

The background of the cover is a light blue, textured surface. In the center-left, there is a large, semi-transparent image of a sensor lens or camera lens, showing internal components like a lens element and a sensor array. To the right of the lens, there are several thin, white fiber optic cables that appear to be bundled together and extending towards the right edge of the frame. The overall aesthetic is clean, technical, and futuristic.

2005 Annual Report

Key indicators for the paragon Group						Change
	2005	2004	2003	2002	2001	in % 2004 / 2005
Sales in millions of €	80.2	64.7	40.7	38.6	31.9	23.9
Gross profit in millions of €	41.5	29.9	19.4	16.3	11.9	38.8
EBITDA ¹ in millions of €	13.9	10.3	6.2	4.8	2.7	34.5
EBIT ² in millions of €	6.6	5.2	2.9	1.7	0.4	25.9
Net income in millions of €	2.2	2.9	1.4	1.5	0.1	- 21.4
Total assets in millions of €	113.0	64.5	34.4	32.2	26.9	75.3
Equity ³ in millions of €	42.6	22.8	12.1	11.2	10.1	86.7
Equity-to-assets ratio ³ in %	37.7	35.4	35.2	34.8	37.6	—
Liquidity in millions of €	4.8	5.4	2.5	3.8	2.1	- 11.0
Capital expenditure ⁴ in millions of €	29.6	23.1	7.0	4.8	5.6	28.1
R&D expense in millions of €	6.2	2.6	2.0	1.3	1.1	139.2
Number of employees at year-end	527	388	238	216	208	35.8
EBITDA margin ⁵ in %	17.3	16.0	15.2	12.3	8.3	—
EBIT margin ⁵ in %	8.2	8.1	7.2	5.4	1.1	—
Return on sales in %	2.8	4.4	3.4	3.8	0.2	—
Return on equity in %	12.8	14.7	11.3	13.1	0.5	—
Market capitalization at year-end in millions of €	57.2	63.6	39.6	15.8	16.2	- 10.0
Earnings per share in €	0.55	0.71	0.34	0.37	0.01	- 22.5
Dividend (proposed) per share in €	0.20	0.10	—	—	—	100.0

¹ Earnings before interest, taxes and depreciation/amortization

² Earnings before interest and taxes

³ incl. profit-sharing rights capital and dormant participation excl. minority interest

⁴ incl. goodwill

⁵ in proportion to sales

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The year 2005

paragon AG continued its growth course with additional momentum in 2005, with the Automotive segment increasingly becoming the central focus within the paragon Group. Milestones in 2005 included the majority acquisition of the car media specialist, Cullmann GmbH, the autonomy of our subsidiaries, consistent advances in internationalization and the renewed expansion of production capacity at our site in Suhl, Thuringia. In the following interview, Chief Executive Officer Klaus Dieter Frers and Chief Financial Officer Hans-Jürgen John comment on the past year and communicate the priorities for 2006.



CEO Klaus Dieter Frers (left) and CFO Hans-Jürgen John.

A paradigm shift is taking place in the economy. Internal growth is increasingly complimented by growth through acquisitions. Is paragon assuming a pioneering role in this area?

Our primary goal is undoubtedly strong internal growth. Of course, in order to gain market share rapidly in related fields, selective acquisitions can also be very useful. As a company, paragon is characterized by a culture of innovations that conquer the market quickly and achieve high volume sales. So the combination of internal and external growth promises even greater dynamism.

Historically paragon has already demonstrated its ability to rapidly develop new business units. What is your perception of the integration of Cullmann GmbH into the paragon Group?

Due to the size and importance of the company, the Cullmann integration was indeed a special challenge for us, but our knowledge of successful takeovers in the past enabled us to approach the task well-prepared. It quickly became clear that the newly-established paragon fidelity GmbH would be greater than the sum of its parts. An exceptional Car Media Systems center was created from Cullmann and paragon's Communications product group; a center which now contributes substantially to the strength of the Automotive segment.

Since acquisitions to date have been implemented speedily and with positive results, one can certainly imagine further acquisitions. Are there specific plans in this respect or is the acquisition potential exhausted for the time being?

paragon continues to be receptive to growth. If opportunities arise to improve our market position, we will seize them. At the moment there are no specific plans but the situation can change very quickly, however, judging from the past. This is precisely where paragon's strength lies: while people are still talking elsewhere, we have already taken action.

The Automotive segment has been growing significantly faster than the other segments for years now. Given the general situation in the automotive industry, do you see advantages in this or problems?

Of course we cannot change the environment in the automotive industry. In contrast to other suppliers, however, we pursue a strategy of developing products that no-one else is thinking about yet. Once we are in the market, our position remains initially unchallenged. So we experience less price pressures than other suppliers who manufacture parts for vehicles that are in no way unique. Our strengths are new functions and additional benefits for the end customer.

What role do the Electronic Solutions and Building Technology segments play in this connection?

The Electronic Solutions segment reflects paragon's core competencies. Our ability to deliver sophisticated electronic solutions for complex tasks benefits not only our industrial customers, as all the divisions profit from the extensive know-how accumulated in our exemplary manufacturing sites in Suhl, Thuringia, and Grand Rapids, Michigan. The Building Technology segment still offers much potential; we will be able to transfer the technological know-how gained here into other areas of this promising market.

Autonomy given to subsidiaries and personnel expansion at management level are among the obvious changes in the recent past. Are you satisfied with the results to date?

We want paragon to continue to grow, which implicitly requires the continuous improvement and adaptation of the internal organization. The autonomy of our subsidiaries was both a correct and an important step in decentralizing responsibility. The appointment of two additional division directors for Business Administration and Marketing & Sales, whom we selected from our own ranks, has also contributed to this optimization process. These developments show our employees that performance is rewarded at paragon.

Activities at paragon are increasingly marked by globalization. What do you think about the steps towards further internationalization taken during 2005?

We are very pleased with the decision of a French automobile manufacturer to incorporate our air quality sensor AQS in medium-sized cars as of 2007, enabling us to generate higher unit volumes. We are hoping for a permanent foothold in the Asian market as a result of a new alliance formed with the renowned sensor element manufacturer FIS in Japan. In the USA, important progress has been made in terms of expanding Research & Development, Production and Sales.

The paragon Group is also making its mark in car racing – not least with the founding of paragon finesse GmbH. What impact do these activities have on the day-to-day business?

The attributes of dynamism and innovation associated with car racing are a good fit for paragon. Moreover, we can develop additional potential for the whole Group with a manageable level of involvement in this area. Car racing undoubtedly provides the most difficult test environment for new products. We are happy to meet this challenge, particularly where interesting additional product ideas are concerned. Establishing paragon finesse GmbH provides us with an innovation center for future products and solutions within the Automotive segment.

What does the Managing Board forecast for 2006: Will there again be a dividend? And what are the targets for the coming year?

For the first time, the shareholders resolved a dividend payment at the recommendation of the Managing Board during the Annual Meeting in 2005. At that time we stated that shareholders should also participate directly in paragon's profitable growth. We stand by this statement and intend to propose payment, during the next Annual General Meeting, of a considerably higher dividend based on earnings in 2005. Double-digit increase rates in sales, as well as a corresponding rise in operating income are the targets for 2006.

paragon share: general information

WKN:	555 869
ISIN:	DE 000 555 869 6
Symbol:	PGN
Trading segment:	Prime Standard
Sector:	Technology
Designated Sponsors:	Seydler AG Lang & Schwarz Wertpapierhandel AG (as of Jan. 1, 2006)
Index:	GEX
Shareholder structure (as of December 31, 2005):	approx. 52 % Klaus Dieter Frers approx. 48 % free float
IR contact:	Phone + 49(0)52 50 - 97 62-140, Fax: -61 e-mail: investor@paragon-online.de

Equity markets

The equity markets showed a positive performance throughout 2005. The continued historic low in interest rates and the positive earnings of the majority of listed German companies led to a considerable increase of all relevant indices. Technology stocks, however, surged less on average in 2005 than equities in other sectors.

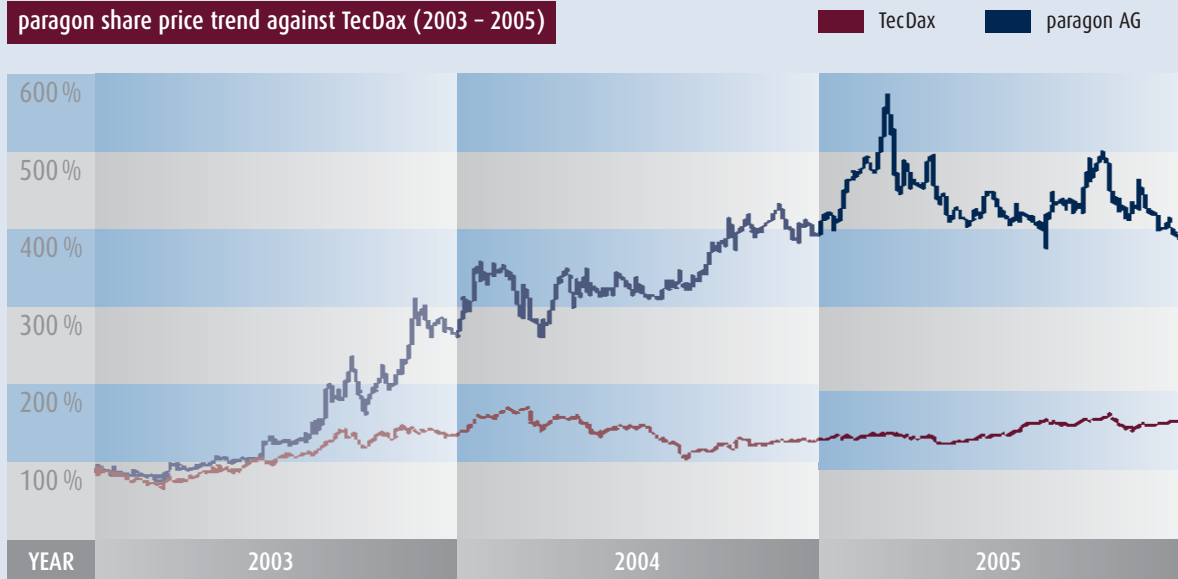
Forward-looking market assessments by a variety of financial market participants view the year 2006 positively, so that the anticipated economic growth should represent a sound basis for continued positive development of equity markets.

