open Market
Transparency standard:	Entry Standard for corporate bonds
Stock exchange:	Frankfurt
Also traded in:	Berlin, Hamburg, Hannover
Issue volume:	up to EUR 20 million
Placed volume (Dec. 31, 2013):	EUR 10 million
Coupon:	7.25 % p.a. (annual payment)
Issue date:	July 02, 2013
Maturity:	July 02, 2018
Rating:	BB+ (Creditreform Rating AG)
Bond price on Feb. 28, 2014:	105.5 %
Average trading volume (52 weeks) as at Feb. 28, 2014:	EUR 29,042 (nominal) per day

continually over 100%. In the opinion of the Managing Board, the price trend of the bond in the Entry Standard on the Frankfurt Stock Exchange confirms the market's trust in paragon's potential.

Financial market communications

paragon continued its commitment to active financial market communications through its ongoing exchange of information with shareholders, investors, analysts,

paragon Bond Price Development



journalists and an interested public in 2013. The Company reported on its current business development and important news using a wide variety of media, including ad hoc and press releases, personal discussions, interviews and articles on the Company's website www.paragon.ag.

In connection with issuing and placing the corporate bond in June and July 2013 in particular, numerous reports about paragon appeared in the national financial press. The Company supplemented its communication activities with its company newsletter 'paragon fakt'.

Several milestones marked the Company's year in financial market communications. As part of the press conference that was held on March 21, 2013 at the Company's headquarters in Delbrück, paragon presented its annual financial statements for fiscal year 2012. Subsequently, the Managing Board held several discussions and conference calls with representatives of the capital markets. The follow-up to those discussions also led to one-to-one talks surrounding the Company's quarterly reporting on its business and economic development.

A highlight of paragon's investor relations activities in fiscal 2013 was the German Equity Forum, which was held in November in the financial center Frankfurt am Main. In addition to a highly acclaimed presentation, paragon's Managing Board was asked to participate in numerous one-on-one discussions there. The Equity Forum will be paragon AG's key capital market event during the current fiscal year 2014 as well.

paragon's quarterly reporting was also the starting point for various analyst reports on the paragon share. Dr. Kalliwoda Research GmbH, Frankfurt am Main, and Close Brothers Seydler Research AG, Frankfurt am Main, published regular reporting (coverage) in that regard.

Financial calendar 2014

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

March 12, 2014:	Press conference on the financial statements for fiscal 2013
March 12, 2014:	Annual report on fiscal 2013
March 13, 2014:	Analyst conference / conference call for fiscal 2013
May 14, 2014:	Interim report January 1, 2014, to March 31, 2014
May 14, 2014:	Annual General Meeting for fiscal 2013
August 20, 2014:	Mid-year report January 1, 2014, to June 30, 2014
Nov. 19, 2014:	Interim report January 1, 2014, to September 30, 2014
Nov. 24-26, 2014:	German Equity Forum in Frankfurt

Guiding Theme:
Electromobility



Seizing Opportunities

paragon seized the opportunity presented by the emergence of the market for electric vehicles in 2011. While the company concentrated on developing high-value system solutions with a view to heightened efficiency, it also continued with its established product groups focused on the man-machine interface. paragon thus pursued a major trend in the automotive industry. That reorientation is opening up new business opportunities for the company.

This trend has occurred in the Electromobility Division, occasioned by heightened environmental consciousness on the part of both consumers and businesses. paragon's extensive automotive know-how has stood it in good stead as highly complex systems, coupled with an ability to integrate systems, have become the order of the day.

The Sensor, Acoustics and Cockpit Divisions already possessed extensive knowledge in automotive control technology. paragon combined this know-how with its expertise in power electronics. A firm grasp of high-current and high-voltage systems rounded out the company's expertise.

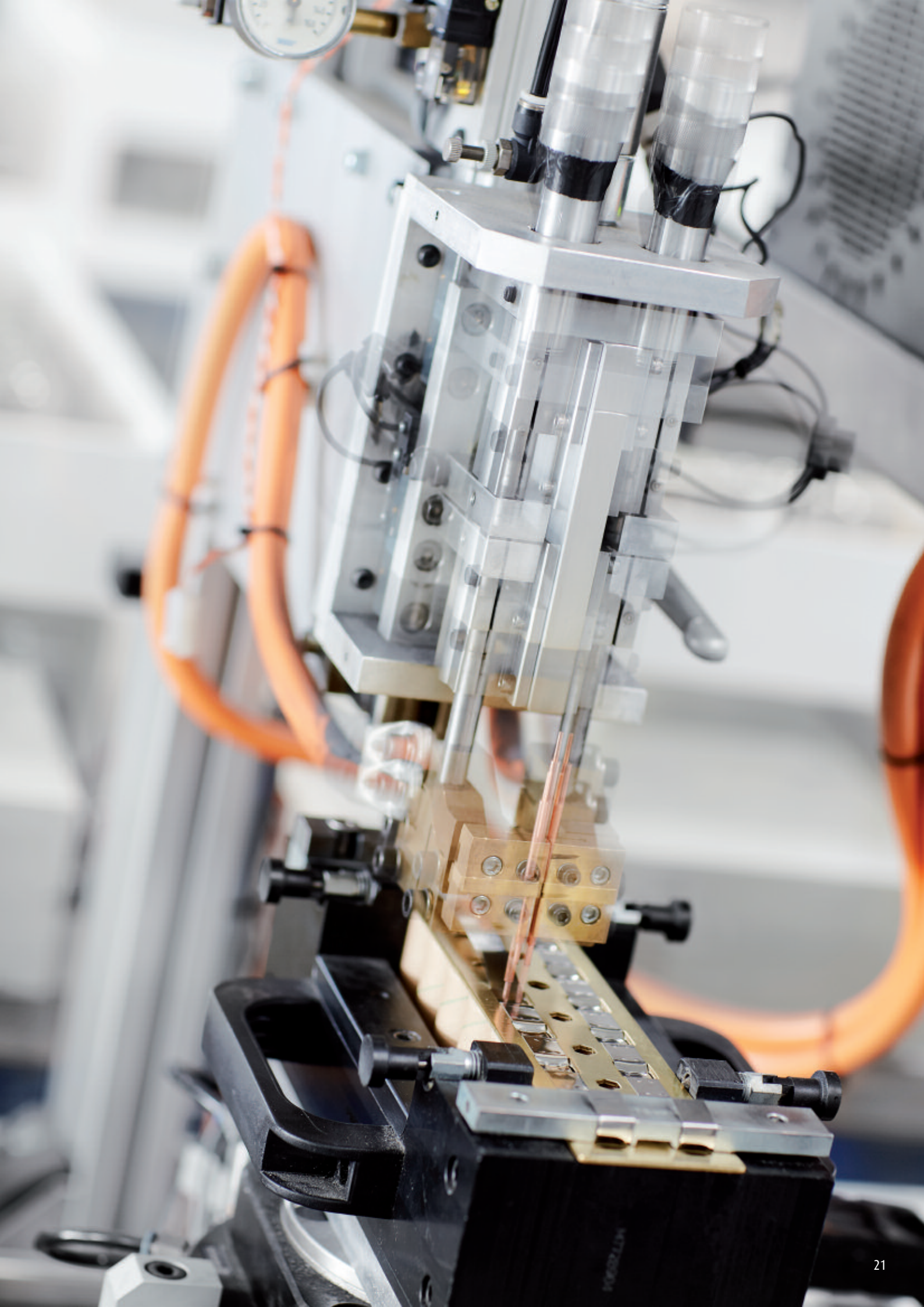
paragon has directed its attention to a new target group for electric vehicles. Instead of focusing on carmakers, the company has been concentrating on manufacturers of busses and other commercial vehicles. The comprehensive approach was also new. paragon devised a qualified and validated toolkit for different applications.

Technology is Everything

Right from the start, paragon has relied on fresh technology to supply the high-performance batteries that electric vehicles demand. Lithium-ion batteries have provided the foundation for paragon's development work. It has proven to be the correct decision because a shift in technology has occurred, one that requires profound know-how of control and regulating techniques for balancing the cells, and for the built-in temperature-regulation system – all aspects that have played to paragon's strengths.

Initial visits to trade shows in 2011 bore out paragon's new direction, with the result that the company had developed its own toolkit for electric vehicles by the time of the IAA commercial vehicle show in the autumn of 2012. The company's expertise in integration was in particular demand here, an expertise that was reinforced by an alliance of mid-sized companies spearheaded by paragon. Our partnership with Sweden's Alelion Batteries AB, headquartered in Gothenburg, was particularly productive. As an exclusive licensee, paragon was able to utilize its years of experience in designing battery systems as a point of departure for development work.

Within a very brief time, paragon went even further, refining its modular concept for manufacturing battery packs. The solutions proved to be quick and easy to apply to a variety of situations, and met with a good deal of enthusiasm at the IAA for commercial vehicles in 2012 and the 2012 eCarTec, the premier trade show for electric vehicles.





In Production

More than anything else, paragon's expertise in industrial production in accordance with automotive standards allowed the company to swiftly establish its own products for electric vehicles. paragon is rapidly expanding manufacturing capacity at its Delbrück headquarters while development work proceeds on its battery systems.

In the course of searching for opportunities in 2012, it became apparent that there was considerable demand for busses and other commercial vehicles sporting hybrid and electric motors. Manufacturers were looking for a qualified partner who could develop and produce highly efficient lithium-ion batteries on the one hand, and who was certified according to automotive standards on the other.

The analysis revealed an opportunity for paragon to tap into an extremely interesting market. paragon has thus concentrated on refining the modular battery-system toolkit and, in the process, has come up with clear technical benefits for the desired applications as well as for paragon's own production processes.

Our production facility for battery systems started out modestly but was very soon bursting at the seams. The facility was enlarged to 500 m² in the spring of 2013 as paragon had anticipated the need for expansion early on. Current battery packs consist of modules of lithium-iron-phosphate cells. They work autonomously, are nearly maintenance-free and are completely recyclable. All safety, control and temperature-regulation components are built into the system. The battery packs conform to the ISO 26262 norm – a first for the business – and are designed for the ASIL C safety level.

The Breakthrough

The actual breakthrough in electromobility came about thanks to paragon's long-term partnership with Vossloh Kiepe GmbH, the world's leader in electric busses. Together, the two companies landed a major project for trolley busses in Switzerland which allowed paragon to announce a contract for an initial fleet of electric trolley busses in the summer of 2013. The order was for 42 battery packs with a total capacity of 32 kilowatt hours and a nominal voltage of 320 volts for trolley busses in Lucerne and Geneva.



paragon enjoys excellent prospects for further major international projects. The USA represents a very interesting market for electric vehicles. Due to the particularities of this market, paragon will devise its own strategy, its own business model and its own brand, which it will subsequently also roll out in Europe. We are already looking at locations and are examining the possibility of establishing a manufacturing facility in Texas, which will position us to build on the success of our Electromobility Division. We believe that it is entirely within the realm of possibility to attain revenues of up to EUR 150 million within the next five years.

looking ahead





A. Group Fundamentals

Corporate Structure

paragon Aktiengesellschaft (hereinafter: 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.

paragon AG has its administrative offices in Delbrück and central production facilities in Delbrück, St. Georgen, and Suhl. paragon AG also has a branch office in Nuremberg, a sales subsidiary in Shanghai/China, and a subsidiary in Forchheim.

As the Group (hereinafter also: paragon) did not yet exist as of January 1, 2013, the prior year figures, which were established according to IFRS as applicable in the EU and the supplementary provisions of Section 325 (2a) of the German Commercial Code (HGB), are presented in the single-entity financial statements of paragon AG as of December 31, 2012, which have been furnished with an unqualified auditor's report.

Business Activity

paragon develops, produces and sells electrical, electronic, and electromechanical components, devices, and systems for the automotive industry. The Group's focus is on solutions for automotive interiors and sensors, although it also develops solutions in the fields of Electromobility and Body Works Kinematics.

paragon is active in the business segments of **Sensors, Acoustics, Cockpit, Electromobility** and **Body Works Kinematics**, which are not managed as profit centers.

In the **Sensors business segment**, paragon develops and markets solutions for improving air quality within the vehicle cabin. paragon's products, e.g. for climate control systems, prevent toxins from penetrating into

the vehicle interior or actively eliminate negative influences on air quality. paragon also develops, produces, and markets solutions in the **Sensors business segment** for optimizing drivetrain control systems. Characteristic products of paragon in this segment are high-precision positioning and distance measurement solutions with Hall-effect sensors and the latest inductive systems, which do not require permanent magnets.

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

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

In the **Electromobility business segment**, paragon primarily develops and markets battery packs for utility vehicles and buses. These battery packs have so far been used primarily in trolley buses.

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

Delbrück headquarters

Managing Board, Marketing, Purchasing, Finance
Customer Teams

Business segments of Sensors, Acoustics, Electromobility
Production for Electromobility, Body Works Kinematics.

Suhl branch (Thüringen)

Central production plant

St. Georgen branch (Baden-Württemberg)

Development and production of stepper motors

Nuremberg branch (Bavaria)

Business segments of Cockpit, Body Works Kinematics

paragon Automotive Technology (Shanghai) Co., Ltd.

Wholly-owned subsidiary in Shanghai/China
Sales company

KarTec GmbH, Forchheim

Wholly-owned subsidiary
Development services company

Group Management

Managing Board

Mr. Klaus Dieter Frers was the sole member of paragon AG's Managing Board during the period under review.

Supervisory Board

The paragon AG Supervisory Board had three elected members, Hans J. Zimmermann, Hermann Börnemeier, and Walter Schäfers, during the year under review.

Management Systems

Flat hierarchies, fast processes, and efficient workflow organization are the defining features of paragon's daily activities, as is a high level of innovative dynamism. The Group maintains the atmosphere of a medium-sized, owner-managed company and combines these advantages with the integrative power of a publicly-traded company. This special approach enables paragon to suc-

cessfully compete with significantly larger companies and to firmly establish its position as a direct supplier to major automotive manufacturers.

The Managing Board of paragon AG regularly adapts its strategy based upon the Group's growth. In discussions on corporate objectives held several times per year, management-level decisions are made regarding the implementation of follow-up activities as well as measures to optimize performance or make fundamental changes in direction.

During the past fiscal year, the main areas of focus were the following:

- Improvement of top-down communication through a streamlining of committee work and the associated introduction of periodic site reviews by the Managing Board.
- Consistent application of optimization principles throughout the logistics chain in order to stabilize the contribution margin:
 - Less use of distributors in favor of direct purchases by manufacturers of electronic components.
 - Development of "Best Cost Country" alternatives (purchasing in countries with low factor costs) for outsourcing assembly-intensive processes.
 - More intensive supplier management through targeted quantitative and qualitative expansion of oversight in material management and quality.
 - Implementation of an integrated production program plan with a significant impact on the effectiveness and efficiency of resource use; also an important element of working capital management.
 - Introduction of a fully-revised bonus pay system for the production areas (start in Suhl as pilot; Roll-out in all production areas in Germany in early 2014).
- Introduction of an integrated Customer Relationship Management tool for significantly improved transparency with respect to frequency and efficiency of customer contacts throughout the entire organization.

- Audit of project management procedures for more sharply delineated job descriptions, clearer assignment of responsibilities and definition of interfaces, and unambiguous lines of authority.
- Establishment of central service departments for electronic validation, mechanical validation, and prototype construction.

paragon has implemented a comprehensive planning and control system in order to systematically assure success, including continuous oversight of weekly, monthly and yearly plans. Key management parameters incorporate the traditional tools for financial and profitability control such as cash flow, EBIT, and EBIT margin.

The Managing Board and Supervisory Board of paragon AG receive detailed risk reports based on monthly reporting of business developments. These reports document potential deviations from planned figures in an actual-to-target comparison and form the basis for decision-making. Another important management tool consists of regular meetings of the expanded management circle. These meetings address current business developments in the individual business segments, and include discussion of the medium-term and long-term outlook, as well as a regular meeting of business segment managers.

With its “paragon Wertschöpfungsexzellenz (pWe)” (paragon Excellence in Value Creation) program, the Group is also striving to implement a permanent continuous optimization process in all administrative and operational functions of the paragon group, based upon the strategic objectives defined by the Managing Board. pWe is the dynamic capacity to implement an effective and efficient value chain through the integrative use and design of procedural, organizational, technological, and cultural factors.

Remuneration of the Managing Board

The Managing Board's remuneration was established and reviewed by the Supervisory Board. Remuneration is composed of components that are based on performance and components that are independent of performance. There were no accrued benefits related to stock options. The performance-dependent bonus is based upon the EBITDA of the period under review just ended and on the Group's business performance. Please refer to the information in the notes to the consolidated financial statements for the amount and breakdown of the Managing Board's remuneration.

Principles of Financial Management

The central focus of paragon's financial management is a solid equity-to-assets ratio, with which the Group has established an excellent position in the ranking of German industrial corporations. During the past fiscal year, the Group was able to improve this important ratio and thus strengthen its financial potential over the long term. paragon built up equity to EUR 15.9 million as of December 31, 2013, from EUR 4.5 million (December 31, 2010), EUR 9.8 million (December 31, 2011), and EUR 13.0 million (December 31, 2012). Despite the increase in total assets due to the bond issue, this translates into a consolidated equity-to-assets ratio of 30.6%; four years ago the equity-to-assets ratio was 10.3%.

In order to improve international competitiveness and expand the new business segments, additional long-term debt capital was acquired through a bond issue in July 2013, which will strengthen the Group's financial structure over the long term. A total volume of EUR 10 million was placed with private and institutional investors through a 7.25% bond maturing on July 2, 2018.

Strategic long-term loans from banks continued to be repaid in scheduled installments during the calendar year. No financial covenants were agreed upon with the banks.

Research and Development

As an innovative group that distinguishes itself within the market through active product development and inspired solutions, paragon places a high value on special expertise, as well as maintaining sufficient research and development capacities. Responsibility for developing new products lies in the five business segments of Sensors, Acoustics, Cockpit, Electromobility, and Body Works Kinematics. The direct integration of these areas with Sales allows the Group to rapidly implement new ideas.

The most important projects in the **Sensors business segment** included development orders from a German and an American OEM for the paragon AQI® air improvement system. paragon was also able to acquire additional manufacturers in 2013 for predevelopment projects relating to air improvement systems.

The **Cockpit business segment** was involved in projects such as the development of a new product platform for display instruments, the development of a concept for infrared-based gesture recognition technology via display surfaces, and an innovative display system. It also worked on the development of a stepper motor with a standardized interface for integration into high-quality control and display instruments, as well as the production-ready expansion and integration of NFC (Near Field Communication) technology into the universal coupling box (wireless charging + antenna coupling).

The main areas of focus for the **Acoustics business segment** were refinement of the belt-mic® seat belt microphone and a novel hands-free microphone with precise directional sensitivity as well as very effective wind protection. Another focus of development efforts was a new technology for loudspeakers with a smaller format and lower weight, but the same performance. Finally, an ultra-high-end sound system is still in development and should be completed in 2014.

The **Electromobility business segment** was focused on what the Managing Board believes to be a promising area, namely the development of high-performance lithium ion battery packs, featuring functional intrinsic safety, active thermo-management with integrated climate control system technology, the latest cell-balancing techniques, and a CAN communication interface. Two pioneering modular battery systems with different cell chemistries now form a competitive basis for the rapid and cost-effective use of battery storage units based upon predefined load profiles.

In the **Body Works Kinematics business segment**, development work continued on two electrically-driven and one hydraulically-driven spoiler drive. Prototypes and/or preproduction parts were built and supplied for these projects. paragon also continued its development of a universal drive as a basis for future spoiler systems. In addition, serial production was begun on two trunk lid release switches for a German premium manufacturer. Development work on a new generation of steering column paddle shifters for another German premium manufacturer was also completed and the products were put into serial production.

paragon spent a total of EUR 7.1 million (prior year: EUR 7.6 million) on research and development activities in fiscal 2013. Capitalized development costs accounted for approximately 21% of total research and development costs.

Supplier and Client Management

paragon's Materials Management department works according to clearly defined principles that have proven effective for many years. Close collaboration with highly capable selected suppliers and a systematic purchasing policy were key components of the Group's procurement philosophy in fiscal 2013 as well. This approach has the advantage of allowing paragon to reach at

times very ambitious production goals, even for high-volume orders from automotive manufacturers at short notice.

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

Cost of materials was approximately EUR 36.3 million in fiscal 2013 (prior year: EUR 37.0 million). This results in a cost of materials ratio (materials in relation to Group revenues) of 49.1%, which is lower than the prior year; the figure was 52.5% on the previous year's balance sheet date. The change can be attributed primarily to a change in the revenue mix, particularly the increased proportion of invoiced development costs to total revenue, and to cost reduction measures. Cost effects resulted, among other things, from the practice of increasingly reaching out directly to manufacturers of electronic components rather than going through distributors, a higher degree of automation among suppliers in the Sensors business segment, synergy effects produced by increased sales, and a focus on system suppliers in terms of supplier bundling.

Environmental Protection and Occupational Safety

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

paragon is also actively engaged in environmental protection through regular reviews of its manufacturing processes. Compliance with statutory regulations is guaranteed by a strict inspection regime. paragon's production locations are certified in accordance with

the environmental standard DIN EN ISO 14001. At the same time, paragon employs the most up-to-date manufacturing techniques to ensure the careful management of raw materials and energy resources. This firmly embedded approach to environmental management, combined with well-designed quality management procedures, contributes significantly to the Group's commercial success.

B. Economic Report

General Economic Conditions

As a supplier for the automotive industry, paragon earned most of its revenue in fiscal 2013 from automotive manufacturers within Germany and the EU, particularly within the premium segment. These companies in turn sell their vehicles around the world. Macroeconomic trends are important for paragon because they have an effect on the sales opportunities for the automotive manufacturers whom paragon supplies.

The global economy was spared further crises in 2013, and according to information provided by the International Monetary Fund¹ (IMF), it continued to stabilize over the course of the year. Global economic growth continued to be subdued, however, and at 3.0% was at the level of the prior year (3.1%). Slow recovery in the major industrialized nations was faced with weakening growth dynamics in the significant emerging and developing nations. Nevertheless, these countries once again saw strong positive growth in the second half of the year. While the recession continued in the euro zone (-0.4%) in 2013, other important automotive markets such as the USA (+1.9%), China (+7.7%), Japan (+1.7%), and Brazil (+2.3%) experienced significantly positive rates of growth. The trend in consumer prices was similarly free of abnormalities, with an increase of 1.4% in the industrialized countries and 6.1% in the emerging and developing nations. Thus the general economic environment for paragon's business can be viewed as neutral to positive.

Developments in the Automotive Industry

The general economic trend toward recovery in the second half of 2013 also had a positive effect on the development of the international automotive markets. In its AutomotivePERFORMANCE study (November 2013), the Center of Automotive Management (CAM) projected renewed growth of 6% in the global automotive market, to 72.5 million vehicles for 2013.

According to information from the German Association of the Automotive Industry (VDA)², the large sales markets in the USA and China in particular, which alone account for more than 40% of the global automotive market, experienced very positive growth.

China had a growth rate of 23% to 16.3 million vehicles, passing the USA and becoming the world's largest automotive market. The German manufacturers, who hold a market share of more than 20% in China, also profited from this development.

The US market likewise continued its growth trend, and with a sales increase of 8% to 15.5 million light vehicles (cars and light trucks), it achieved its best result since 2007. German manufacturers, particularly the premium segment, also profited from this development by increasing their sales to 1.33 million vehicles³.

The Japanese automotive market was comparatively stable in a year-to-year comparison, and remained almost at the level of the prior year, with approximately 4.6 million new vehicles sold.

By contrast, Brazil, India, and Russia experienced a downward trend. Although the Brazilian market, with just under 3.6 million new vehicles sold, was only about 1% below the value of the prior year, the declines in Russia (-5% to 2.8 million light vehicles) and India (-7% to 2.6 million new vehicles) were more significant.

The Western European automotive market also suffered losses once again in 2013, although here a significant turnaround in the trend was noticeable over the course of the year: Even though new vehicle sales declined by 7% in the first half of the year, they grew by 4% in the second half. New vehicle sales grew by 13% in December 2013 alone. On balance, therefore, Western Europe still experienced a drop of approximately 2% in 2013 to 11.6 million new vehicles sold.

¹ all figures from: World Economic Outlook Update of January 21, 2014

² VDA press release of January 16, 2014: Western Europe experiences double-digit growth for the first time again after four years

³ VDA press conference of January 13, 2014

New vehicle registrations in Germany⁴ reached a volume of 2.95 million in the past year, 4% less than in the prior year, and were therefore within the range of expectations. December 2013 provided an optimistic ending to the year, however, with a 5% increase in new registrations. Slight increases were seen during the year as a whole, both in domestic production (+1%) and in German manufacturer exports (+2%). The representatives of the Association were also cheered by the volume of new orders, which was 14% above the level of the prior year in December 2013.

Course of Business and Situation of the Group

The paragon Group continued the previous growth trend of paragon AG in fiscal 2013 and with the resulting growth in sales and earnings, it met the Managing Board's annual forecast. Here the Group also profited from the good positioning of its clients, particularly the German premium manufacturers, in the important growth markets of China and the USA.