Share price performance and trading volume

At year-end 2005, the paragon share stood at € 14.00, approx. 10 % below the price a year earlier. Compared to the issue price of € 7.60, however, the share price effectively almost doubled, and even quadrupled when compared to the March 2003 price of € 3.10. Nevertheless, share price performance in 2005 is not considered satisfactory. We will therefore intensify our Investor Relations activities to promote and emphasize paragon AG's qualities and future potential to a wider circle of investors.

paragon stock: key financial data	2005	2004	2003
Share capital (in millions of €):	4.09	4.04	4.01
Share price on January 2/3 (in €):	15.90	10.60	3.98
Year high (in €):	21.40	16.25	11.65
Year low (in €):	13.50	9.99	3.40
Share price on Dec. 30 (in €):	14.00	15.75	9.90
Market capitalization on Dec. 30 (in millions of €):	57.21	63.58	39.65
Number of shares (in millions):	4.09	4.04	4.01
Earnings per share (in €):	0.55	0.71	0.34

paragon share price trend against TecDax (2003 – 2005)



paragon shares showed considerable volatility over the course of the year 2005, moving between a high of € 21.40 at the end of February and a low of € 13.50 in December amidst trading volumes slightly above those of the previous year. In 2005, the highest trading volumes were achieved for the first time in the fully electronic Xetra trading system of the Deutsche Börse AG. Our shares thus reflect a shift of emphasis from floor trading to electronic trading similar to the major indices over the past few years.

Investor relations activities

paragon has continued its transparent, prompt and comprehensive information policy vis-à-vis the financial markets in 2005 with numerous events, publications, and interviews with a variety of interest groups.

The Annual General Meeting was once again the key event of the year; posting a record number of visitors many of whom described the day as extremely constructive and rewarding. In addition, paragon used its appearance in May at the International Motor Show (IAA) in Frankfurt to further familiarize interested parties from the financial markets with the Company, its products and its potential. paragon also conducted a DVFA conference, several discussions with institutional investors, and direct talks with a wide range of partners in 2005.

The appointment of two designated sponsors to ensure sufficient liquidity and fair pricing for the paragon share indicates how much paragon is aware of its shareholders' needs. The Company has been able to call on Close Brothers Seydler AG since 2004 and starting on January 1, 2006 on Lang & Schwarz Wertpapierhandel AG as well-known partners in this respect. In the interests of its shareholders, paragon thereby exceeds the standard requirement of one designated sponsor.

Profit-sharing rights

In retrospect, the issue of two tranches of profit-sharing rights proved to be an effective step in paragon AG's development. The total issue volume of € 18 million, which was placed by the end of 2005, provides a sound basis for continued corporate growth and offers an alternative to customary financing options. Currently the topic of mezzanine finance is under constant discussion in media and corporate circles. The Company's strategic decision, taken early on, to issue profit-sharing rights will assure paragon sufficient flexibility in view of current and future growth financing. This action provides an example for other companies wishing to finance portions of their corporate growth independently of traditional credit lines.

Creative growth increases shareholder value

paragon's strategy is based on its claim to 'achieve growth through creativity'. In order to shape markets successfully with new and surprising products, across all areas, paragon focuses on the success factors of innovation, flexibility, decisiveness, speed, and vision. As a result, the Company can strategically counter the well-known price pressures in the automotive industry with its comprehensive approach.

paragon's main objective is to be a successful automotive supplier in the long term, and the Company wants to achieve this goal by implementing far-sighted strategic decisions, not feverish activity. Our employees work every day to realize this concept on behalf of customers, suppliers, the local economy and shareholders. paragon believes that a meaningful increase in shareholder value arises from this consistent approach. There is clearly potential for continued success in the future, which is supported, in the first instance, by people.

In implementing its overall strategy, paragon focuses particularly on organic growth. This healthy, internal development is accompanied by targeted external growth designed to provide market access and supplement the Company's portfolio with key technologies.

Automotive is key

The Automotive segment, contributing 71.5 % to sales in 2005, is the strategic mainstay of the Group, enabling the Company to profit from a variety of trends within the industry and among customers. Growing requirements for convenience, an increasing preference for individualization and a rising need for products that offer a high level of differentiation potential all enable paragon to distinguish itself from other industry suppliers.

auto. wellness. paragon®

The 'auto' is the center of strategic development for paragon. The Company is becoming a specialist for solutions that make driving safer and more comfortable and which more satisfyingly meet the basic needs of passengers. paragon, as innovator and integrator, combines individual components into convincing systems. Against this backdrop, the acquisition of the communication tech-

nology specialist Cullmann GmbH, announced in August 2005, is a further, important piece in the mosaic. Climate systems, control and instrumentation systems, car media systems – all of these paragon solutions will significantly benefit not only the manufacturers in the development of new models.





At the booth at the International Motor Show (IAA), paragon visually presented this strategic claim and the Group's core competence in public for the first time. Visitors were able to experience "auto.wellness.paragon." with all their senses and the automotive innovations 'made by paragon' came to life in a concept car equipped with production-ready products as well as at numerous terminals.



Structural realignment

paragon has reached a new stage in the year under review, in particular as a result of the Cullmann acquisition and the related significant appreciation of the Car Media Systems product range. This very positive development has resulted in necessary and reasonable modifications of the division structure.

The new structural alignment and the consolidation of different competences will provide positive impulses for the entire Group. After all, precisely those elements so fundamental for success are benefiting: effective team building processes in all project activities, communication spanning all departments, trimmer workflows in the product creation process and flexible interdisciplinary request teams.

Division	Product Area	Company
Climate Systems	Climate sensors Climate modules	 paragon. the spirit of smart sensors & solutions
Car Media Systems	Hands-free kits/Interfaces Navigation/Telematics Integrated systems After-Market	 fidelity the spirit of paragon
Control & Instrumentation Systems	Operational Controls Instrumentation Stepper motors	 paragon. the spirit of smart sensors & solutions  forstep motion driven by paragon

Regional marketing concept

The successful development of the Company is closely linked to the local economy and its inhabitants. It is for this reason that paragon has decided to further strengthen its local involvement. Selected sponsorship activities permit us to make a valuable contribution to the improvement of the local events infrastructure. The benefit to paragon should also not be underestimated: The recognition of the Company, and therefore also the recognition of its share, is boosted in the long-term and on a wider scale when local marketing activities are implemented as an integrated total concept.

Individual activities include:

- 1) Sponsorship of the new soccer arena of the second league team SC Paderborn 07: **paragon arena**. This involvement is an ideal marketing instrument which will serve to significantly heighten recognition of the paragon brand, both locally and further afield, especially within the context of the World Cup 2006 in Germany. Constant reporting in the media over the next few years will enhance this effect.
- 2) Sponsorship of a car parking garage at the Paderborn-Lippstadt airport terminal: **paragon parkhaus**.
- 3) Sponsorship of a bicycle race at the paragon headquarters in Delbrück: **paragon night**.
- 4) Sponsorship of a horse riding tournament at the paragon headquarters in Delbrück: **paragon cup**.



Automotive segment

The Automotive segment was once again the mainstay of the Group in 2005, achieving sales of € 57.3 million, corresponding to a rise of 44.9% (prior year: € 39.6 million). The Automotive segment thus provided 71.5% of consolidated sales (prior year: 61.2%).



Think tank for automotive finesse

Within the Automotive segment, paragon has laid another cornerstone for its strategic positioning by founding paragon finesse GmbH. In addition to internal synergy, this fountainhead of ideas will provide many other advantages for the customer. Engineering, instrumentation and car racing are the initial fields of activity. paragon finesse GmbH, with its premises in immediate proximity to the AG's headquarters, is building upon paragon AG's know-how and products to integrate them into progressive systems. A current example: paragon finesse developed a novel servo drive to meet specific customer requirements.

This first venture into car racing makes sense for the Group as a whole. paragon finesse is showing technological leadership from the start, in true Company tradition, and is already providing a valuable contribution in the marketing of Group activities.

Expansion of market position in 2005: New customers, orders and projects

Division	Product line	Customer / model
Climate Systems	Air Quality Sensor	<ul style="list-style-type: none"> • BMW: 3 series • DaimlerChrysler: M, R, B class • Fiat: Croma • Opel: Zafira
Car Media Systems	Cradles	<ul style="list-style-type: none"> • Opel: Vectra
	Consoles	<ul style="list-style-type: none"> • Audi: A3, A4, TT, Q7 • Opel: Vectra • Skoda: Fabia
	Interface (Multi Media Device / Audio-Integration)	<ul style="list-style-type: none"> • Audi
	Microphones	<ul style="list-style-type: none"> • VW • Skoda
Control & Instrumentation Systems	Components for multifunction steering wheels	<ul style="list-style-type: none"> • DaimlerChrysler: S class • Seat: Ibiza, Leon • Skoda: Octavia, Superb
	Stepper motors	<ul style="list-style-type: none"> • Dacia • Peugeot
	Shift-by-wire	<ul style="list-style-type: none"> • Audi: Q7

Automotive segment: Climate Systems division

In the Climate Systems division, paragon is no. 1 in the world with more than ten years' experience in automotive air quality. Over the years, the Company has made technological advances which are reflected in a continuous stream of new, compelling products. paragon knows the internal and external influences which lead to the reduction of air quality: Humidity, temperature, particles, dust, micro-particles, pollen, gas and diesel exhaust, odors such as manure, bacteria, germs, fungus, plastic evaporation, cigarette smoke and even exhaled air. And of course, the measures that counteract them are also very familiar to paragon: control of air flaps, germ-free vaporizers, ionization, CO₂ controls and filters. The goal is the active regulation of air quality.