Revenue by Business Segment

Revenues in euros	2013	2012
Sensors business segment	27,581,918	26,218,121
Acoustics business segment	11,693,595	10,922,779
Cockpit business segment	27,286,871	32,973,090
Electromobility business segment	3,776,738	7,079
Body Works Kinematics business segment	3,539,725	325,306
Total	73,878,847	70,446,375

In the largest business segments, namely Sensors and Cockpit, the business trend was significantly affected by the strong existing business with proven products for well-known automotive manufacturers in the premium

segment. Here the Sensors business segment further expanded its market share in air quality sensors by forming agreements with an important OEM. Special attention was paid to the AQI[®] air quality improvement system in particular. Existing development orders continued to be introduced into serial production, and the Group was also able to acquire new customers for the system, e.g. a German and an American OEM in Q4, whose products should go into serial production at the end of 2015. The significance of vehicle interior air quality is also being reinforced by a study conducted by the International Agency for Research on Cancer (IARC) of the World Health Organization (WHO) that addresses air pollution as a risk factor in cancerous diseases. The Group also initiated serial production of a gearbox sensor for utility vehicles.

The Cockpit business segment received positive customer response to a design involving HD image transmission from mobile terminal devices to vehicle displays. In addition, the Group successfully passed a "potential analysis" audit of its development and production sites conducted by a premium OEM. The Group was able to further expand its market share in backup camera systems by offering improved functions. The development of a platform concept for paragon's display instruments is also creating new market opportunities. For example, a large number of project inquiries for display instruments were received from various brands in the fourth quarter.

The Acoustics business segment also posted more new orders. For example, a well-known premium manufacturer issued a development order with subsequent serial production of a new built-in microphone with particular appeal for customers because of its high wind resistance. paragon also received additional orders for delivery of the "belt-mic" seatbelt microphone for various vehicle models, with significant increases in unit counts and thus greater production efficiencies. Inquiries

⁴ VDA press release of January 3, 2014: Domestic market for passenger vehicles increases by 5% in December

have also been received regarding the equipping of additional models. paragon is already working on new solutions for both product lines, which will create even more usage options. To expand its product mix, the Group is also developing a new sound system that can compete with existing products on the market. This new system includes features such as active noise suppression, a precise, ultra-deep bass response under all driving conditions, reduced weight, and smaller space requirements. The new Algorithms department is also participating in this project, developing software for hands-free devices as well as other acoustic solutions.

By setting up production at the Delbrück headquarters in 2013, paragon allowed the new business segments of Body Works Kinematics and Electromobility to make significant contributions to sales revenues even in the past fiscal year, and to become important growth drivers for the Group. The Electromobility business segment achieved one important success with battery packs. As part of a long-term partnership with Vossloh Kiepe GmbH, the world's market leader for electric buses, paragon is equipping a fleet of trolley buses with high-performance batteries from its own production. In the first joint projects for the cities of Geneva and Luzerne, this project involves 42 battery packs with an order volume of more than EUR 1.6 million. The battery packs were delivered beginning in fall 2013. The total revenues from high-performance batteries for buses and 2014 could be in the magnitude of up to EUR 10 million. In order to achieve the order volume within the specified time, paragon expanded its production facility for battery packs at the Delbrück headquarters to more than 500 m². Other significant large orders were acquired in the fourth quarter of 2013. The decision to develop "intrinsically-safe battery packs" therefore proved to be the correct one. Because of special design principles, such intrinsically-safe systems ensure that no unsafe conditions will occur in the event of an error or defect. Based upon the good level of new orders for

lithium ion battery packs, particularly from the USA, paragon announced that it will set up its own production facility there. The North American market for battery packs is significantly larger than the European market, and there are also frequently minimum requirements for local production as a percentage of overall value added, so this is a logical next step in paragon's growth strategy. The key process steps for maintaining quality will be performed in automated production lines based upon the automation in the Delbrück plant. This will ensure that products are manufactured with the same overall quality. Given the current positive growth in the Electromobility business segment, the Managing Board is estimating a revenue potential of approximately EUR 150 million total in the coming five years.

In the Body Works Kinematics business segment, an initial sample series for spoiler systems was produced in the first quarter. The production facilities for the first rear wing drives in Delbrück were completed in the second quarter and began pre-production for a well-known German sports car manufacturer. paragon also received another order for production of an electronically adjustable rear spoiler system for a top-tier sports car of another German customer, making it the third order for spoiler systems. Here in particular, the Group's many years of know-how in the area of drives are paying off. The Group also received its first order for serial production of steering column paddle shifters. Despite an extremely tight schedule, paragon was able to beat the delivery deadline in the third quarter for the first serial production parts of the steering column paddle shifters, which also won over the customer by reducing shifting time. paragon also installed an assembly line for spoilers in September 2013; the associated end-of-line test bench has been in place since the end of 2013.

On July 29, 2013 paragon exercised its call option to acquire KarTec GmbH, and in doing so strengthened the

Body Works Kinematics business segment. This company, which was previously a partner, has now become a subsidiary of paragon AG. The purchase price corresponds to the amount of paragon's loan to KarTec GmbH (EUR 1.0 million), and thus there was no need to use additional cash and cash equivalents.

The sales office in China began its activities in the second quarter. paragon Automotive Technology (Shanghai) Co. Ltd was able to further increase staffing levels by adding a technical employee. This efficiently and directly exploits paragon's name recognition in the development departments of local vehicle manufacturers and significant suppliers, and also facilitates additional market penetration. In particular, paragon has introduced its range of air quality products to a number of potential customers, including joint ventures with foreign participation as well as local manufacturers. It has received concrete inquiries, particularly for projects involving the AQS[®] air quality sensor and the AQI[®] air quality improvement system. There have also been discussions regarding a novel sensor specifically for the Chinese market. Furthermore, paragon conducted a comprehensive test drive in Beijing in September, the results of which will be used in product development for the Asian market.

In order to expand its internationalization efforts and enable investments in the new business segments of Electromobility and Body Works Kinematics, and for acquisitions, repayment of loans, and liquidity reserves, paragon issued a corporate bond in June 2013. The Group ended the public offering for subscription to the bond according to schedule on June 28, 2013. The bond's term began on July 2, 2013. A total volume of EUR 10.0 million was placed with private and institutional investors. So far, the funds from the bond have been temporarily used to reduce advances on current accounts and achieve savings on interest. Other measures are currently in preparation to allocate the addi-

tional funds. In addition to the previously mentioned investments in internationalization by setting up a plant for battery packs in the USA, paragon also continues to promote the expansion of its Electromobility and Body Works Kinematics business segments. The product portfolio at the St. Georgen site will be expanded by adding the universal drive for spoilers, and another new product is currently under evaluation. The Group has also conducted various discussions with possible takeover candidates, although these have not yet led to tangible results. paragon is currently still in different phases of initiating arrangements with various companies in Germany and abroad, and will report on possible successes at the appropriate time.

Employees

As of December 31, 2013, paragon had 392 employees and 49 contract workers at its four sites in Germany. The number of employees rose slightly compared to the previous year (December 31, 2012: 389), as did the number of contract workers (December 31, 2012: 45). The following figures apply to the various sites as of December 31, 2013 (employees/contract workers): Delbrück (101/1), Suhl (205/45), Nuremberg (31/2), St. Georgen (52/1), Shanghai/China (3/0).

Personnel expense during the period under review was EUR 19.6 million (prior year: EUR 18.9 million). EUR 15.1 million (prior year: EUR 14.6 million) of this total represented salaries and wages, and EUR 2.7 million (prior year: EUR 2.3 million) was allocated to social security contributions and pension expenses. Expenses for contract workers amounted to EUR 1.6 million in the period under review (prior year: EUR 1.9 million).

Capital Expenditure

paragon AG undertook capital expenditures in machinery, facilities, and tools for new products and development projects totaling EUR 4.9 million in fiscal 2013

(prior year: EUR 6.3 million). This exceeded the plan for fiscal 2013 by EUR 0.9 million. This was due to higher capital expenditures in environmental protection projects such as hazardous materials containers and extraction systems. Additional funds were invested in the expansion of electronic and mechanical validation at the Delbrück site. The Group also 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 to securing the Group's future.

Net Assets and Financial Position

Total assets rose by EUR 7.9 million to EUR 51.9 million as of December 31, 2013 (prior year: EUR 44.0 million). This increase can be attributed primarily to the bond issue of EUR 10.0 million in July 2013.

Non-current assets rose from EUR 18.6 million to EUR 18.8 million. This is due primarily to investments in intangible assets through capitalized development services. In addition, the Group acquired a limited partnership interest of EUR 0.1 million in Bilster Berg Drive Ressorst GmbH & Co. KG. Current assets rose by EUR 7.7 million to EUR 33.1 million (prior year: EUR 25.4 million), related chiefly to an increase of EUR 4.2 million in trade receivables as well as cash and cash equivalents of EUR 3.6 million. As in the previous year, a large portion of the trade receivables is subject to a factoring commitment. As part of a factoring agreement with GE Capital Bank AG, paragon has additional cash and cash equivalents in the amount of EUR 5.6 million (prior year: EUR 4.2 million) at its immediate disposal as of the balance sheet date. This important short-term financing instrument significantly strengthened paragon's financial resources. Interest is applied to this credit account based upon market conditions.

In addition to current bank balances (EUR 10.7 million) and credits from factoring (EUR 5.6 million), the cash and cash equivalents of EUR 17.6 million include the insolvency escrow account of EUR 0.3 million (prior year: EUR 0.3 million) and the escrow account of EUR 1.0 mil-

lion for the insolvency dividend payout (prior year: EUR 3.7 million). The former insolvency administrator has power of disposal over both accounts. The insolvency escrow account is used to pay accumulating legal and tax advice costs. The escrow account is used for payments to the insolvency creditors. The surplus amount belongs to paragon AG. Payment to the insolvency creditors is financed by means of the insolvency mass share loan. EUR 11.7 million had been paid out as of December 31, 2013. There are no remaining risks from the insolvency plan for paragon AG.

As of the balance sheet date, the capital structure is characterized by a further rise of EUR 2.9 million in equity, which, along with higher total assets, has led to a sustained improvement in the equity-to-assets ratio to 30.6% (prior year: 29.6%), despite the bond issue. Equity rose by a fourth in nominal terms during the period under review. The distribution of dividends in the amount of EUR 1.4 million approved by the Annual General Meeting in May 2013 was paid out on May 16, 2013.

Non-current provisions and liabilities increased by EUR 6.8 million during the period under review. The reason for this significant increase is the bond issue of EUR 10 million on July 1, 2013. The issue resulted in total transaction costs of EUR 0.7 million during the period under review, which under IFRS rules are offset with the nominal value of liabilities from bonds and are recognized in income and distributed across the term of the bond. The resulting impact on income for the past fiscal year is EUR 0.1 million. As a countervailing effect, the changes of EUR 1.2 million in the pension provision (prior year: EUR 2.7 million) should be mentioned. The associated significant reduction in benefit expense for the Group is the result of a partial outsourcing of EUR 1.2 million in existing pension obligations. The liability to the pension fund taking on the obligations was recognized as "other liability" on the balance sheet date and was paid on January 14, 2014.

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

Current provisions and liabilities declined by EUR 1.7 million relative to the prior year, to EUR 12.2 million (prior year: EUR 13.9 million), and can be attributed to the EUR 1.8 million reduction in other current liabilities. This reduction is based primarily on the insolvency dividend payout of EUR 2.7 million performed by the former insolvency administrator, wherein the scope of liabilities (EUR 1.4 million) vis-à-vis the pension fund taking on the obligations reported on the balance sheet under "other liabilities" as of the balance sheet date must be considered as a countereffect.

Cash flow from operating activities amounted to EUR 5.1 million as of December 31, 2013 (prior year: EUR 5.8 million). The decrease is due in particular to the increase in receivables that are not included in the factoring agreement with GE-Capital during the period under review, and which originate from the very good last quarter of 2013. Cash flow from investment activities decreased by EUR 1.3 million to EUR 4.8 million (prior year: EUR 6.2 million). This is due to slightly lower capital expenditures in the following areas: EUR 0.4 million in property, plant and equipment, EUR 0.4 million in intangible assets, and EUR 0.7 million in financial assets. The increase of EUR 4.2 million in cash flow from financing activities to EUR 3.3 million results in particular from cash proceeds of effectively EUR 9.3 million from the bond issue. This was offset by payouts of EUR 1.4 million for the distribution of dividends in 2013, payouts of EUR 2.7 million on insolvency liabilities by the former insolvency administrator, and repayments on financing loans of EUR 2.1 million. Financing resources of EUR 17.6 million include cash and cash equivalents and the trade receivables included in the factoring agreement with GE Capital Bank AG.

Results of Operations

paragon achieved Group sales revenues of EUR 73.9 million in fiscal 2013 (prior year: EUR 70.4 million). This represents an increase of 4.9% over the prior year. In February of 2013, the Managing Board had issued a forecast that predicted sales growth of about five percent in fiscal 2013.

Cost of materials declined by EUR 0.7 million to EUR 36.3 million (prior year: EUR 37.0 million) due to strategically introduced price reductions as well as a slight change in the product portfolio. The cost of materials ratio therefore improved by 3.4 percentage points to 49.1% (prior year: 52.5%). Personnel expense increased by EUR 0.9 million, which can be attributed firstly to qualified new hires and secondly to the pension outsourcing conducted in the period under review. The personnel expense ratio was 26.7% in the period under review (prior year: 26.8%) and therefore remained almost constant. Other operating expenses increased in fiscal 2013 by EUR 1.1 million to a total of EUR 8.5 million, which on the one hand can be attributed to the fact that the expenses for rental agreements concluded during the fourth quarter of 2012 are now contained in the result for the entire fiscal year. On the other hand, they also include additional costs incurred for replacing hardware and acquiring additional software licenses.

EBIT increased from EUR 7.8 million to EUR 7.9 million. The EBIT margin was 10.7% (prior year: 11.0%). EBITDA increased from EUR 11.8 million to EUR 12.5 million. The EBITDA margin was therefore 16.9% (prior year: 16.7%).

The financial result worsened by EUR 0.4 million to EUR -1.5 million (prior year: EUR -1.1 million). This was due to the financing costs of 7.25% per year for the bond issue (EUR 0.4 million up to the balance sheet date). The financing costs associated with non-current borrowings were essentially unchanged compared to 2012.

Income taxes amounted to EUR 2.5 million in fiscal 2013 (prior year: EUR 2.1 million). The increase is due primarily to the tax effect of the pension outsourcing under-

taken in the period under review (EUR 0.3 million) as well as prior-period income taxes (EUR 0.2 million).

Total period income for paragon as of December 31, 2013 amounted to EUR 3.9 million (prior year: EUR 4.6 million). Earnings per share were therefore EUR 0.96 with 4,115 million shares outstanding (prior year: EUR 1.13).

Overall Assessment of paragon's Situation

The growth of paragon in fiscal 2013 fully met the expectations of the Managing Board. The strategic orientation towards innovative niche products, particularly in the premium segment, continued to prove a winning approach. Here paragon also profited from the sales successes of its clients, particularly the German premium manufacturers, in important growth markets such as China and the USA. The Group was also able to make significant progress in the new business segments of Electromobility and Body Works Kinematics and thus successfully further expand its range of product offerings. Because of the positive growth in orders, particularly in the Electromobility segment, paragon was also able to increase its internal revenue forecast for the current fiscal year, which is significant proof of the successful corporate strategy.

C. Events after the Balance Sheet Date

On January 13, 2014, there was a payout of EUR 1.5 million based upon the partial outsourcing of paragon's pension obligations. As part of the Group's strategic redirection, the Electromobility business segment will be spun off to the existing company Voltabox Deutschland GmbH.

On March 3, 2014 (settlement date), paragon placed an additional tranche of the corporate bond it issued in July 2013 (ISIN: DE000A1TND93 / WKN: A1TND9). With a volume of EUR 3.0 million, the issue was placed privately with institutional investors. The issue price was 102.5%, increasing the total placed volume of the bond (forecasted to be up to EUR 20 million) to EUR 13.0 million. The additional funds generated will likely mainly be used to finance further expansion in our Body Works Kinematics and Electromobility business segments.

Otherwise, no significant events with special consequences for the Group's net assets, financial position, and earnings occurred after the close of the fiscal year.

D. Risks and Opportunities Report

paragon has established a comprehensive risk management system in order to assess risks and opportunities in the Group's development. Management is kept informed on the probability of occurrence and potential extent of damage by means of risk reports prepared on a regular basis by all areas of the Group. The risk reports contain an assessment of the risks as well as proposals for appropriate countermeasures. Please refer to the notes for risk management goals and methods as they relate to the use of derivative financial instruments.

Accounting-based Internal Control System

Because the internal control and risk management system is not defined by law, paragon relies on the definition provided by the Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf, (German Institute of External Auditors) regarding accounting-based internal control systems (IDW PS 261). According to this definition, an internal control system can be defined as the principles, processes, and measures that management has introduced into the Group and which are designed to implement management's decisions in the organization. The objectives are as follows:

- a) ensuring 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) compliance with the applicable legal and statutory regulations.

The Group'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,

procedural instructions, operational and organizational structures, and processes included in the accounting-based internal control and risk management system are documented in organizational instructions, which are updated on a regular basis to reflect external and internal developments.

Given the size and complexity of the accounting process, management has specified the scope and design of these control activities and has implemented them in this process. Process-independent controls have also been established. Control activities address control risks that could significantly affect accounting and the overall statement regarding the consolidated financial statements, including the group management report, in terms of their likelihood of occurrence and their effects. Important principles, processes, measures, and control activities include:

- Identification of the significant 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 Controlling functions that provide important information for the preparation of the annual financial statements, including the management report, and including the requisite segregation of duties and integrated approval processes
- Measures that assure the proper IT-supported processing of accounting-related information.

Overall economy

The development of the euro and the sovereign debt crisis poses latent risks to the Group.

Market and Industry

paragon has maintained a strong market position as an established and innovative direct supplier to automotive manufacturers for many years. Fiscal 2013 continued to be characterized by a bisection of the global automotive

business, dominated by the two large growth markets of China and the USA. paragon has the great advantage that its core customers were among the winners in the industry's growth in 2013, and continue to enjoy excellent prospects. In contrast to other high-volume manufacturers, the globally-positioned German manufacturers Audi, VW, BMW, Daimler, and Porsche once again achieved impressive business successes. paragon's situation continues to be characterized by a close bond with these core customers and a concentration on interesting market niches. The Group is also increasingly diversifying into new business segments such as Electromobility and Body Works Kinematics.

Since paragon supplies its products exclusively to automotive manufacturers (OEMs), the economic trends in the automotive industry will continue to exert significant influence on the Group's sales revenues and earnings in the future. paragon identifies sales opportunities and risks through its comprehensive sales control system. 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 of this system. A comparatively broad portfolio of approximately 200 individual products illustrates paragon's independence from individual product segments and customers. Nevertheless, the loss of a significant customer could have significant effects on the Group's net assets, financial position, and earnings, particularly given its strong dependence on the VW Group. The loss of a core customer would be identified early on, however, due to the multi-year contract terms for individual production series. paragon addresses this risk through wide-ranging development work, a constant flow of new products, and outstanding customer service, as well as detailed order level analysis as part of its early risk identification process.

Active product development that considers the interests and wishes of the end customers (the car's passengers) is a defining aspect of paragon's daily work. The Group

does not simply wait for manufacturers' requests and specifications, but instead works autonomously on novel solutions that are implemented together with pilot customers and subsequently offered to a broader customer target group. There are a variety of market opportunities for an electronics manufacturer such as paragon, since a majority of automotive innovations involve electrical engineering or electronics. Nevertheless, there is always a possibility that a developed product may not reach the anticipated number of units.

Research and Development

paragon supports the successes of manufacturers through diverse development projects and novel solutions, working in close collaboration with its core customers' development departments. Major deviations from project goals in terms of timing or money could result in risks related to costs and legal consequences (e.g. contractual penalties). paragon limits such risks with an ongoing development and project controlling process. Past experience has shown that paragon can generate additional business with new products by using its existing channels of distribution. New customers as well may be attracted by the presentation of in-house developments. By continually investing in machinery and equipment, paragon ensures that the Group's equipment satisfies the exacting demands of the automotive industry.

Procurement and Production

During the past fiscal year, raw materials for the plastic-processing industry hovered at a high price level, while other raw materials such as metals and precious metals experienced more of a downward trend. paragon exploited global price competition in relevant areas and locked in a majority of its procurement prices through framework contracts, annual agreements, and long-term supplier relationships. More than 90% of the Group's purchasing costs continue to be incurred in Europe, while the remaining purchases are made in the US and Asia. Payment terms are within the industry average.

The major currency for purchases is the euro, with a small share in US dollars as well (2013: USD 3.2 million; 2012: USD 3.0 million).

Information Technology

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

The Group also continued the long-term modernization of its IT infrastructure in fiscal 2013. This included the replacement of obsolete PCs and server hardware, the use of modern server technologies and storage media in all sites, and the deployment of up-to-date server operating systems. Other security measures were also established to protect paragon from Internet-related risks. New functions and optimized procedures (e.g. use of barcode scanners) were implemented within the ERP system.

Liquidity and Financing

Currency risks in procurement and sales have had only a limited effect on paragon to date, since business activities are primarily concentrated in Germany or the euro zone. Nevertheless, the Group monitors certain risks in this area based upon ongoing reviews of expected currency exchange rates. paragon is not using any financial instruments to hedge currency risks at this time.

paragon ensures its solvency through comprehensive liquidity planning and monitoring. These plans are prepared on a short-term, medium-term, and long-term basis. The Group also consistently manages its accounts receivable to secure timely cash inflows. A significant proportion of receivables is also guaranteed by trade credit insurance. paragon also has an option for short-

term financing through a factoring agreement with GE Capital Bank AG.

The risk of interest-rate fluctuations is insignificant for paragon because the majority of its non-current liabilities are covered by agreed fixed interest rates. Moreover, none of the central financing undertakings by the various banks include agreements (financial covenants) on adherence to financial indicators.

Overall Risk

The Managing Board of paragon AG regularly assesses the Group's risk situation in close consultation with the Supervisory Board. The consolidation of the long-term financing structure through the bond issue and the sustained accumulation of additional equity have continued to stabilize the Group and further reduced its overall risk in fiscal 2013. Nevertheless, paragon's further growth remains closely tied to economic developments in the automotive industry and especially among its core customers.

The Group must safeguard itself against general market risks in the future as well. Its well-known position as a direct supplier of major automotive manufacturers and its successful business relationships with these companies over many years significantly limit these risks, however. Existing customer contacts also create considerable opportunities for placing additional products in the traditional business segments, as well as the new areas of Electromobility and Body Works Kinematics.

At the time that the annual financial statements as of December 31, 2013 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 with previous balance sheet dates, no provisions for income taxes associated with recapitalization gains were recorded as of December 31, 2013. This decision was

based on the premise that, for reasons of equity, income taxes on the recapitalization gains in 2010 will be exempted after deduction of the income tax loss carryforwards pursuant to the decree by the Ministry of Finance dated March 27, 2003 (BStBl 2003 I p. 240 et seq.). If the exemption from income tax on this recapitalization gain fails to materialize, the payable income taxes would amount to approximately EUR 6.0 million, which would result in a significant impairment of the Group's net assets, financial position, and earnings.

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

E. Forecast Report

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

Development of the General Economy and the Industry

The German Council of Economic Experts is presuming an increase in global production of 3.0% for the global economy in 2014, compared to 2.2% in 2013. The Institut für Weltwirtschaft (Institute for the Global Economy) in Kiel even expects 3.7% growth for the current year. The Institute envisages growth in GDP for the United States in the coming two years, with rates of 2.3% and 3%, respectively, and also expects an increasing recovery in the euro zone. It projects that the business cycle here will initially remain comparatively subdued as a result of consolidation processes, with correspondingly weak domestic demand. Economic activity should gradually gain momentum, however. The business climate should also gradually improve in the crisis countries. Total economic output within the euro zone is projected to increase by 0.9% in 2014. Finally, the Institute is projecting a moderate increase in dynamics in the emerging countries. Nevertheless, the Institute does not expect a return to the high rates of expansion that existed prior to the financial crisis, and even presumes that China's GDP growth will continue to decline slightly in the coming year and in 2015.

The German Council of Economic Experts expects the German economy to grow more strongly in 2014 than in 2013, and estimates a 1.6% increase in GDP in its annual report. According to the assessment, this upswing will be

driven primarily by domestic demand. For example, the low point in equipment expenditures was reached at the middle of 2013, and an increase of 6.2% is expected for 2014. Because of a stronger trend in imports, net exports should tend to make a negative contribution to growth.

According to the German Association of the Automotive Industry (VDA), the global automotive market experienced positive growth in 2013, growing by 5% to 72.2 million units. This growth was driven primarily by the two large markets of the USA and China, which increased by 5% and 21%, respectively. Western Europe, on the other hand, continued to experience slow recovery following several difficult years. The German market grew only at a restrained pace, with a 5% drop in new registrations. The VDA is projecting a 3% growth in the global market to 74.7 million automobiles for 2014 as well. Practically all relevant markets are expected to see positive trends, with the greatest growth still expected in China and USA. Western Europe is also expected to see a slight boost, however. The sustained structural change in the global market is clear: For China alone, with expected growth rising from 8.4 million units in 2009 to 17.1 million in 2014, the share in the global is projected to grow from 15% to 23%. The USA would still be able to increase its share from 19% to 21% during the same period, while Western Europe's share would drop from 25% to 16%. On the whole, however, the VDA is optimistic that the Western European market can once again generate slight growth in the future.

Despite the generally positive outlook for the global economy and the euro zone, the ongoing euro and national debt crisis continues to throw a shadow of uncertainty over the entire economy and thus the automotive industry as well.