Air improvement concept

The Air Improvement Concept is a comprehensive, integrated solution developed by paragon in 2005; its separate components of assessment, cleansing and improvement completely cover the basic need for healthy air. These individual components include:

- the air quality sensor AQS
- the air quality conditioner system AQC to eliminate germs and bacteria from the air-conditioning vaporizer
- the air quality improver system AQI to bind dust particles and cigarette smoke
- the filter check system FCS
- a CO₂ sensor
- the air check system ACS.

Air quality sensor with odor detection

In 2005, paragon equipped the air quality sensor AQS Mk IV, the market leader, with a new feature. This product now offers protection from offensive smells upon request. As is normally only the case with dangerous gas and diesel exhaust, the air quality sensor now automatically closes the air flaps in the event that it detects manure smells from the outside air.

Twin sensor expands portfolio

paragon has expanded its air quality sensor range with an additional version in the form of a twin sensor. This successful product range, in existence for many years, uses single sensors based on a specially equipped mixed oxide sensor, which operates over a wide range and is not restricted to detecting individual gas types. The twin sensor variant uses a second sensitive layer that allows even better identification of small, but irritating quantities of harmful gas. paragon is the only air quality sensor manufacturer to date that completely fulfills the strict requirements of the German Automobile Industry Association VDA.

Sensor elements with new functions

During 2005, research activities in the Automotive segment also focused on developing sensor elements in-house and equipping sensor elements with new functions. At the Company's sensor element factory in Suhl, paragon fidelio GmbH conducted intensive research into new air quality sensors, which, for the first time, exhibit functionalities in the detection of odors such as manure. In addition the existing air quality sensor range was equipped with functions such as the detection of NO_x and CO. paragon fidelio has also developed innovative pastes for future sensor functionalities and, moreover, implemented a wide range of qualification activities for the new sensors.

Automotive segment: Car Media Systems division

Acquisition of the communication technology specialist, Cullmann GmbH, was a key step in building the Company's Car Media Systems division within the Automotive segment. As a result, the value of paragon's technological know-how has been greatly increased and its market position as a direct supplier to the automotive industry has also improved, since communication is one of the core growth areas in the automotive segment, as is temperature control technology. paragon fidelity GmbH arose from two complementary elements: the Communications division of paragon, in existence since 1999, and Cullmann, whose traditions date back to 1965. A new, market-leading competence center for car media systems within the paragon Group has now been established at the Cadolzburg, Bavaria, site.



Customer-specific solutions

The aim of all our products is to optimally link the most varied communication functions to the human-machine interface in the car. In this respect, paragon fidelity offers a wide range of applications in the areas of hands-free communication, navigation, telematics and multi-media. Customer satisfaction is the top priority: the highest quality in data and voice transmission, integration of varied functions in mobile communications devices and optimum orientation for driver and passenger, put concisely: integrate – navigate – transmit.

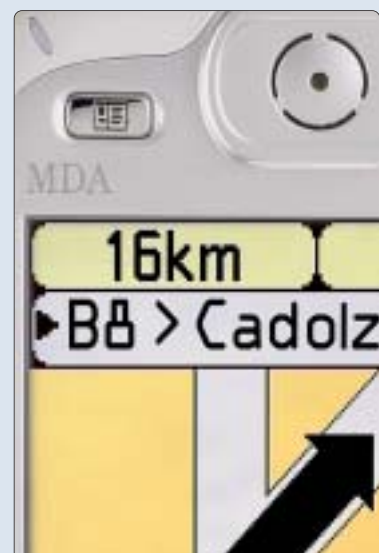
paragon fidelity defines the demands on its products, however, not simply with high-quality technological implementation; a coordinated design also ensures harmony in the vehicle interior. Solutions are thus created which both function and look the best.

Multi-media in the vehicle

One of the automotive trends of the future is the integration of mobile, modern communication devices in the vehicle. Audio devices such as Apple's iPod and other MP3 players are rapidly gaining in importance and the future for mobile video applications is already here. Cell phones are increasingly developing into 'smart phones', combining functions well beyond the bounds of telephony, such as audio, video, navigation and personal information management, in one device. The CMI software concept guarantees reliable identification of all mobile end devices, as well as the ability to control their functions via the operating and display systems in the vehicle.

Navigation via cell phone

Hybrid navigation combines on-board and off-board navigation. A portion of map data is managed locally (on-board) and used for the most frequent domestic trips. Data required for additional routes in neighboring countries are downloaded from a map server using the cell phone (off-board) and linked to locally available data.





Navigation in the interior mirror

One of the highlights from 2005: together with Magna Donnelly, an Austro-Canadian global leader in the production of automobile mirrors, paragon fidelity is currently developing an appealing innovation which combines an affordable price, perfect vehicle integration and attractive design: a navigation display in the interior mirror. A solution in which all the electronics, including display and antennae, are integrated in the housing of the interior mirror, making the product attractive both for series production and after-market.

Navigation via Bluetooth

Our solutions allow us to affordably implement navigation systems in the vehicle. Our CMI software architecture ensures that navigation via a cell phone or smart phone is linked securely via Bluetooth with the car's operating and display system. This is an innovative approach which enables our customers to attract those buyer groups in particular for whom the traditional navigation system as original equipment was too costly in the past.

A new task for microphones

Covering almost all areas paragon fidelity offers numerous microphones that guarantee optimum audio quality: universal hands-free microphones, invisible removable microphones, integrated steering wheel microphones, hand-sets with custom design, swan-neck microphones and seat-belt microphones. Our comprehensive know-how in this domain earned us a significant order from a high-volume manufacturer in 2005. Since the beginning of 2006, paragon has supplied all Volkswagen model platforms with a specially developed version of the hands-free integrated microphone Integramic.



Telematics applications

The mobile office is a trend that is being closely observed. paragon fidelity offers numerous modern office applications for the car using ingenious technology. The telematics box is an open, affordable and flexible solution which enables meetings, presentations and Internet access in the car. Moreover, optimum solutions to process a variety of individual vehicle data can be tailored completely to individual requirements. Using an automotive-compliant chip card reader, the modular telematics concept offers a multitude of options of interest to fleet owners to improve efficiency and optimize processes in fleet management.

Automotive segment: Control and Instrumentation Systems division



paragon is using the Control and Instrumentation Systems division of the recently restructured Automotive segment to exploit one of the most important future trends: the car interior is becoming the distinguishing factor on the market. And paragon has precisely the right products with which to create attractive features.

Together three concepts play the deciding role across the entire product portfolio. Control, power and display; in other words, visible ease of operation meets ideal surface sensation combined with sophisticated design. paragon is utilizing the synergistic effects now offered by the Group, together with the elements of electronics, hardware and software, mechanics and precision engineering, sensor technology and integration of plastics to generate a unique blend of operating elements and display instruments.

Optical operating elements: the ease of the future

paragon developed so-called optical operating elements as a future-oriented alternative to the traditional range. They can be implemented in three different applications: as single buttons, as sliders and as rotating knobs. Based on new nonwearing measuring principles, there are now two different solutions for the use of optical operating

elements: the reflection principle and the photo sensor principle. All of the sensor equipment is located behind an opaque, closed surface and thus optimally protected against foreign elements, dust and humidity. The only prerequisite for practical use is that the surface be infrared-permeable.

Shift-by-wire with a genuine technology leap

The inductive 3D position sensor, developed by paragon, is a new, innovative and production-ready solution that represents a genuine leap in technology in the realm of electronic switching systems. paragon's 3D position sensor is distinguished from the traditional switching systems – based on reverberation sensors – by a number of advantages and additional functionalities:

- Contact-free technology not subject to wear
- Clear identification of all external disturbances
- Not susceptible to interference thanks to high frequency selectivity
- Smaller numbers of components means greater reliability
- Reduced development costs and times
- Packaging advantages due to higher degree of design freedom



Aesthetics and precision – the paragon stopwatch



The paragon stopwatch, which joined the product portfolio in 2005, is an optical and technological highlight for sports car interiors. The combination of classic rally design and the technology of highly modern chronometers is simply impressive. High quality individual components, such as a machined trim and the polished, massive aluminum casing, are incorporated by hand during production. The result is a functional instrument with an elegant and exclusive design. An innovation available to everyone in fact: the stopwatch can be purchased from the on-line shop on paragon AG's home page.

Universal stepper motors with multi-color LEDs

The development of a new generation of universal stepper motors by paragon forstep GmbH facilitates the individual setting and modification of display instruments in the car by incorporating multi-color LEDs. The patented highlight of this newly developed 2-phase stepper motor is the integration of a hollow axle to achieve multi-color indicator illumination using only one LED, so that, for example, the indicator color can change in the rev counter when the red area is reached.

Operating display for control of a vehicle's supply units

paragon has developed an operating unit with display especially for RV's (recreational vehicles), caravans and even trucks, which functions as an interface between the operator and the electronic control unit. Appropriate sensors allow various supply levels to be controlled and monitored e.g. the radiator or the cooling and refrigerant combination, as well as the current battery charge status.



Electronic Solutions segment

The paragon Group's roots lie in custom manufacturing of high-quality electronics, so the Electronic Solutions segment will continue to remain extremely important. Research institutes such as iSuppli anticipate an average annual growth rate of 9.5 % for the global EMS market. Services provided by paragon firstronic GmbH are tailored primarily to meet the demands of global markets and customers. Customer proximity, new market potential and the highest efficiency levels are essential factors for long-term growth in this area.

During 2005, the Electronic Solutions segment generated sales by € 22.1 million (prior year: € 24.2 million), representing a share in total sales of 27.6 % (prior year: 37.5 %).

Autonomous and flexible

The Electronic Solutions segment has been operated by the newly established 100 %-subsidiary paragon firstronic GmbH since the beginning of 2005, meaning that integrated, customer-specific total solutions for industry electronics can be processed even more efficiently. From printed circuit boards and complete devices to turnkey systems: paragon firstronic is active wherever quality is key. The subsidiary commenced operations in the new production facility at the Suhl site in January of 2005. From the new building paragon firstronic solidified its position as pioneer and trendsetter and can now act with complete independence. As of the second quarter of 2006, paragon firstronic will have its own purchasing department in Suhl.

Tailor-made complete solutions

Qualified employees produce high-quality electronics in a new high-tech building with a production surface of 4,000 sq. meters, using first-class machinery and innovative storage logistics. The technological demands of industrial applications have been combined with process experience and logistical know-how from the automotive industry. The Company utilizes an innovative system for efficient manufacturing on two floors. Circulating racks are used not just for picking, but also to link the stories – a rational,

albeit unusual, solution. Storage and machine circuit board assembly are located on the ground floor, all other process steps take place on the floor above. paragon firstronic thus achieves maximum storage capacity on the smallest possible surface and, moreover, an optimum goods flow. Complete solutions are created on an interdisciplinary foundation. paragon firstronic offers time-to-market solutions, from conception to the finished system for industry, security technology, telecommunications, building technology, medicine and the automotive field.

Expansion of European sales

There is a real demand for competent employees in customer services who can personally advise and persuade the customer and offer them appropriate information. paragon firstronic has therefore expanded its sales staff accordingly and strengthened it with in-house project management and an additional key account. This strategy has proven itself well in the highly complex field of Electronic Solutions, which consists of development, layout, material procurement, production, assembly and wide-ranging test scenarios. During fiscal 2005 paragon firstronic GmbH was able to attract ten new customers and numerous substantial projects.

European RoHS directive

The EU RoHS directive stipulates that products be converted according to the environmental requirements of the RoHS initiative by July 1, 2006. paragon firstronic has prepared itself well for these changes and offers the requisite technology and competence for an optimal solution. Equipment was fitted as necessary and employees trained appropriately. During the third quarter of 2005 the first series products that conform to this directive were delivered. In November of 2005 paragon firstronic also successfully underwent the audit on the eco standard ISO 14001.

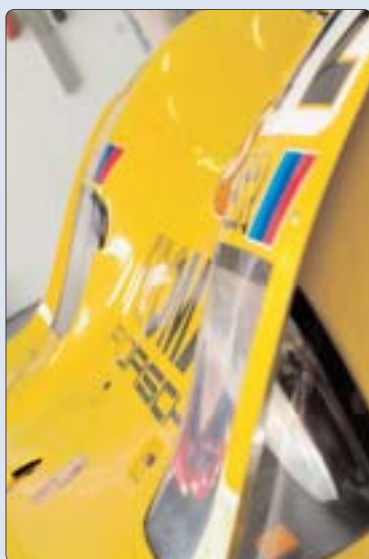
Building Technology segment

In building operations, cost-effective and convenient solutions planned from an overall perspective are playing an increasingly important role. paragon is active in this area, too, and utilizes synergistic effects from its Automotive segment to develop future-oriented solutions. Within the Building Technology segment, paragon offers safe, convenient and affordable applications in security and energy management. paragon facilio GmbH, established in 2005, is now running the Building Technology segment within the paragon Group. The product portfolio includes systems for natural gas detection and for energy savings in light engineering. Moreover, paragon facilio offers development services, e. g. in switching and circuit board development, casing construction and software development.

In 2005 paragon's Building Technology segment achieved sales of € 728,000 (prior year: € 900,000).

Gas detection system: Gas Watch Dog®

paragon has continued to develop the gas detection system Gas Watch Dog® in line with an EU standard and has subjected it to numerous field trials. The system currently on the market is the first conventional product to meet the strict criteria of the European standard EN 50914. Gas Watch Dog® offers credible, reliable and



secure signaling of the presence of gas, of a quality hitherto unknown. paragon has created a solution that clearly surpasses other devices currently available on the market. Gas Watch Dog® is capable of detecting natural gas, propane and butane at an appealing price. As a result, safety is considerably enhanced. Due to the device's modular construction, paragon has the possibility of integrating additional functionalities, such as the automatic activation of safety equipment. Gas Watch Dog® has been available from the newly established on-line shop of paragon facilio GmbH since late 2005. Additional sales channels are currently being created.

Electronic ballast: forneon®

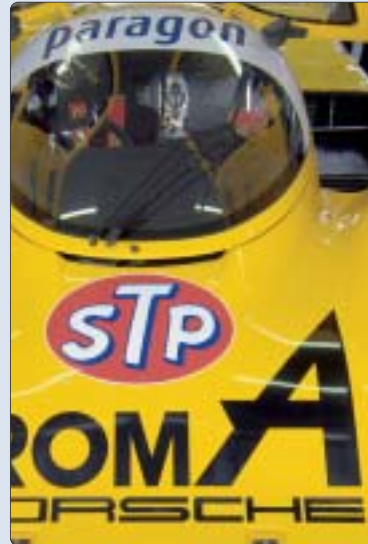
Professional energy management facilitates considerable savings in energy and therefore costs. Here, too, paragon offers a reliable solution. The forneon® adapter set permits affordable and easy use of the new T5 generation of fluorescent lamps in customary fittings. Former energy requirements can be lowered by more than half by using the combination of T5 fluorescent lamps and forneon®. Furthermore, due to the lower levels of CO₂ emissions, environmental compatibility is much greater. This efficient system has already achieved market entry. Numerous renowned customers from a variety of industries are already using the adapter set and confirm their substantial savings in energy costs. Significantly improved light quality, moreover, ensures improved working conditions.

paragon in the USA

As an expanding automotive supplier, we devote special attention to the US market. Miquet Corp., based in Grand Rapids and acquired by paragon in 2001, has developed into a well-established and highly modern production site today. Innovation and customer proximity, providing new market potential again and again, form the basis of success there. The paragon Group's involvement in the US will continue to intensify.

The introduction of process-oriented manufacture in fiscal 2005 resulted in considerable increases in productivity and efficiency. Moreover, significantly higher product quality was achieved due to production optimization. Additional capacity will be created in 2006 from the expansion of premises and production areas. With the renaming of Miquet Corp. to paragon firstronic of NA Corp. on January 1, 2006, its integration into the paragon Group was complete. Following the European example, activities in the Electronic Solutions segment have been consolidated in paragon firstronic of NA Corp.

In the USA the paragon group with 46 employees (at the balance sheet date of December 31, 2005) achieved sales of \$ 11.2 million – a rise of 47.4% (prior year: \$ 7.6 million). During fiscal 2006 paragon plans a significant rise in sales in the US, accompanied by positive earnings contributions.



paragon in Asia

Until now, paragon has supplied almost all European auto manufacturers but the Asian market, too, offers great potential. paragon AG announced its official entry into the Asian market at the IAA in 2005. The new subsidiary paragon of Japan K.K. is working closely with the major sensor manufacturer FIS in Osaka and a cooperative agreement with FIS Inc. provides for the production of air quality sensors on site in Japan based on proven FIS sensor elements.



paragon in France

Medium and long-term expansion in Europe remains a central building block of paragon's overall strategy, coupled with involvement in the North American and Asian markets. paragon has already achieved entry into the French market with its air quality sensors. A leading French car manufacturer will be incorporating the paragon air quality sensor AQS in its medium-size cars starting in 2007, so that larger unit volumes will be generated rapidly. Setting up a sales bureau in Paris has contributed to this success – it will now be enhanced in terms of qualified staff and new, expanded premises. The focus of this branch is primarily on products from the divisions of Climate Systems, Car Media Systems and Control and Instrumentation Systems.



paragon in Italy

paragon is focusing on all of Europe in its corporate strategy and now the extremely attractive automobile market in Italy will also be developed. Activities have already begun in order to be able to market paragon's systems to Italian car manufacturers in the future, with an additional sales employee having been specially designated for the Italian market.





Knowledge network

Research & development exemplifies both the successful presence and the simultaneously promising future of the paragon model. R & D is not simply a department here, but a complete network of knowledge and employees who represent the very core of the Group. This is an innovation pool that guarantees consistent success, in which paragon has invested € 6.2 million in 2005; a record in the Company's history. A total of 85 employees throughout Climate Systems, Control and Instrumentation Systems, Building Technology, Research & Technology and Development Services (Software & Tools, Prototyping and Testing, Construction) at the various sites provide intellectual stimulus, contributing to the reality that paragon never runs out of ideas.

Highlights in 2005

In the R & D department, too, 2005 was marked by the dynamic development of the paragon Group. Above all, establishment of paragon fidelity GmbH and the accompanying restructuring of all divisions produced new and promising perspectives. In order to be able to meet the greater demand for high-performance research in future, additional premises equipped with state-of-the-art technology were acquired in the corporate headquarters in Delbrück. Of course, preparations for a successful appearance at the IAA were also of importance. And fortunately, they paid off. The concept car, in particular, equipped with functioning paragon solutions, attracted considerable attention. In terms of software, implementation of a standardized software development process in conformance with ISO 15504 (SPICE – Software Process Improvement and Capability determination analysis) was one of the prevailing topics. The Research & Technology division concentrated inter alia on the 'Quick-Spec' project supported by the Federal Ministry for Education & Research (BMBF). Research on innovative development of air quality sensor elements using silicon-based technology was conducted jointly with several partners.