Corporate Development

paragon was able to meet the Managing Board's forecast in fiscal 2013. As announced, the Group was able to achieve sales revenue growth of 4.9% to EUR 73.9 million in a heterogeneous automotive market, in which

paragon's core customers managed to reach record figures while other manufacturers struggled with significant sales problems. The EBIT margin remains in the double-digit range at 10.7% and the equity-to-assets ratio further improved with an increase to 30.6%. A strong fourth quarter was primarily responsible for this favorable trend, as even full-year development costs incurred for a period of less than one year were billed to customers as expected.

paragon is expecting continued positive growth for the current fiscal 2014 in accordance with the assessment of the Managing Board. Specifically, the Group is expecting sales growth of some 8% to approximately EUR 80 million. On the earnings side, the Managing Board of paragon AG is expecting an EBIT margin of approximately 10% for 2014 based upon sales revenues, which is therefore close to the result for the prior year.

All business segments are expected to contribute to this result, with the highest percentages of growth expected in the still-young business segments of Electromobility and Body Works Kinematics and an increase in the corresponding shares of total sales. These two business segments already increased their share in sales almost 20-fold to a total of 10% in 2013. Both business segments will continue to gain importance in 2014, even though growth is expected in the other business segments as well. A jump in sales in 2015 of up to 20% over 2014 is possible, primarily because of existing orders for battery packs.

Fiscal 2014 started on a successful note. Similar to the current reports from OEMs such as Daimler, VW, Audi, Porsche, and BMW, paragon was able to achieve higher sales compared to the same months of the previous year, even in January and February. This trend will strengthen even further in March, and thus an increase in sales of at least 15% in the first quarter of 2014 compared to the same quarter of the prior year is realistic. The products driving sales in existing business are analog clocks and stopwatches for Porsche and the backup camera for Daimler. The AQS air quality sensor product

group, which is being used in an increasing number of models, also reported a significant increase in sales. A similarly positive trend was seen in new business at the beginning of the year. The successful market introduction of the Porsche Macan will also have a positive influence on sales at paragon thanks to the power liftgate switch. paragon was also able to acquire an order for a rear climate control unit from a German premium manufacturer at the beginning of the year. The start of production is scheduled for August 2015. The annual order volume is EUR 1.3 million, and a possible expansion of production in Asia would further increase the order value.

The Electromobility business segment will also be the focus of strategic efforts throughout the year. For example, the US market will be cultivated with its own strategy and its own brand through a plant production site in Texas, and the Group's collaboration with Vossloh Kiepe will be further developed. International expansion should be continued in 2015 with a production site in Mexico, which paragon will implement with a partner. The Group has already received orders for this production site from an important premium manufacturer. This will primarily benefit the Acoustics business segment. Another goal of paragon is to develop the important Chinese market on site, including through the existing sales office in Shanghai. In the Cockpit business segment, a new strategic concept will be developed and implemented with a partner. In the Sensors business segment, development orders received last year from a German and an American OEM for the AQI air quality improvement system will be implemented in 2014. The start of serial production for these products is scheduled for the end of 2015. In the Body Works Kinematics business segment, the successes of the past fiscal year should be continued; here paragon is expecting further discussions on orders for spoilers and rear wing drives.

F. Information Relevant to Takeover pursuant to Section 315 (4) of the German Commercial Code (HGB)

Pursuant to the provisions of Section 315 (4) of the German Commercial Code, paragon AG provides the following comments:

Capital

paragon AG's share capital as of December 31, 2013 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 for the past fiscal year. There are no shares with special rights conferring powers of control. 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 through the 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 the stock option plan in the same resolution of the Annual General Meeting. Furthermore, a conditional increase of EUR 1,647,394 in share capital through the 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, with the consent of the Supervisory Board, to issue at one or several points in time up to and including May 8, 2017, 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 was 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.

The Managing Board is further authorized, with the consent of the Supervisory Board, to increase the share capital of the Company at one or several points in time up to May 8, 2017, by up to a total of EUR 2,057,394.00 by means of cash contributions and/or contributions in kind through the issue of up to 2,057,394 new bearer shares with no par value (common shares) (authorized capital 2012/1). Generally, shareholders must be granted subscription rights. Nevertheless, the Managing Board is authorized, with the consent of the Supervisory Board, to exclude the statutory subscription right of the shareholders in the cases specified in Article 5 (6) of the issuer's Articles of Incorporation in the version of May 9, 2012.

Change of Control

Subject to the condition of a change of control resulting from a takeover bid, no agreement existed within the Company's Managing Board contracts to the effect that the Managing Board will be indemnified under certain conditions.

G. 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](http://www.paragon.ag/Investor_Relations/Corporate_Governance).

Disclaimer

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

Delbrück, February 26, 2014



Klaus Dieter Frers
Chairman of the Managing Board

Responsibility statement

"To the best of my knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements for the fiscal year from January 1 to December 31, 2013 give a true and fair view of the assets, liabilities, financial position and profit or loss of paragon, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with paragon's expected development."

Klaus Dieter Frers
Chairman of the Managing Board

Consolidated Balance Sheet of paragon AG, Delbrück, as of December 31, 2013, in accordance with IFRS

in EUR thousands	Notes	Dec. 31, 2013	Dec. 31, 2012
Assets			
Non-current assets			
Intangible assets	D (1)	5,602	4,914
Property, plant and equipment	D (2)	12,984	13,537
Financial assets		120	0
Other assets		128	122
Deferred tax assets	C (9)	0	4
Total non-current assets		18,834	18,577
Current assets			
Inventories	D (4)	7,469	7,313
Trade receivables	D (5)	6,036	1,792
Income tax claims		504	483
Other assets	D (6)	1,447	1,717
Cash and cash equivalents	D (7)	17,647	14,083
Total current assets		33,103	25,388
Total assets		51,937	43,965
Equity and liabilities			
Equity			
Subscribed capital	D (8)	4,115	4,115
Capital reserve	D (8)	2,450	2,450
Revaluation deficit	D (8)	- 446	- 803
Profit carried forward		5,826	2,631
Net income		3,949	4,635
Currency translation differences		- 1	0
Total equity		15,893	13,028
Non-current provisions and liabilities			
Non-current lease obligations	D (9)	298	239
Non-current borrowings	D (10)	10,178	12,024
Non-current bonds		9,730	0
Investment grants	D (14)	1,496	2,091
Deferred tax liabilities		938	0
Pension provisions	D (12)	1,224	2,726
Total non-current provisions and liabilities		23,864	17,080
Current provisions and liabilities			
Current portion of lease obligations	D (9)	669	319
Current loans and current portion of non-current borrowings	D (10)	2,186	2,070
Trade payables	D (17), D (18)	3,357	3,042
Other provisions	D (15)	55	301
Income tax liabilities	D (16)	57	425
Other current liabilities	D (13)	5,856	7,700
Total current provisions and liabilities		12,180	13,857
Total equity and liabilities		51,937	43,965

Consolidated Statement of Comprehensive Income of paragon AG, Delbrück,
for the period from January 1, 2013 to December 31, 2013, in accordance with IFRS

in EUR thousands	Notes	Jan. 1 - Dec. 31, 2013	Jan. 1 - Dec. 31, 2012
Sales revenue	C (1), D (22)	73,879	70,446
Other operating income	C (2)	1,097	2,015
Increase or decrease in inventory of finished goods and work in progress		257	567
Other own work capitalized	C (3)	1,676	2,025
Total operating performance		76,909	75,053
Cost of materials	C (4)	- 36,268	- 36,952
Gross profit		40,641	38,101
Personnel expenses	C (5)	- 19,604	- 18,854
Depreciation of property, plant and equipment and amortization of intangible assets	C (7)	- 4,309	- 3,885
Impairment of property, plant and equipment and intangible assets	D (1)	- 268	- 135
Other operating expenses	C (6)	- 8,537	- 7,540
Earnings before interest and taxes (EBIT)		7,923	7,777
Financial income	C (8)	34	44
Finance costs	C (8)	- 1,524	- 1,121
Financial result		- 1,490	- 1,077
Earnings before taxes (EBT)		6,434	6,700
Income taxes	C (9)	- 2,485	- 2,065
Net income		3,948	4,635
Earnings per share (basic)	C (10)	0.96	1.13
Earnings per share (diluted)	C (10)	0.96	1.13
Average number of shares outstanding (basic)	C (10)	4,114,788	4,114,788
Average number of shares outstanding (diluted)	C (10)	4,114,788	4,114,788
Other comprehensive income			
Actuarial gains and losses	D (12)	357	- 376
Comprehensive income		4,305	4,259

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

in EUR thousands	Notes	Jan. 1 – Dec. 31, 2013		Jan. 1 – Dec. 31, 2012	
Earnings before income taxes		6,434		6,700	
Depreciation/amortization of non-current assets		4,309		3,885	
Financial result		1,490		1,077	
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets		- 6		0	
Increase (+), decrease (-) in other provisions and pension provisions		62		- 239	
Income from the reversal of the special item for investment grants		- 595		- 619	
Other non-cash income and expense		- 92		- 108	
Increase (-), decrease (+) in trade receivables, other receivables and other assets		- 3,979		- 1,647	
Impairment of intangible assets		268		135	
Increase (-), decrease (+) in inventories		- 156		- 448	
Increase (+), decrease (-) in trade payables and other liabilities		712		475	
Interest paid		- 1,415		- 1,011	
Income taxes		- 1,932		- 2,396	
Cash flow from operating activities	D (21)		5,100		5,804
Cash receipts from disposals of property, plant and equipment		24		32	
Cash payments to acquire property, plant and equipment		- 2,335		- 2,691	
Cash payments to acquire intangible assets		- 2,411		- 2,803	
Cash payments for investments in financial assets		- 120		- 800	
Cash inflow/outflow from investment grants		0		70	
Interest received		32		41	
Cash flow from investing activities	D (21)		- 4,810		- 6,151
Distribution to owners		- 1,440		0	
Cash repayments of borrowings		- 2,081		- 2,822	
Amounts paid on insolvency ratio		- 2,707		0	
Cash proceeds from issuing loans		350		2,171	
Cash repayments for liabilities from finance leases		- 159		- 249	
Net cash proceeds from the issuance of bonds		9,310		0	
Cash flow from financing activities	D (21)		3,273		- 900
Cash-effective change in liquidity		3,563		- 1,247	
Cash and cash equivalents at beginning of period		14,083		15,330	
Cash and cash equivalents at end of period	D (7), D (21)	17,647		14,083	

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

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

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

Shares held by members of the Managing and Supervisory Boards as at Dec. 31, 2013

Capital stock: 4,114,788 shares

Shares as of Dec. 31, 2013

Managing Board, total	2,111,730
Supervisory Board, total	7,000
Boards, total	2,118,730
as % of share capital	51.49

A. Information on paragon AG

(1) General information

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

The Managing Board of paragon AG released the consolidated financial statements as of December 31, 2013 and the management report for the period from January 1 to December 31, 2013 to the Supervisory Board on February 26, 2014.

The consolidated financial statements prepared for the period from January 1 to December 31, 2013, 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) as part of the annual report.

B. Basis of accounting and accounting policies

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

The consolidated financial statements of paragon AG as of December 31, 2013 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).

As the Group did not yet exist as of January 1, 2013, the prior year figures, which were established according to IFRS as applicable in the EU and the supplementary provisions of Section 325 (2a) of the German Commercial Code (HGB), are presented in the single-entity financial statements of paragon AG as of December 31, 2012, which have been furnished with an unqualified auditor's report.

(2) Going concern

The financial statements for the reporting period from January 1 to December 31, 2013 were prepared under the going concern assumption. The carrying amounts of assets and liabilities were therefore determined on the basis of going concern values.

(3) Events after the balance sheet date

The consolidated financial statements are prepared on the basis of the circumstances existing as of the balance sheet date. In accordance with IAS 10.7, events after the reporting period include all events up to the date when the consolidated financial statements are authorized for issue. The consolidated financial statements as of December 31, 2013 were authorized for issue by the Managing Board and submitted to the Supervisory Board for signing on February 26, 2014. 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:

A portion of the pension obligations was transferred to Allianz Pensionsfonds AG based on an agreement dated December 5, 2013. The one-off payment made in this context in the amount of EUR 1,453 thousand was paid on January 13, 2014.

Please refer to the disclosures set out in section D.11 "Provisions for pensions."

In connection with the strategic restructuring of our business segments, the Electromobility segment will be transferred to the existing company Voltabox Deutschland GmbH. The managing director of Voltabox Deutschland GmbH is Klaus Dieter Frers. Voltabox Deutschland GmbH will be a wholly owned investment of paragon AG.

Voltabox of Texas, Inc. is currently being founded in the US. Klaus Dieter Frers is also the CEO and president of that company, which will also be a wholly owned investment of paragon AG, either directly or indirectly.

Effective April 1, 2014, the Managing Board will be expanded through the introduction of a new Chief Technology Officer (CTO) to the Board.

On March 3, 2014 (settlement date), paragon AG placed an additional tranche of the corporate bond it issued in July 2013 (ISIN: DE000A1TND93 / WKN: A1TND9). With a volume of EUR 3.0 million, the issue was placed privately with institutional investors. The issue price was 102.5%, increasing the total placed volume of the bond (forecasted to be up to EUR 20 million) to EUR 13.0 million. The additional funds generated will likely mainly be used to finance further expansion in our Body Works Kinematics and Electromobility business segments.