Site	Employees in R & D
Delbrück, Headquarters R & D	45
Suhl, Sensor element factory	2
St. Georgen, Group center for instrument construction and highly specialized drive technology	2
Cadolzburg, Car Media Systems center	34
Grand Rapids, USA, paragon of NA Corp.	2
Total	85

Status: 12/31/2005



Automotive Segment

In the **Climate Systems** division the emphasis was on the new development of proprietary sensor elements and new air quality sensor generations, which, for the first time, possess functionalities for the identification of odors such as manure. In addition the existing air quality sensor range was considerably extended and supplemented with additional functions such as the detection of NO_x and CO (using so-called twin sensors). With respect to future sensor functionalities, paragon fidelio developed innovative pastes and, moreover, implemented a wide range of qualification activities for the new sensors. Another emphasis was on the development of the AQC (air treatment) and AQI (air improvement) product lines.

The **Control and Instrumentation Systems** division concentrated on several major projects in 2005. New developments to be highlighted here include a central operating and steering device, a clutch sensor to register the position of the clutch pedal and, in particular, an inductive 3D position sensor, almost production-ready at this point. Further attention was devoted to development of the paragon stopwatch, various display instruments such as clocks and tachometers, development of a signal splitter and a new, universal stepper motor generation. Initial development activities for display instruments were also launched by paragon of North America Corp. at the US site.

The former Communications division developed into the wide-ranging **Car Media Systems** division with the establishment of paragon fidelity GmbH. Its development focus included the following areas: development of hands-free equipment functionalities, integration of multi-media applications in the vehicle, hybrid navigation by cell phone, navigation solutions in the car's rear-view mirror, navigation via cell phone using Bluetooth, development of the hands-free Integramic microphone, final preparations for production of the belt microphone Beltmic, various telematics applications (e.g. electronic logbook), development of telematics box and chip card reader, as well as a camera reversing system.

Building Technology Segment

In the **Building Technology** segment, paragon concentrated on optimizing technology for ventilation equipment to improve air quality in buildings and external development services in the building automation area in 2005. Special highlights include the successful completion of the last field test phase of the gas detection system Gas Watch Dog® and the further development of the electronic ballast forneon® into a digital version.

R & D as a matter of principle

- Customized systems and development, from the idea and construction through prototype creation to product certification
- Fresh ideas and new approaches by constant team expansion
- Optimum working conditions with well-equipped research and laboratory areas
- Emphasis on integrated total solutions for all product divisions
- Steady investment in the R&D division at a high level
- Extension of the existing product range according to global market demands
- Continuous expansion of core competences
- Development of new, future-oriented and profitable product areas
- Securing existing innovation potential
- Constant expansion of technological know-how through regular exchange with national and international cooperation partners



The paragon Group is distinguished by its consistent orientation to market needs and customer benefits. Innovation is the Company's engine and its key to long-term success. The basis of this success is efficient production, which is continuously expanded and optimized.

Future-oriented production

The production area at the Suhl site was again expanded substantially in 2005 to reach a total of over 11,000 square meters. In this way a new, high-performance building was constructed for paragon firstronic GmbH. This new high-tech factory exhibits optimum conditions with its first-rate machinery and innovative storage logistics. In Suhl, paragon now maintains internationally competitive production facilities with outstanding perspectives in the shape of three buildings. Furthermore, investments were made in production equipment, with a completely new SMD line by Siemens (Siplace X2 and X3) including an in-line x-ray by Viscom. Regulations concerning reduced emission electronics products (RoHS) and recycling of old equipment (WEEE – Waste Electrical and Electronic Equipment) also present new challenges for production. The machinery at the Suhl production site is optimally geared to these new directives. Moreover, all production areas are certified according to the environmental standard DIN EN ISO 14001:2005.



Human resources indicators

	2005	2004	2003
Number of employees at year-end	527	388	238
Personnel expense in € thousands	17,863	12,381	8,789
Sales per employee in € thousands*	178	246	181
Personnel expense in %	20.5	17.5	20.1

* in reference to the average number of employees

Sustained corporate success is achievable only with top-notch employees. Strategic human resource work is extremely important for paragon in order to expand its own technological and economic claims for the benefit of the customer and investor. Selection, assessment, management and development are key elements in human resources policy. Growth into new dimensions and the related dynamics require ongoing adaptation and optimization of internal structures. The primary goal of human resources is to optimally utilize the knowledge and experience of each employee. At the beginning of 2006, paragon expanded its management team. Two additional division directors – for Business Administration and Marketing & Sales – provide a broader basis for responsibility.

Ongoing personnel development

The acquisition of Cullmann GmbH and the associated integration into the Group, as well as the expansion of the new electronic production facility of paragon firstronic GmbH placed high demands on all departments in the Group. In addition to these strategically important steps,

development of successor staff is given a high priority. At the beginning of 2005, paragon established an apprentice workshop with its own department manager, with close links to institutes of higher learning. Moreover, paragon highly values internal continuing education and training, due to its pace of growth.

2005 in numbers

Employee numbers

On December 31, 2005, paragon employed 527 individuals (prior year: 388); an increase of 35.8% over the previous year. Across the commercial and industrial departments paragon employed a total of 19 trainees in the Delbrück and Suhl locations.

Sites in the paragon Group	
	Employees (12/31/2005)
Delbrück	106
Suhl	227
Cadolzburg	83
St. Georgen	60
Heidenheim	4
Grand Rapids, MI, USA	46
Paris, France	1

Personnel expenses

The Group's personnel expenses rose by 44.3% to € 17.9 million in fiscal 2005. This development results among other things from the Cullmann GmbH acquisition and the associated considerable rise in number of employees. The ratio of personnel expenses to sales came to 20.5% (prior year: 17.5%).



Group Management Report of paragon AG, Delbrück, for Fiscal 2005

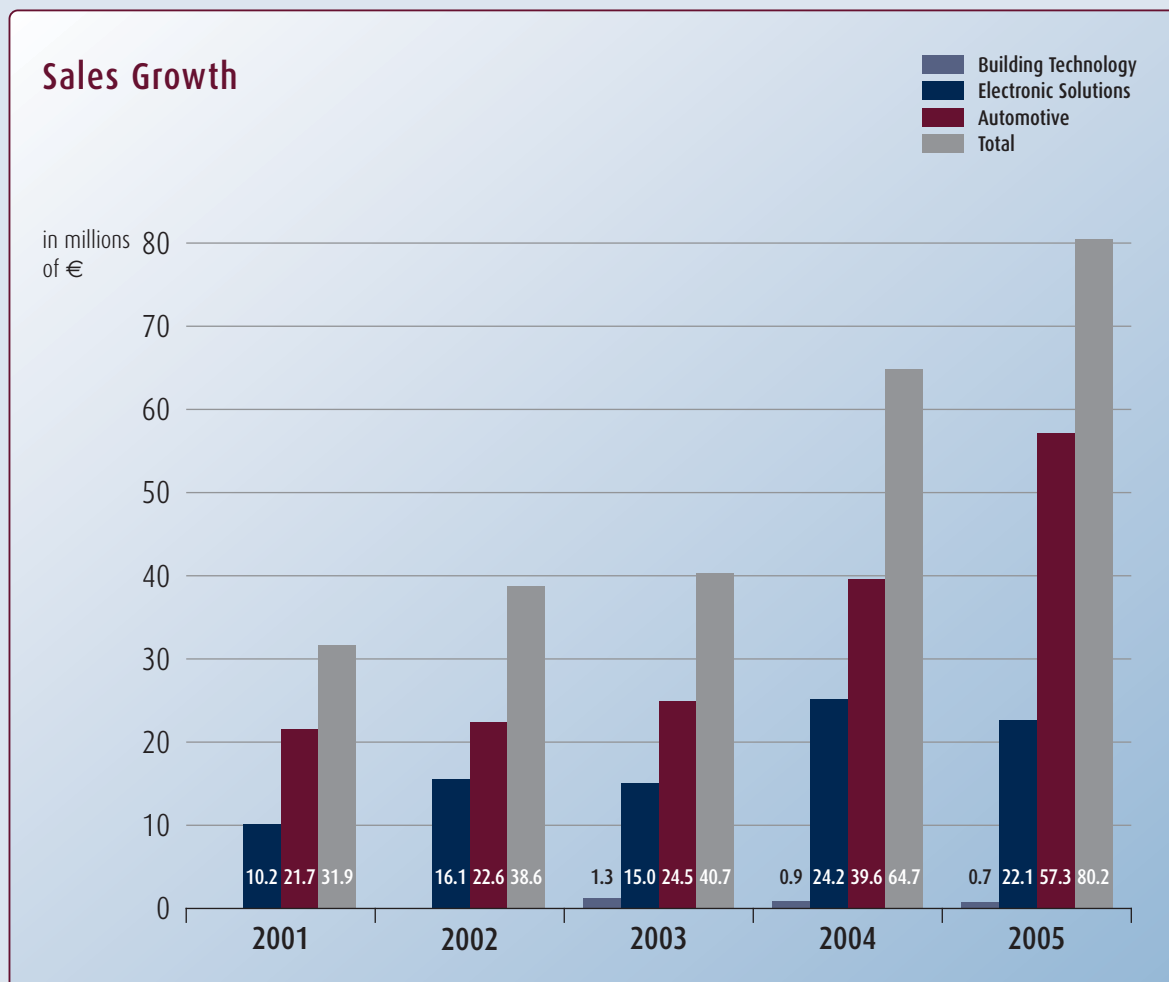
Group sales rose 23.9% to € 80.2 million in fiscal 2005 (previous year: € 64.7 million), EBITDA improved by 34.5% to € 13.9 million (previous year: € 10.3 million), and EBIT rose by 25.9% to € 6.6 million (previous year: € 5.2 million). The Group achieved net income of € 2.2 million (previous year: € 2.9 million), which translates into basic earnings per share of € 0.55 (previous year: € 0.71).

I. Economic trends

Global economic growth continued in 2005 despite some signs of softening. Exports were a bright spot in the overall economic picture, particularly in Germany, while domestic demand continued to stagnate. Many economic experts are expecting, however, that the domestic economy will begin to expand in 2006.