(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, 2013:

- 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. The European Union has endorsed the amendments. The amendment is not expected to have a significant impact on the consolidated 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 did not have an significant impact on the consolidated 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. The amendments have been applied since January 1, 2013.

- 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 opted for early application of the amended version of IAS 19 already in fiscal year 2012.

- In June of 2011, the IASB and the FASB adopted the amendments to IAS 1 – Presentation of Financial Statements. The changes are designed to improve the presentation of OCI (other comprehensive income) and to harmonize the presentations under IFRS and US-GAAP. OCI is to be broken down into items which may be "recycled" and those which will not be. Tax associated with the items presented before tax must also be shown separately. Recognition of these items is covered in a separate standard. The IASB hopes to achieve greater consistency and better comparability of financial statements with these amendments. Application of the amendments to IAS 1 is mandatory for fiscal years starting on or after July 1, 2012. The European Union endorsed the amendments on June 5, 2012. The amendments have been applied since January 1, 2013.

- 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. The amendment did not have a significant impact on the consolidated financial statements.
 - In 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. The European Union endorsed the amendments on December 13, 2012. Disclosure of the additional information is mandatory for fiscal years or interim periods beginning on or after January 1, 2013. The amendments have been applied since January 1, 2013.
 - 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 endorsed the amendments on November 20, 2013, and April 4, 2013. The amendment did not have a significant impact on the consolidated financial statements.
 - 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 European Commission endorsed the amendments on March 27, 2013. The amendments have been applied since 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 endorsed the amendments on March 4, 2013. The amendment did not have a significant impact on the consolidated financial statements.
- As of the date the financial statements for the reporting period from January 1 to December 31, 2013 were prepared, the following standards and interpretations had already been issued, but were not required to be applied and/or had not been endorsed by the EU:
- In November of 2009, the IASB published IFRS 9 – Financial Instruments. Together with two further amendments, 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 IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, and IFRS 12 – Disclosure of Interests in Other Entities as well as two revised standards: IAS 27 – Consolidated and Separate Financial Statements and IAS 28 – Investments in Associates. IFRS 10 results in the implementation of a single consolidation model and is based on the current principles for identifying the controlling influence according to which a subsidiary should be included in the scope of consolidation of a parent company. Furthermore, the standard provides additional guidelines that are designed to help in determining the controlling influence. SIC-12 – Consolidation – Special Purpose Entities and parts of IAS 27 were replaced by the introduction of IFRS 10. IFRS 11 is intended to place focus on the rights and obligations involved in a joint arrangement and enable the accounting presentation to better reflect reality. At present, the standard permits only one accounting method for joint arrangements. Once IFRS 11 takes effect, it will supersede SIC-13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers and IAS 31 – Interests in Joint Ventures; therefore proportionate consolidation will no longer apply. Changes in terminology and the instances in which equity accounting is to be performed in accordance with IAS 28 should be observed. IFRS 12 is a new standard specifying the requirements for making disclosures in the notes for all types of interests in other entities, including joint arrangements, associates, special-purpose entities and other off balance sheet instruments. The new standard is mandatory for fiscal years starting on or after January 1, 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 consolidated financial statements.
- In 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 off-set 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. The amendments will have no effect on the consolidated 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 consolidated financial statements.
- In May of 2013, the IASB published an amendment to IAS 36 set out in "Recoverable Amount Disclosures for Non-Financial Assets." As a follow-up amendment to IFRS 13 – Fair Value Measurement, a disclosure requirement was introduced in IAS 36.134(c) pursuant to which the recoverable amount has to be disclosed for all cash-generating units to which a significant amount of goodwill has been allocated. This disclosure requirement is highly controversial because, in particular circumstances, this requirement may result in a company having to disclose its enterprise value, for example when the entire company consists of one cash-generating unit and a significant amount of goodwill is recognized. As a result of this provision, it may also be required to disclose the recoverable amount of individual segments in case the segments represent cash-generating units to which goodwill has been allocated. The amendment restricts the disclosure requirement with respect to recoverable amounts. Disclosure is only necessary for assets and cash-generating units when an impairment loss is recorded or reversed in the current period (IAS 36.130(e)). Moreover, the disclosure requirements were amended and clarification on these was provided for cases where an asset is impaired and the recoverable amount was determined using the fair value less costs to sell. The amendments are required to be applied retrospectively for fiscal years beginning on or after January 1, 2014. Earlier application is permitted, provided that IFRS 13 is also applied. The amendments will have no effect on the consolidated financial statements.
- In May of 2013, the IASB published IFRIC 21 – Levies. The interpretation refers to levies imposed by a government entity that do not fall within the scope of another IFRS and clarifies how and, in particular, when such obligations have to be recognized as a liability in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 is required to be applied for the first time for fiscal years beginning on or after January 1, 2014. The requirements have to be applied retrospectively. Earlier application is permitted. IFRIC 21 will have no effect on the consolidated financial statements.

(5) Scope of consolidation

Name and registered office of the company	Shareholding	Consolidation method	Sales in local currency (prior to consolidation)
Germany			
paragon AG, Delbrück	not applicable	Parent	73,878,847 €
KarTec GmbH, Forchheim	100 %	Full consolidation	143,888 €
China			
paragon Automotive Technology (Shanghai) Co., Ltd.	100 %	Full consolidation	0 €

Scope of consolidation

The scope of consolidation includes the parent company (paragon AG, Delbrück) and, for the first time, two subsidiaries which are included by way of full consolidation. Accordingly, paragon AG prepared consolidated financial statements as of December 31, 2013. The balance sheet date for all companies is December 31. The scope of consolidation as well as the shareholding are set out in the table above.

Consolidation methods

The consolidated financial statements are based on the separate financial statements of the companies included in the consolidated Group. These separate financial statements were prepared using uniform policies under IFRS as of December 31, 2013. The point of departure for paragon AG's IFRS adjusting entries was the audited single-entity financial statements of paragon AG as of December 31, 2013.

Consolidation is based on the purchase method in accordance with IAS 27.22 in conjunction with IFRS 3. Recognition of the investments in affiliated companies at their carrying amount at the parent is replaced by the fair values of the assets and liabilities of the companies included. In this way, the equity of the subsidiaries is compared with the carrying amount of the shares at the parent company. Any

remaining excess from consolidation is reported as goodwill under non-current assets and is tested annually for impairment in accordance with IFRS 3 in conjunction with IAS 36.

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

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

(6) Currency translation

In the 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 18 thousand (prior year: EUR 24 thousand) and exchange rate gains in the amount of EUR 24 thousand (prior year: EUR 22 thousand) are recognized in the consolidated statement of comprehensive income. These exchange rate differences are contained in other operating expenses or other operating income.

Foreign currency for 1 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
	01-12/2013		01-12/2012	
U.S. dollar (USD)	1.3768	1.3279	1.3186	1.2850

(7) Accounting policies

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 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. The adjustments are explained in Note 11 Provisions for pensions.

The consolidated 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, 2013. Individual items in the consolidated balance sheet and the consolidated statement of comprehensive income have been combined in order to provide better clarity and transparency. Where this has occurred, the items are explained individually in the notes to the financial statements. The consolidated statement of comprehensive income continues to be structured in accordance with the total cost (nature of expense) method. The balance sheet makes a distinction between non-current and current assets and liabilities; these are broken down in detail by maturity in the notes. Assets and liabilities are recognized as current if they mature within one year.

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

Intangible assets

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

Research costs are recognized as expenses in the period in which they are incurred. Development costs arising in connection with the development of patents and client-specific solutions are recognized as intangible assets at cost, provided the unambiguous attribution of expenses required by IAS 38 is possible, technical feasibility and

marketability / usability are assured, and the anticipated realization of future economic benefit has been demonstrated. Cost comprises all costs directly and indirectly attributable to the development process, as well as necessary portions of project-related overhead costs. If the asset recognition requirements have not been fulfilled, development costs are recognized immediately in income within other operating expenses in the year in which they are incurred. After their initial recognition, development costs are entered in the balance sheet at cost less cumulative amortization and cumulative impairment losses.

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

The useful lives for internal development costs correspond to the 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 carry-

ing amounts) are shown in the consolidated statement of comprehensive income under other operating income or other operating expenses. All residual values, useful lives, and depreciation methods are reviewed annually and adapted as necessary.

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

Leases

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

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

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

A sale-and-leaseback transaction involves the sale of an asset owned and used by the future lessee to the lessor and the subsequent continued use of the asset by the lessee under a lease agreement. In this respect, two economically interdependent agreements are involved (purchase agreement and lease agreement). The transaction is recorded in the balance sheet 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 scheduled depreciation/amortization into account if no impairment loss had been recorded for the asset in earlier years.

Financial instruments

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

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

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

Financial liabilities generally refer to contractual obligations to deliver cash or another financial asset. 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 consolidated financial statements 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 can 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.

In the first quarter of 2013, the Company decided, in accordance with the applicable reporting principles, to reduce the measurement deduction of 100% for individual groups of spare parts. This was implemented to reflect the actual pattern of release orders from customers in relation to spare parts which have to be held in stock by the customers. The deductions were adjusted with reference to the age of spare parts to 25% (older than 12 months) and 100% (older than 48 months), resulting in an overall measurement deduction of approximately 59%. The effect of adjusting the age scale amounted to an expense of EUR 95 thousand in 2013.

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). As of December 31, 2013, the Company showed receivables relating to the factoring agreement of EUR 5,587 thousand (prior year: EUR 4,115 thousand) under cash and cash equivalents.

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 deficit.

The projected unit credit method not only takes into account the pension benefits and benefit entitlements known as of the balance sheet date, but also the increases in salaries and pension benefits to be expected in the future by estimating relevant influencing factors. The calculation is based on actuarial opinions, taking into account biometric principles. Amounts not yet recorded in the balance sheet arise from actuarial gains and losses due to changes in inventory and differences between the assumptions made and actual developments. Actuarial gains and losses occurring in the reporting period are recognized in 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. 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 development services are recognized on the basis of the stage of completion on the reporting date (percentage of completion method).

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.

(8) Use of estimates and assumptions

Preparation of the consolidated financial statements in accordance with IFRS requires assumptions and estimates to be made that impact 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.

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, 2013 at a combined income tax rate of 29.8% (prior year: 29.8%). This includes a corporate tax rate of 15% and a solidarity surcharge of 5.5%. The income tax rate also reflects trade tax, taking into account the breakdown of the trade tax assessment rates among the municipalities in which the Company's branches are located.

Provisions for pensions

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

With respect to measurement as of December 31, 2013, the discount rate decreased from 4.00% on December 31, 2012 to 3.75% in anticipation of the long-term trend in market interest rates.

Furthermore, compared with the previous year the actuarial calculations continue to be based on a salary trend of 0% since 2009 and a pension trend of 2.00%.

C. Notes on individual items of the consolidated 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 73,879 thousand (prior year: EUR 70,446 thousand), domestic sales accounted for EUR 55,785 thousand (prior year: EUR 49,699 thousand) and foreign sales for EUR 18,094 thousand (prior year: EUR 20,747 thousand).

In the period under review, other sales revenues generated in connection with development services came to EUR 8,087 thousand (prior year: EUR 3,797 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 595 thousand (prior year: EUR 619 thousand), income from the use of company cars by employees of EUR 231 thousand (prior year: EUR 171 thousand) and income from the reversal of specific valuation allowances of EUR 9 thousand (prior year: EUR 30 thousand). In addition, this item includes other income from government assistance and government grants, from retired assets, other provisions and exchange rate differences

(3) Other own work capitalized

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	Jan. 1 - Dec. 31, 2013	Jan. 1 - Dec. 31, 2012
Project-related development costs	1,518	1,742
Cost of test equipment	158	283
Other own work capitalized	1,676	2,025

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

in EUR thousands	ACQUISITION COST					DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES					CARRYING AMOUNTS		
	Jan. 1, 2012	Additions	Disposals	Reclas-sifications	Dec. 31, 2012	Jan. 1, 2012	Additions	Impairments	Disposals	Reclas-sifications	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 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.