The automotive business worldwide continues on a positive course. In fact, German automobile manufacturers racked up record exports and even boosted their market share in quite a few countries. Domestic sales, on the other hand, were rather restrained in line with the overall economic picture.

The automotive industry was a major contributor to economic growth in Germany with an export surplus of around € 80 billion. Thanks to its enhanced performance and improved competitiveness, the automotive sector could boast of stable high employment even in Germany.



II. Business trends

1. Sales

Group sales rose by 23.9% in 2005 to € 80.2 million (previous year: € 64.7 million). Of that amount, € 4.8 million was attributable to Cullmann GmbH, now paragon fidelity GmbH, which was consolidated in the 4th quarter of 2005. paragon achieved sales of € 71.5 million in Europe (previous year: € 59 million), an increase of 21.2%. Sales in the USA grew by 51.4% to € 8.7 million from € 5.7 million in 2004.

The return on sales (ROS) was 2.8% (previous year: 4.4%).

The Automotive segment was the major contributor to sales, and paragon is consequently expanding its activities in this area. The Company also made strong advancements in the climate systems and control and instrumentation businesses.

a) Automotive segment

The Automotive segment generated sales of € 57.3 million in 2005, a jump of 44.9% (previous year: € 39.6 million). Automotive accounted for 71.5% of group sales (previous year: 61.2%). Sales in the USA totaling € 4.7 million were allocated to the Automotive segment in fiscal 2005; prior to that, automotive revenues were allocated to the Electronic Solutions segment.

paragon was able to enlarge its market niche once again in 2005, both through its own efforts and through the acquisition of an indirect majority stake in Cullmann GmbH. As in previous years, the sales leader in 2005 was Climate Systems, joined in the 4th quarter by Car Media Systems through the stake in Cullmann GmbH.

Climate Systems business:

We have been outfitting the Mercedes Benz M, R, and B Class, the BMW 3 Series, the Fiat Croma and the Opel Zafira with paragon air-quality sensors since 2005. In the control and instrumentation systems business, paragon has been supplying components for multifunction steering wheels for the new Mercedes-Benz S-Class, the Seat Ibiza and Leon models and the Skoda Octavia and Superb models. In the shift-by-wire segment, paragon landed the Audi Q7 while we now supply stepper motors to Peugeot and Dacia via various clients.

Control and instrumentation systems business:

paragon has been supplying components for multifunction steering wheels for the new Mercedes Benz S-Class, the Seat Ibiza and Leon models and the Skoda Octavia and Superb models. In the shift-by-wire segment, paragon landed the Audi Q7 while we now supply stepper motors to Peugeot and Dacia via various clients.

Car Media Systems:

paragon was able to improve its market position by acquiring an indirect majority stake in Cullmann GmbH. The division has been supplying consoles for the Audi A3, A4, Q7 and TT models, the Opel Vectra and the Skoda Fabia since 2005. We also provide mobile-phone adapters for the Opel Vectra. Audi came aboard as a customer for interfaces, as did VW and Skoda for microphones.

b) Electronic Solutions segment

The paragon Group's roots are in the manufacture of high-end electronic goods. The need to manufacture state-of-the-art technology confers synergy effects upon the other segments.

Electronic Solutions posted sales of € 22.1 million in 2005 (previous year: € 24.2 million); a 27.6% share of Group sales (previous year: 37.5%). Sales in the USA amounted to € 4 million. As automotive revenues from the United States have only been allocated to the Automotive segment since early 2005, a comparison is only partially possible here. Electronic Solutions' European sales amounted to € 18.2 million (previous year: € 18.5 million), with paragon firstronic GmbH adding a number of new customers and major projects.



c) Building Technology segment

paragon transfers know-how that it has gained from the automotive sector to the Building Technology segment. The forneon® product launch in the second half of 2005 brought this segment its strongest quarterly sales performance in the 4th quarter. For 2006, we expect even still more sales gains for this product and for the Gas Watch Dog®.

The Building Technology segment achieved sales of € 728,000 (previous year: € 900,000) in fiscal 2005, or 0.9% of total Group sales.

2. Earnings

EBITDA (earnings before interest, taxes, depreciation and amortization) in fiscal year 2005 of € 13.9 million exceeded the previous year's total of € 10.3 million by 34.5%.

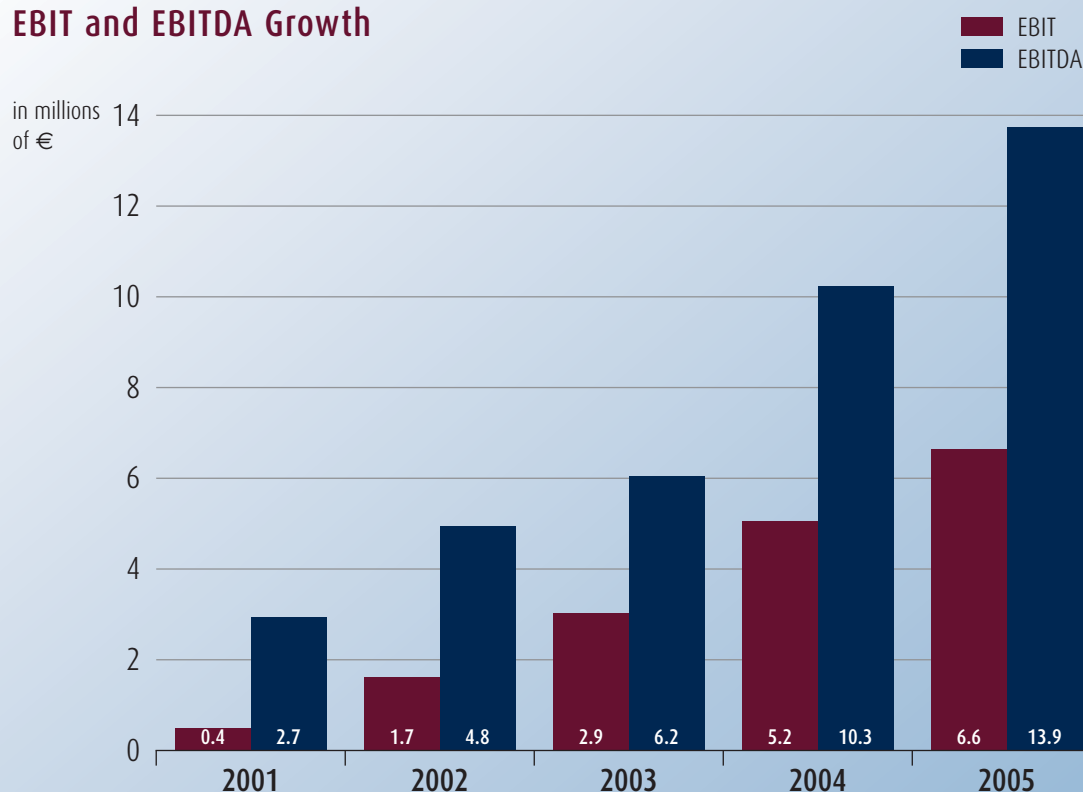
Earnings before interest and taxes (EBIT) grew by 25.9% to € 6.6 million (previous year: € 5.2 million). The EBIT margin was 8.2% (previous year: 8.1%).

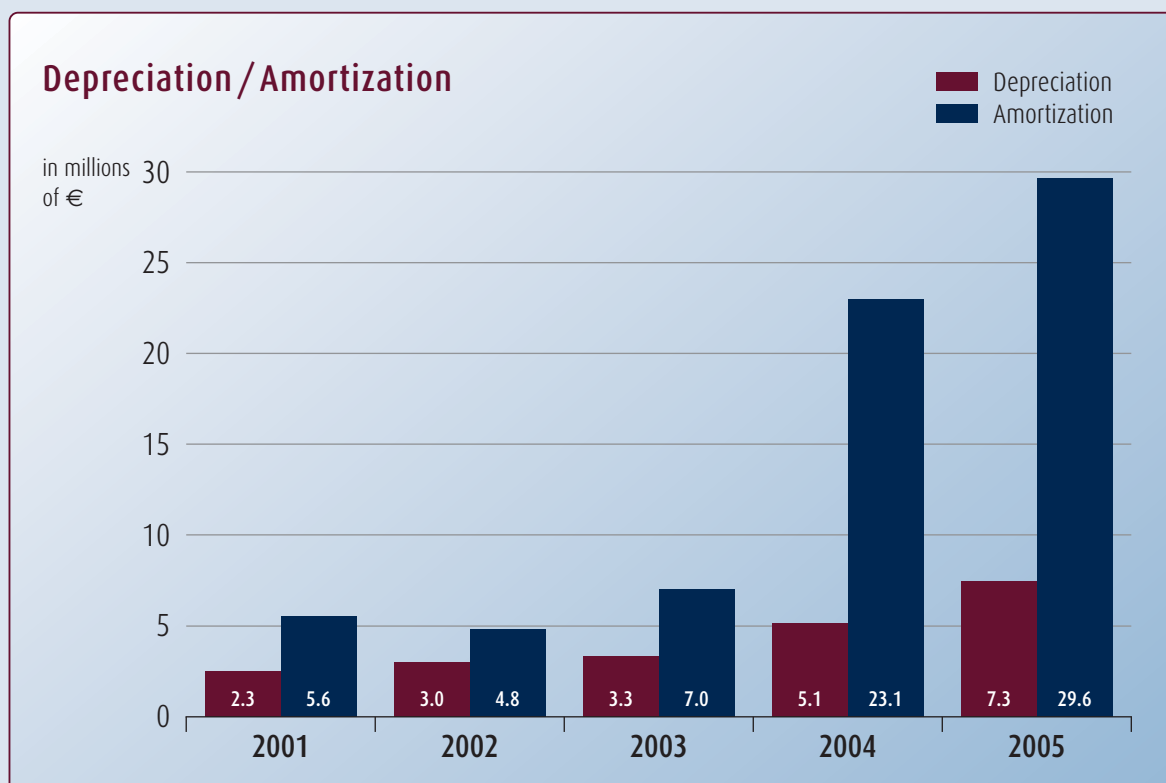
Net income amounted to € 2.2 million (previous year: € 2.9 million), resulting in earnings per share of € 0.55 for 2005 (previous year: € 0.71). The figures from 2004 and 2005 are not comparable due to adjustments for taxes. A variance of € 807,000 occurred due to consolidation in 2004, resulting in a sharply reduced tax burden (€ 595,000 instead of € 1,402,000). A tax audit in 2005 led to additional tax liabilities of € 203,000 for the period 2000 to 2004. As a result of these factors, earnings before taxes climbed steadily, from € 1.4 million in 2003 to € 2.1 million in 2004, and to € 2.5 million in 2005.

The Automotive segment contributed EBIT of € 5.8 million (previous year: € 3.9 million), the Electronic Solutions segment EBIT of € 706,000 (previous year: € 1.2 million) and the Building Technology segment EBIT of € 42,000 (previous year: € 98,000).

The earnings trend is attributable to diverse factors. All three segments were targeted for a cost-management program. Moreover, the tendency for the Company to sell its own products with better margins and more value-added had a positive effect on earnings.

EBIT and EBITDA Growth





The Managing Board and the Supervisory Board will propose increasing the dividend from € 0.10 to € 0.20 per share (the shares have an arithmetical par value of € 1.00 each) at the Shareholders Meeting on May 17, 2006. This corresponds to a dividend yield of 1.4%, based on a share price of € 14.

3. Capital Expenditure

paragon invested € 14.2 million (previous year: € 23.1 million) in property, plant, and equipment and intangible assets during the year under review. In addition, goodwill in the amount of € 15.4 million arose due to acquisitions so that the total capital spending volume amounted to € 29.6 million.

Investments focused on the expansion of corporate headquarters in Delbrück/North Rhine-Westphalia, the continued expansion of factory buildings in Suhl/Thuringia, and plant and equipment for the Electronic Solutions segment. The Automotive segment received capital spending in the amount of € 11.9 million while Electronic Solutions benefited from investments in the amount of € 2.3 million.

paragon enlarged the manufacturing floor at the Suhl factory as planned in 2005, to 11,300 square meters. The result was a new, highly functional facility for custom manufacturing high-end electronic components for paragon firstronic GmbH. This new high-tech factory features state-of-the-art machinery and innovative warehouse logistics.

Capacity at the Suhl plant expanded due to the growth in operations and in the wake of insourcing occasioned by the fact that Suhl manufactured components that Cullmann GmbH had formerly purchased from a third-party manufacturer. Manufacturing facilities expanded due to the increase in business activity and the concomitant rise in orders, due in part to the acquisition of the indirect majority stake in Cullmann GmbH. paragon, for example, invested in a completely new Siemens SMD line for the manufacture of printed circuit boards.

The previous year's high level of investment resulted in a rise in depreciation from € 5.1 million to € 7.3 million.

4. Shareholdings

The paragon Group is strengthening the autonomy of its divisions through its restructuring measures. Besides focusing more sharply on its own target group, each division can utilize synergy effects, thus creating still more market potential.

paragon AG has a 100 % stake in paragon of North America Corp., Grand Rapids, Michigan, USA. paragon of North America Corp. in turn holds a 100 % stake in Miquet Corp., Grand Rapids, Michigan, USA. The former was renamed paragon firstronic of NA Corp. effective January 1, 2006.

By the terms of a contract dated May 17, 2005, paragon AG, the Transferring Company, transferred the assets attached to the Electronic Solutions segment, with all rights and obligations appertaining thereto, entirely to paragon firstronic GmbH, Suhl/Heidenheim, the Transferee Company, for consideration in the amount of one share of paragon firstronic GmbH to paragon AG.

The business of paragon forstep GmbH, St. Georgen, is the development, manufacture and sale of electro-mechanical devices, especially stepper motors, and the manufacture of display instruments. The company is a wholly owned subsidiary of paragon AG.

The development and sale of building-technology products has been consolidated in paragon facilio GmbH, Delbrück, a wholly owned subsidiary of paragon AG.

The development of advanced systems based on paragon components and the use of proprietary technologies in motor racing is the business of paragon finesse GmbH, Delbrück, a wholly owned subsidiary of paragon AG.

paragon AG also has a 100 % stake in paragon fidelio GmbH, Suhl, a manufacturer of sensor elements.

Effective January 1, 2005, paragon AG acquired an indirect majority stake in Cullmann GmbH, Cadolzburg. The acquisition has boosted our expertise in automotive communications technology and has considerably improved our position as a direct supplier to the automotive industry. The newly created unit, the Group's competence center for car media systems, was renamed paragon fidelity GmbH in 2005.

paragon of Japan K.K. was created in fiscal year 2005 for the purpose of establishing air quality sensors in the Japanese market. Charged with the manufacture and sale of air quality sensors, the company is a wholly owned subsidiary of paragon AG.

During the year under review, direct-control and profit-repatriation contracts were concluded with the following subsidiaries: paragon fidelio GmbH, Suhl, paragon firstronic GmbH, Suhl, paragon facilio GmbH, Delbrück, paragon forstep GmbH, St. Georgen, and paragon finesse GmbH, Delbrück. The contracts, which were approved at the Shareholders Meeting of May 24, 2005, became effective January 1, 2005.

5. Finances

The Group had cash and cash equivalents in excess of € 4.8 million as of the balance sheet date (previous year: € 5.4 million).

As in 2004, paragon AG issued participation rights in the course of 2005 based on a resolution passed at the Shareholders Meeting on May 12, 2004. Subscriptions to the publicly available tranche in the course of the year under review totaled € 4 million less transaction costs of € 248,000, while subscriptions to the tranche reserved for institutional investors amounted to € 6 million less € 210,000 in transaction costs. The rights offering expired at the end of 2005.



Beyond that, there is a dormant minority stake in Cullmann GmbH in the amount of € 8.8 million.

Together with the 2004 placement, paragon holds an interest in Cullmann GmbH totaling € 26.2 million (previous year: € 7.8 million) composed of participation rights and a dormant minority interest.

Liabilities to banks amounted to € 24 million as of the balance sheet date (previous year: € 16.9 million) of which € 13.9 million (previous year: € 8.4 million) will mature within the year. Net cash flow from operating activities in the amount of € 7.6 million exceeded the previous year's total by € 3.3 million.

Net cash outflow from investing activities was € 14.6 million, which is € 3.2 million less than the year before. Net cash flow from financing activities was € 6.4 million, which is € 10.2 million less than the year before. Please refer to the section on the cash flow statement in the notes.

6. Financial Position

Total assets increased in 2005 from € 64.5 million to € 113 million due to capital expenditure and the equity investment in Cullmann GmbH. Equity totaled € 20 million as of December 31, 2005. Equity before minority interests in the amount of € 16.3 million plus participation rights and the dormant minority stake, totaling € 26.2 million, accounted for 37.7% of total equity as of December 31, 2005 (previous year: 35.4%). Return on equity was 12.8% compared to 21.1% in 2004. Long-term liabilities to banks exclusive of participation rights were € 10.1 million compared to € 8.5 million the year before while current liabilities to banks were € 13.9 million (previous year: € 8.4 million).

The increase in assets was essentially due to a rise in non-current assets from € 39.3 million in 2004 to € 71.8 million. This in turn primarily reflected an increase in property, plant and equipment of € 7.4 million caused by the expansion of production capacity at Suhl. Moreover, goodwill increased by € 15.5 million following the acquisition of the indirect majority in Cullmann GmbH. Cash and cash equivalents as of December 31, 2005 totaled € 41.3 million (previous year: € 25.2 million). The increase is due primarily to a rise in miscellaneous assets



from € 2.4 million in 2004 to € 12.4 million. Included in this amount is a claim for restitution against a minority shareholder in accordance with Sections 30, 31 GmbHG in the amount of € 10.9 million. Accounts receivable jumped from € 5.7 million in 2004 to € 9.7 million due to the expansion of business activities.

Return on investment in the year under review was 2.5% (previous year: 5.8%). This key figure allows us to gauge various investment decisions in terms of the interest that could be earned on the capital employed, thus reflecting the evolution of the company's earning power.

7. Employees

paragon employed 527 people worldwide (388 in 2004) as of December 31, 2005; 480 of whom worked in Germany in Delbrück/North Rhine-Westphalia, Suhl/Thuringia, St. Georgen/Baden-Württemberg, Cadolzburg/Bavaria and Heidenheim/Baden-Württemberg. There was 1 employee in Paris/France and 46 in Grand Rapids/USA. The paragon Group enabled 19 apprentices to enter the workforce in Germany during the course of 2005.

Personnel expenses rose from € 12.4 million to € 17.9 million. The ratio of personnel expenses to sales climbed from 17.5% in 2004 to 20.5%.

paragon established a workshop with its own department head to enable apprentices to get started in their careers at the beginning of 2005. Furthermore, the company is conducting continuing education programs designed to keep employees' qualifications up to date and to broaden their personal and professional horizons.

8. Research and Development

Innovation and quality are major success factors. Group outlays for research and development amounted to € 6.2 million in the year under review, versus € 2.6 million in the year before. Eighty-five people work in research and development for the Group. Every paragon facility is quality certified according to the strictest ISO/TS 16949 industry norm. Additionally, every German manufacturing facility is certified according to the ISO 14001 norm. The paragon Group possesses over 200 patents worldwide.

Development activity focused on the following areas:

Automotive

Emphasis in Climate Systems was on new sensor elements and a new generation of air-quality sensors capable of detecting odors such as fertilizers. paragon also greatly expanded its existing lineup of air-quality sensors, fitting them with additional functions.