Statement of non-current assets for the AG pursuant to IFRS as of December 31, 2013

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

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

(4) Cost of materials

in EUR thousands	Jan. 1 - Dec. 31, 2013	Jan. 1 - Dec. 31, 2012
Raw materials and supplies	33,497	34,016
Cost of purchased services	2,771	2,936
Cost of materials	36,268	36,952

(5) Personnel expense

Personnel expense amounted to EUR 19,604 thousand in the period under review (prior year: EUR 18,854 thousand) and can be broken down as follows:

in EUR thousands	Jan. 1 - Dec. 31, 2013	Jan. 1 - Dec. 31, 2012
Wages and salaries	15,162	14,622
Social security contributions / pension expenses	2,804	2,351
Expenses for temporary staff	1,638	1,881
Personnel expense	19,604	18,854

Personnel levels changed as follows compared to the previous year:

	Jan. 1 - Dec. 31, 2013	Jan. 1 - Dec. 31, 2012
Salaried employees	190	182
Wage-earning employees	179	182
Average number of employees	369	364

(6) Other operating expenses

Other operating expense relates chiefly to costs of building rent and energy costs (EUR 2,416 thousand, prior year: EUR 1,820 thousand), IT and phone costs (EUR 993 thousand, prior year: EUR 723 thousand), vehicle costs (EUR 715 thousand, prior year: EUR 683 thousand), maintenance costs (EUR 614 thousand, prior year: EUR 614 thousand), legal and consulting costs (EUR 370 thousand, prior year: EUR 485 thousand), advertising and marketing costs (EUR 366 thousand, prior year: EUR 270 thousand), and plant insurance and leasing costs (EUR 309 thousand, prior year: EUR 261 thousand). Other taxes recorded under other operating expenses during the period under review amounted to EUR 25 thousand (prior year: EUR 31 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 of non-current assets.

(8) Financial result

in EUR thousands	Jan. 1 - Dec. 31, 2013	Jan. 1 - Dec. 31, 2012
Financial income	34	44
Interest income	34	44
Finance costs	- 1,523	- 1,121
Other finance costs and interest expense	- 1,523	- 1,121
Financial result	- 1,489	- 1,077

Interest expenses owed to banks of EUR 1,078 thousand (prior year: EUR 822 thousand) are reported in other financing and interest expenses.

(9) Income taxes

in EUR thousands	Jan. 1 - Dec. 31, 2013	Jan. 1 - Dec. 31, 2012
Current taxes	1,695	1,479
Current domestic taxes	1,695	1,479
Current taxes	790	586
Deferred domestic taxes	790	586
Income taxes	2,485	2,065

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

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	Dec. 31, 2013		Dec. 31, 2012	
	De-ferred tax assets	De-ferred tax liabilities	De-ferred tax assets	De-ferred tax liabilities
Intangible assets	0	1,061	0	753
Property, plant and equipment	308	0	316	0
Receivables and other assets	311	541	152	298
Provisions for pensions	234	0	587	0
Bonds	0	188	0	0
Deferred tax assets and liabilities prior to offsetting	853	1,790	1,055	1,051
Offset	- 853	- 853	- 1,051	- 1,051
Deferred tax assets and liabilities after offsetting	0	973	4	0

The increase in deferred tax liabilities of EUR 739 thousand is primarily the result of capitalization of development costs for intangible assets undertaken during the year under review (EUR 306 thousand), carrying amount differences related to bonds issued in 2013 (EUR 188 thousand) as well as carrying amount differences in trade receivables (EUR 243 thousand). The decline in deferred tax assets in the amount of EUR 202 thousand mainly results from the reduction in carrying amount differences in pension provisions (EUR 353 thousand). The increase of carrying amount differences in other assets (EUR 159 thousand) and in property, plant and equipment (EUR 8 thousand) had a compensating effect. In the reporting period, of the total amount of deferred tax assets, EUR 151 thousand (prior year: EUR -160 thousand) were reported directly in equity in the revaluation deficit. 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	Jan. 1 - Dec. 31, 2013	Jan. 1 - Dec. 31, 2012
Net income for the period before income taxes	6,434	6,700
Calculatory tax expense at a tax rate of 29.8% (prior year: 29.8%)	1,917	1,997
Prior-period tax expenses	154	92
Non-deductible expenses and tax-free income	155	- 25
Tax effect from the partial transfer of pension obligations	259	0
Others	0	1
Current tax expense	2,485	2,065

(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 3,949 thousand (prior year: EUR 4,635 thousand), the basic earnings per share amount to EUR 0.96 (prior year: EUR 1.13).

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, 2013.

D. Notes on individual items of the consolidated balance sheet

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

(1) Intangible assets

Capitalized development costs

Development costs of EUR 3,562 thousand (prior year: EUR 2,508 thousand) have been capitalized under intangible assets. Total development costs for the period amounted to EUR 7,075 thousand (prior year: EUR 7,648 thousand). Of this amount, internal development costs of EUR 1,518 thousand (prior year: EUR 1,742 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 215 thousand (prior year: EUR 86 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 268 thousand in the year under review (prior year: EUR 135 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 4%.

(2) Property, plant and equipment

Depreciation and impairment losses during the period under review amounted to EUR 2,870 thousand (prior year: EUR 2,827 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 1,110 thousand as of December 31, 2013 (prior year: EUR 677 thousand). The corresponding payment obligations from future lease installments amounted to EUR 967 thousand (prior year: EUR 558 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 1,442 thousand in the reporting year (prior year: EUR 1,575 thousand).

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

(3) Financial assets

As of July 29, 2013, the Company acquired shares in KarTec GmbH, Forchheim, by exercising the put option set out in the purchase agreement subject to conditions precedent. The purchase price was EUR 1,036 thousand. The parties agreed that the purchase price shall be offset against a receivable of paragon AG from a loan granted. In the financial statements as of December 31, 2013, the Company reported equity in the amount of EUR -22 thousand (prior year: EUR 10 thousand) as well as a net loss of EUR 32 thousand (prior year: net loss of EUR 15 thousand).

paragon Automotive Technology Co. Ltd., Shanghai, commenced operations in 2013. The full license applied for under Chinese law was granted January 3, 2014. In the financial statements as of December 31, 2013, the Company reported equity in the amount of EUR 40 thousand (prior year: EUR 0 thousand) as well as a net loss of EUR 112 thousand (prior year: net income of EUR 0 thousand).

On September 19, 2013, paragon AG also acquired a limited partnership interest in the amount of EUR 100 thousand in Bilster Berg Drive Resort GmbH & Co. KG, with its registered office in Bad Driburg, Germany, for a price of EUR 120 thousand.

(4) Inventories

Inventories consist of the following:

in EUR thousands	Dec. 31, 2013	Dec. 31, 2012
Raw materials and supplies	4,178	3,677
Work in process and finished goods and services	3,196	3,615
Advance payments on inventories	95	21
Inventories	7,469	7,313

Extraordinary 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, 2013 (prior year: EUR 0 thousand). As at the balance sheet date, inventories in the amount of EUR 6,075 thousand (prior year: EUR 5,683 thousand) were used as collateral for liabilities.

(5) Trade receivables

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

in EUR thousands	Dec. 31, 2013	Dec. 31, 2012
Trade receivables, gross	6,049	1,814
less impairment losses	- 13	- 22
Trade receivables	6,036	1,792

The increase in the level of receivables as compared to the previous year is due primarily to receivables due from one client, which do not fall under the factoring agreement.

The Group had receivables calculated using the PoC method of EUR 3,743 thousand (prior year: EUR 1,234 thousand). Sales revenues of EUR 2,509 thousand are offset by costs of EUR 2,329 thousand. Overall, the Group received prepayments on PoC projects of EUR 2,061 thousand (prior year: EUR 269 thousand).

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

in EUR thousands	Carrying amount	of which neither impaired nor past due	of which past due but not impaired, as follows			
			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Dec. 31, 2013						
Trade receivables	6,035	4,932	347	159	59	538
Dec. 31, 2012						
Trade receivables	1,789	741	54	31	225	738

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	Dec. 31, 2013	Dec. 31, 2012
Impaired receivables before allowances for losses	14	25
Allowances for losses	- 13	- 22
Impaired receivables after allowances for losses	1	3

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	Dec. 31, 2013	Dec. 31, 2012
Other current assets		
Purchase price retentions from factoring	721	963
Prepaid expenses	263	341
Creditors with debit balances	165	131
Miscellaneous assets	298	282
Other current assets	1,447	1,717

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			
Dec. 31, 2013			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Other current assets	1,447	1,447	0	0	0	0
Dec. 31, 2012			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Other current assets	1,717	1,717	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, 2013.

(7) Cash and cash equivalents

Cash on hand and bank deposits are shown at nominal value. Cash and cash equivalents include EUR 6 thousand (prior year: EUR 11 thousand) in cash on hand and EUR 17,641 thousand (prior year: EUR 14,072 thousand) in bank deposits. Cash and cash equivalents also include the insolvency escrow account in the amount of EUR 342 thousand (prior year: EUR 345 thousand) and the escrow account in the amount of EUR 971 thousand for the insolvency dividend payout (prior year: EUR 3,678 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 consolidated cash flow statement.

(8) Equity

The changes in the individual components of equity for the fiscal year from January 1 to December 31, 2012 and for the reporting period from January 1 to December 31, 2013 are presented in the consolidated statement of changes in equity.

Share capital

paragon AG's share capital as of December 31, 2013 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 seq. of the German Stock Corporation Act (Aktiengesetz, AktG) related to capital increases from capital reserve by transferring an 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 form of a cash distribution in the amount of EUR 0.25 per share currently in issue, the share capital of EUR 5,143,485 - dividend into 4,114,788 bearer shares with an imputed proportion in the share capital of EUR 1.25 each - was reduced pursuant to sections 222 et seq. 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 payout of the amount of the capital reduction totaling EUR 1,028,697 was carried out after registration of the capital reduction on January 3, 2013.

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

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

Conditional capital

Conditional Capital 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 will only be 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 will 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, 2013, the capital reserve amounted to EUR 2,450 thousand (prior year: EUR 2,450 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 deficit

To comply with the requirement to recognize actuarial gains and losses from pension provisions directly in equity in accordance with the revised IAS 19 – Employee Benefits, 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 carried forward to the revaluation deficit. In the reporting period, an amount of EUR -357 thousand after deferred taxes (prior year: EUR 376 thousand) was recognized in the revaluation deficit.

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, 2013.

(9) Finance lease obligations

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

in EUR thousands	Remaining term to maturity < 1 year	Remaining term to maturity between 1 and 5 years	Remaining term to maturity more than 5 years	Dec. 31, 2013	Dec. 31, 2012
Minimum lease payments	335	725	0	1,060	590
Future interest payments	- 37	- 56	0	- 93	- 32
Finance lease obligations (reduction of principal)	298	669	0	967	558
of which reported under non-current liabilities				298	319
of which reported under current liabilities				669	239

(10) Bonds

For the purpose of broadening the global footprint and expanding the existing business areas, the Company completed a public offer for the subscription of bonds in the reporting period. Overall, a volume of EUR 10,000 thousand was placed at private and institutional investors. The bond's term ends on July 2, 2018. The transaction costs incurred in connection with the placement in the amount of EUR 689 thousand are amortized over the term of the bond using the effective interest method in accordance with IAS 39.47. The amount amortized in the reporting year is EUR 57 thousand.

(11) Liabilities to banks

Current and non-current liabilities to banks totaled EUR 12,364 thousand (prior year: EUR 14,094 thousand); collateral for liabilities to banks existed in the amount of EUR 12,364 thousand (prior year: EUR 14,094 thousand).

Liabilities to banks are secured by property charges for loan liabilities in the amount of EUR 7,124 thousand (prior year: EUR 7,693 thousand) and by collateral assignment of property, plant and equipment of EUR 1,690 thousand (prior year: EUR 1,885 thousand) as well as collateral assignment of inventories in the amount of EUR 6,075 thousand (prior year: EUR 5,683 thousand). The previous collateralization of loan liabilities by assigning trade receivables was ended in July of 2011.

Liabilities to banks have the following terms:

in EUR thousands	Remaining term to maturity < 1 year	Remaining term to maturity between 1 and 5 years	Remaining term to maturity more than 5 years	Dec. 31, 2013	Dec. 31, 2012
Liabilities to banks	2,186	4,253	5,925	12,364	14,094
of which reported under non-current liabilities				10,178	12,024
of which reported under current liabilities				2,186	2,070

The interest rates for liabilities to banks range from 2.4% to 6.0% and are fixed for all loans. There is, therefore, no interest rate risk.

(12) 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 the Managing Board member. 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 transferred to HDI Gerling Pensionsfonds in fiscal 2010. Upon the resolution adopted by the Supervisory Board on December 10, 2013, another partial transfer of pension obligations to Allianz Pensionsfonds AG was effected during fiscal year 2013 in the amount of EUR 1,453 thousand.

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 year were reclassified from profit/loss carried forward to the revaluation deficit.

An actuarial gain of EUR 357 thousand (prior year: actuarial loss of EUR 376 thousand) was recognized in other comprehensive income.

The following assumptions underpin the actuarial computations:

in %	Dec. 31, 2013	Dec. 31, 2012
Discount rate	3.75	4.00
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	Dec. 31, 2013	Dec. 31, 2012
Present value of defined benefit obligation at beginning of year	2,726	2,015
Service cost	85	65
Interest cost	109	110
Losses from settlements	265	0
Pension payments	0	0
Settlements	- 1,453	0
Actuarial gains (-), losses (+)	- 508	536
Present value of defined benefit obligation on balance sheet date	1,224	2,726

The actuarial losses incurred in fiscal 2013 were recognized directly in equity in the revaluation deficit in accordance with the revised IAS 19. Changes in demographic assumptions had no effect on the level of actuarial losses in the reporting year.

Net amount of recognized defined benefit obligation:

in EUR thousands	Dec. 31, 2013	Dec. 31, 2012
Present value of defined benefit obligation	1,224	2,726
less fair value of plan assets	0	0
Unfunded defined benefit obligation	1,224	2,726

The net amount changed as follows:

in EUR thousands	Dec. 31, 2013	Dec. 31, 2012
Unfunded defined benefit obligation at beginning of year	2,726	2,015
Pension expense	459	175
Actuarial gains (-), losses (+)	- 508	536
Settlements	- 1,453	0
Contributions paid	0	0
Unfunded defined benefit obligation	1,224	2,726

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

in EUR thousands	Dec. 31, 2013	Dec. 31, 2012
Service cost	85	65
Interest cost	109	110
Losses from settlements	266	0
Expected return (-) on plan assets	0	0
Actuarial gains (-) / losses (+)	- 508	536
Pension expense	- 48	711

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

Notes to the Financial Statements

In the 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	Dec. 31, 2013	Dec. 31, 2012
Present value of defined benefit obligation	1,224	2,726
less fair value of plan assets	0	0
Unfunded defined benefit obligation	1,224	2,726

Disclosures on sensitivities and risks:

in EUR thousands	Dec. 31, 2013	Dec. 31, 2012
DBO as of Dec. 31, 2013, interest rate 3.5% (prior year: 3.75%)	1,275	2,846
DBO as of Dec. 31, 2013, interest rate 4.00% (prior year: 4.25%)	1,175	2,612
DBO as of Dec. 31, 2013, pension increase 1.75% (prior year: 1.75%)	1,187	2,641
DBO as of Dec. 31, 2013, pension increase 2.25% (prior year: 2.25%)	1,262	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.

(13) Other liabilities

Other liabilities include the following items:

in EUR thousands	Dec. 31, 2013	Dec. 31, 2012
Other current liabilities		
Financial liabilities		
Deferred income (provisions)	2,210	2,497
Liabilities from partial transfer of pensions	1,453	0
Old debt measured at insolvency ratio	971	3,678
Other current liabilities	57	35
Liabilities for special distribution of funds	0	1,029
	4,691	7,239
Liabilities from other taxes	1,165	461
Other current liabilities	5,856	7,700

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	Dec. 31, 2013	Dec. 31, 2012
Other liabilities	5,856	0	0	5,856	7,700
of which reported under non-current liabilities				0	0
of which reported under current liabilities				5,856	7,070

(14) Investment grants

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

(15) Other provisions

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

in EUR thousands	Jan 1, 2013	Utilization	Re-versal	Addition	Dec. 31, 2013
Guaranties and ex gratia payments	181	126	0	0	55
Litigation risks	120	105	15	0	0
Other provisions	301	231	15	0	55

(16) Income tax liabilities

This item relates to EUR 28 thousand in trade tax and EUR 29 thousand in corporate income tax for the current reporting period.

(17) Additional disclosures on financial instruments

This section provides a summary of financial instruments employed by paragon AG. The tables below show the carrying amounts (CA) and fair values (FV) of financial assets and financial liabilities as of December 31, 2013 and December 31, 2012:

December 31, 2013

in EUR thousands	Nominal amount		Amortized cost		Fair value			
	Cash reserve		Loans and receivables		Held for trading		Available for sale	
	CA	FV	CA	FV	CA	FV	CA	FV
ASSETS								
Cash and cash equivalents	17,647	17,647						
Trade receivables			6,036	6,036				
Other assets			1,447	1,447				
Financial assets					0	0	0	0
Total assets	17,647	17,647	7,483	7,483	0	0	0	0
EQUITY AND LIABILITIES								
Liabilities to banks			9,730	9,730				
Finance leases			12,364	14,413				
Trade payables			967	983				
Other liabilities			3,357	3,357				
Total equity and liabilities	0	0	22,544	24,609	0	0	0	0

December 31, 2012

in EUR thousands	Nominal amount		Amortized cost		Fair value			
	Cash reserve		Loans and receivables		Held for trading		Available for sale	
	CA	FV	CA	FV	CA	FV	CA	FV
ASSETS								
Cash and cash equivalents	14,083	14,083						
Trade receivables			1,792	1,792				
Other assets			1,716	1,716				
Financial assets					0	0	0	0
Total assets	14,083	14,083	3,508	3,508	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			7,701	7,701				
Total equity and liabilities	0	0	25,395	25,840	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	Jan. 1 - Dec. 31, 2013	Jan. 1 - Dec. 31, 2012
Receivables	15	14
Net gains	15	14

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

Derivative financial instruments

In addition to primary financial instruments, paragon employs various derivative financial instruments as needed. As part of risk management, the Company 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, 2013.

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 Group uses over-the-counter 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 Group 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, 2013 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 Group, 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 Group to identify risk positions in the business units. Sensitivity analyses quantify the risks that can arise within given assumptions when certain parameters are changed in a defined range. They include the following assumptions:

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

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

Foreign currency risk

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

paragon determines the sensitivity of foreign currency fluctuations by aggregating the net currency position of the operating business that is not reflected in the Group's functional currency. Sensitivity is calculated by simulating a 10 percent depreciation of the euro in relation to all foreign currencies. The simulated appreciation of the euro would have resulted in a change in future payment inflows in the amount of EUR 15 thousand as of December 31, 2013 (prior year: EUR 22 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 Group'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, 2013:

in EUR thousands	Dec. 31, 2013		Dec. 31, 2012	
	USD	Other	USD	Other
Transaction-related currency risk				
Currency risk from balance sheet items	136	10	218	2
Currency risk from pending transactions	0	0	0	0
	136	10	218	2
Items economically hedged through derivatives	0	0	0	0
Net exposure to currency risk	136	10	218	2
Change in currency exposure resulting from a 10% appreciation of the euro	14	1	22	0

Interest rate risk

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

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

In the case of financial liabilities with variable interest rates, the interest rate risk is essentially measured by cash-flow sensitivity. As no financial liabilities with variable interest rates existed as of the end of the reporting period on December 31, 2013, 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, 2013, cash and cash equivalents in the amount of EUR 17,647 thousand (prior year: EUR 14,083 thousand) were available to paragon. Free credit lines were available as of December 31, 2013 in the amount of EUR 2,000 thousand. 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, 2013:

in EUR thousands	2014	2015 - 2018	2019 and thereafter
Non-derivative financial liabilities			
Liabilities to banks	2,853	6,027	7,770
Liabilities from finance leases	335	725	0
Trade payables	3,357	0	0
Other financial liabilities	5,856	0	0
Total non-derivative financial liabilities	12,401	6,752	7,770
Derivative financial liabilities	0	0	0
Total	12,401	6,752	7,770

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	Dec. 31, 2013	Dec. 31, 2012
Cash and cash equivalents	17,647	14,083
Total liquidity	17,647	14,083
Current financial liabilities and current portion of non-current financial liabilities	2,855	2,389
Non-current financial liabilities	20,206	12,263
Total financial liabilities	23,061	14,652
Net debt (2011: net debt)	- 5,414	- 569

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 Group 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, 2013, 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, 2013 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	Dec. 31, 2013	Dec. 31, 2012
Capital commitments	18,282	0	0	18,282	12,376
Lease obligations	982	3,267	4,972	9,221	10,150
Other liabilities	512	307	143	962	1,692
Other financial liabilities	19,776	3,574	5,115	28,465	24,218

(21) Notes to the consolidated cash flow statement

In accordance with IAS 7 – Cash Flow Statements, the cash flows occurring during a fiscal year are recorded in the consolidated cash flow statement in order to present information concerning movements in the Company’s cash and cash equivalents. The consolidated 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 consolidated cash flow statement comprise all cash and cash equivalents reported in the balance sheet that are available at short notice.

in EUR thousands	Dec. 31, 2013	Dec. 31, 2012
Bank deposits	17,641	14,072
Cash on hand	6	11
Cash and cash equivalents	17,647	14,083

Cash and cash equivalents also include the escrow account in the amount of EUR 342 thousand (prior year: EUR 345 thousand) and the escrow account “insolvency dividend payout” in the amount of EUR 971 thousand (prior year: EUR 3,678 thousand). Both accounts are under the sole power of disposal of the former insolvency administrator.

(22) Segment reporting

For 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), the St. Georgen site (Cockpit), and Shanghai site (Air Quality). 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 Group-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	Jan. 1 – Dec. 31, 2013	Jan. 1 – Dec. 31, 2012
Delbrück		
Air Quality, Drive Train, Acoustics, Kinematics, Electromobility	46,517	37,187
Nuremberg		
Media Interfaces, Cockpit	23,020	27,894
St. Georgen		
Cockpit	4,342	5,365
Shanghai		
Primarily Air Quality	0	0
Total	73,879	70,446
Reconciliation to total comprehensive income		
Income	3,241	4,606
Expense	- 69,182	- 67,275
Financial result	- 1,504	- 1,077
Income taxes	- 2,485	- 2,065
Net income	3,949	4,635

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 Group. The assignment of revenues from external clients to the individual geographical regions is based on the location of the registered head office of the respective external client.

in EUR thousands	Germany Jan. 1 – Dec. 31, 2013	Germany Jan. 1 – Dec. 31, 2012	EU Jan. 1 – Dec. 31, 2013	EU Jan. 1 – Dec. 31, 2012	Other countries Jan. 1 – Dec. 31, 2013	Other countries Jan. 1 – Dec. 31, 2012	Total Jan. 1 – Dec. 31, 2013	Total Jan. 1 – Dec. 31, 2012
Sales revenues	55,785	49,699	15,261	17,885	2,833	2,862	73,879	70,446
Non-current assets (property, plant and equipment and intangible assets)	18,705	18,451	0	0	0	0	18,705	18,451

A portion of 31.4% (prior year: 33.0%) of sales revenues or EUR 23,208 thousand (prior year: EUR 23,243 thousand) are attributable to one single customer and a further 15.4% (prior year: 18.8%) of sales revenues or EUR 11,380 thousand (prior year: EUR 13,210 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 876 thousand (fiscal year 2012: EUR 1,073 thousand) and includes fixed (EUR 514 thousand; fiscal year 2012: EUR 505 thousand) and variable (EUR 362 thousand; fiscal year 2012: EUR 568 thousand) components. The key variable salary components are geared to EBITDA according to IFRS 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 78 thousand in fiscal 2013 (prior year: EUR 81 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 90 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 shares as of the balance sheet date (prior year: EUR 7,000 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.

As contractually agreed, payments of EUR 665 thousand (prior year: EUR 336 thousand) were made to Frers Grundstückverwaltungs GmbH & Co. KG, Delbrück, and to Artega GmbH & Co. KG in 2013 primarily for building rental costs. Of that amount, EUR 637 thousand (prior year: EUR 286 thousand) related to office buildings in Delbrück.

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

An agreement also existed on the reporting date between the State of Thuringia (represented by Thüringer 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 0 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, 2013, 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	Businessman / Senior Consultant	Supervisory Board Memberships <ul style="list-style-type: none"> • Schaltbau AG, München (Chairman) • Merkur Bank KGaA, München (Chairman until June 19, 2013) • GARANT Schuh + Mode AG, Düsseldorf (Chairman) • ANWR GARANT International AG (December 21, 2012 to April 25, 2013) • Scholz AG, Essingen, Member of the Supervisory Board (since May 2012) Other board memberships <ul style="list-style-type: none"> • ante-holz GmbH, Bromskirchen-Somplar (Chairman of the Advisory Board) • Rheinzink GmbH & Co. KG, Datteln (Member of the Board of Directors)
Hermann Börnemeier	Specialist in Tax Law and Tax Adviser, Managing Director of Treu-Union Treuhandgesellschaft mbH	
Walter Schäfers	Attorney, Partner in Societät Schäfers Rechtsanwälte und Notare	

(25) Share-based payments

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 or December 31, 2013. 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, 2013 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 Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft amounted to EUR 59 thousand (prior year: Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, EUR 63 thousand), as well as EUR 109 thousand for other assurance work.

(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, there were no notifications 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:

(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 21, 2014; shareholders have permanent access to this statement on the Company's website (www.paragon.ag).

Delbrück, February 26, 2014

paragon AG
The Managing Board



Klaus Dieter Frers

We have audited the consolidated financial statements – comprising the balance sheet, the statement of comprehensive income, the statements of changes in equity and cash flows and the notes to the financial statements – and the Group management report prepared by paragon AG for the financial year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as it is to be applied in the EU, and with the provisions given after section 315a (1) of the German Commercial Code (HGB) also to be applied as well as the supplementary provisions of the Articles of Association, is the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report, based on our audit.

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

The audit includes assessing the annual financial statements of companies included in the consolidated financial statements, the delimitation of the consolidated group, the accounting principles and principles of consolidation used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

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

Düsseldorf, 5 March 2014

Baker Tilly Roelfs AG
Wirtschaftsprüfungsgesellschaft
(formerly Rölfs RP AG Wirtschaftsprüfungsgesellschaft)

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