Control and Instrumentation Systems concentrated in 2005 on developing a central control device, a sensor to determine the position of the clutch pedal, and an inductive 3D position sensor. Other focal points were development of the paragon stopwatch, numerous display instruments such as clocks and revolution counters, development of a signal splitter and a new universal generation of stepping motors. paragon USA has also taken the first developmental steps for display instruments.

paragon fidelity GmbH – the Group's competence center for car media systems – has consolidated the former communication activities of paragon AG and those of Cullmann GmbH, subsequent to the latter company's acquisition. Emphasis here was on the development of two platforms with the goal of meeting the new demands of the automobile industry for interconnectivity of multimedia consumer devices in cars. Using the above-mentioned platforms as a basis, we focused on developments in the following areas: improvements in the functionality of hands-free telephones, integration of multimedia applications in automobiles, hybrid navigation via mobile telephone, navigation solutions in the outside rear-view mirror, navigation via bluetooth cell phone, improvements to the hands-free Integramic microphone, final refinements prior to production of the Beltmic seat-belt microphone, various telematic applications such as an electronic logbook, improvements to the telematic box and the chip card reader, and development of a back-up camera system.

Building Technology

Along with external developers, paragon concentrated on refinements to electronic ballasts.

9. Purchasing

The responsibility of purchasing in the paragon Group is to select the best suppliers with regard to quality, innovativeness, reliability and cost. Business conditions in 2005 led once again to heightened competition in both domestic and international markets for electronic and electro-mechanical components and plotters. The paragon Group was therefore able to satisfy its needs for materials at better prices than in the year before. Cost of materials amounted to € 45.6 million compared to € 40.8 million in 2004. The ratio of cost of materials to sales was 52.3 % versus 57.7 % in 2004.

10. Risk Report

The business activities of paragon AG are, by their global nature and due to increasing competition, subject to a number of different risks that are inseparable from any entrepreneurial activity. paragon carries out extensive risk management to recognize, assess and deal with risks early on. Built-in planning, controlling and reporting processes keep the Managing Board abreast of major risks. The Managing Board, in turn, reports to the Supervisory Board on risks.

Furthermore, in the case of major tax, competitive, patent or legal questions, paragon will rely on external consultants.

Despite some signs of softening, the global economy remains quite positive, and paragon does not anticipate any major threats at this time. Rising demand for paragon products largely insulates the company from fluctuations in the business cycle.

The risk of interest-rate fluctuations is insignificant because the majority of long-term liabilities and currency risks are secured by fixed-rate contracts. Nevertheless, currency risk could assume more importance, should business activities that are denominated in dollars expand. We make use of financial derivatives to counter the remaining risks. As of

the date of the balance sheet, financial derivatives existed in the form of interest-rate swaps and hedging contracts.

Nevertheless, paragon could face increased exposure to risks posed by the complex American market, should the company expand its activities in the United States. paragon of North American Corp. experienced a loss of \$676,000 in fiscal 2005, resulting from a project that was initiated in fiscal 2004. The project was terminated during the first quarter of 2005 due to unforeseeable increased expenses. Business for the rest of 2005, however, was not sufficient to compensate for the resultant loss.

The United States poses great potential for 2006 and we anticipate that sales will clearly exceed 2004's \$11.2 million. We therefore anticipate no further threat to the assets, finances and earnings of paragon AG.

We have largely reduced the risks associated with research and development by pursuing close, intensive communications with our customers. We involve purchasing, manufacturing and quality assurance in the development process early on to ensure optimum results throughout all phases of the process. A special controlling function steers the entire process.

Extensive integrated controlling of the sales and marketing function enables paragon to recognize sales risks early on. Market data and data from our competitors undergo analysis, and flow into short- and medium term planning. In addition, regularly scheduled meetings help coordinate sales, production and development activities.

paragon currently derives most of its income from customers involved in the automobile industry. There is an associated risk of doing business with such a concentrated group of customers. paragon therefore diversifies among several business and product areas in an attempt to minimize the risk associated with eventual negative trends in individual branches. We anticipate no threats to our business from this quarter at this time.

Master contracts and annual agreements secure a major portion of purchasing costs. As a result, paragon's supply situation is largely unproblematic. More than 75% of all goods purchased come from Europe; the remaining goods come from the USA and Asia. Payment terms are those commonly seen in our business. Purchasing currency is the euro and, to a certain extent, the dollar. Fluctuations



in the latter currency, however, pose no significant threat at the moment.

Manufacturing operations are subject to ongoing improvement in order to adapt production and logistics structures to the rapid pace of innovation and growth. Continual monitoring of cash flow minimizes the risk of insolvency. Consistent monitoring of accounts receivable guarantees continued liquidity. In addition, a major portion of receivables is secured by insurance.

Pending litigation should have no significant impact on the company or its operations.

General indemnity risks that industrial companies commonly face, moreover, are essentially covered by appropriate insurance, as are special risks for automotive suppliers and patent holders.

We see no threats to the continued existence of the company and the Group as a going concern. The risk-management measures outlined above assure an effective response to all relevant risks resulting from changes in price, loss, liquidity and cash flow. Risk analysis indicates that neither individual nor cumulative risks will be able to have a significant impact on the assets, finances and earnings of the company and the Group.

Opportunities counterbalance any entrepreneurial risks. The paragon Group's favorable market position, extensive research and development activity, and targeted acquisitions will yield opportunities. The paragon Group will continue to discover and serve market niches.

11. Corporate Governance and Voluntary Report by the Managing Board in Accordance with Section 312 of the German Stock Corporation Act (AktG)

The Managing and Supervisory Boards of paragon Aktiengesellschaft passed the following Declaration of Compliance in accordance with section 161 AktG at their meeting of December 7 and 8, 2005:

paragon Aktiengesellschaft conforms to the recommendations of the German Corporate Governance Code in the version dated June 2, 2005 with the following exceptions. Furthermore, it will conform to the recommendations of the German Corporate Governance Code in the version dated June 2, 2005 with the following exceptions:

- a reasonable deductible in accordance with No. 3.8 of the code has not been included in the Directors & Officers insurance policy that the company took out for the Managing and Supervisory Boards;
- the Supervisory Board has not set a cap for extraordinary unforeseen developments in accordance with No. 4.2.3 of the code;
- information regarding remuneration of members of the Managing Board is not itemized in the financial statements as required by No. 4.2.4 of the code;
- information regarding remuneration of members of the Supervisory Board is not itemized in the financial statements as required by No. 5.4.7 of the code.

Shareholders can view this statement on the Internet at: www.paragon-online.de.

The report that the Managing Board of paragon AG prepared concerning the relationship of Mr. Klaus Dieter Frers, the majority shareholder, to affiliated companies in accordance with section 312 AktG contains the following conclusion: "We hereby declare in accordance with section 312 (3) AktG as follows: paragon AG receives adequate consideration for any dealings mentioned in the report on the relationship of Mr. Klaus Dieter Frers to affiliated companies. Furthermore, the company has not been disadvantaged by either commission or omission. This opinion is based on the facts known to us at the time that any dealings subject to report occurred."

12. Events after the Balance Sheet Date

We are not aware of any other information or events subsequent to year-end 2005 that could have an adverse impact.

13. Outlook

We see continued potential for growth in fiscal 2006 for all of our businesses. Sustained, profitable growth, nevertheless, will remain our core objective. We are projecting sales growth in the vicinity of € 110 to € 115 million with a corresponding growth in earnings.

The automotive supply industry will continue to profit from outsourcing by automobile manufacturers. Moreover, we expect that 2006 will see increased demand for automobiles. The significance of the automotive business will therefore increase for the paragon Group. Automotive business accounted for over 70 % of Group sales in 2005 and we expect that percentage to climb in 2006.

European market volume for sensors used in the automobile industry will continue to grow in the years to come. The paragon Group therefore anticipates that its Climate Systems division will experience heightened demand for established air-quality sensors. Furthermore, we see good opportunities for air improvement systems and other sensors. With regard to control and display instruments, there is quite a bit of potential among components already in the line-up for multi-function steering wheels and electronically supported shifting ("shift-by-wire"), for telematic applications and for display instruments. We see lots of opportunity for shifters and shift levers as well.

Communication and climate technology are likewise automotive growth engines. In contemplating the burgeoning market for automotive components, we expect communications to enjoy the highest growth rates. The acquisition of the indirect majority in Cullmann GmbH will be the crucial step in expanding car media systems. We were able to enhance paragon's know-how in this field of technology while greatly improving our position as a direct supplier to the automobile industry. The future will see tremendous growth in the integration of modern communications end devices, navigation and telematic applications in cars. Its climate systems, control and display

instruments and car media systems position paragon to provide an extensive lineup of products for automobiles

Electronic solutions will remain significant as a basic technology. paragon will continue to benefit here from the growing trend towards the custom manufacture of high-end electronics. By spinning off paragon firstronic GmbH and by concentrating on its target group, we will be able to work on customized integrated solutions even more efficiently.

The Company is well positioned for 2006 and is poised for further growth. paragon will continue to exploit opportunities by making acquisitions aimed at consolidating and improving its market share and innovative strength. The main focus will be on innovative businesses that complement our product lineup, allowing us to provide complete systems from a single source.

Forward-looking statements contain risks

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

Delbrück, March 21, 2006



Frers

Member of the Managing Board



John

Member of the Managing Board

Consolidated Income Statement for the year ended December 31, 2005

in € (000)	Notes	2005	2004
Revenue	(1)	80,166	64,708
Other operating income	(2)	4,619	2,522
Changes in inventory of finished goods and work in progress		- 655	2,317
Other own work capitalized	(3)	3,004	1,193
Total operating revenue		87,134	70,740
Cost of materials	(4)	- 45,611	- 40,825
Gross income		41,523	29,915
Personnel expense	(5)	- 17,863	- 12,381
Depreciation/amortization/impairment of property, plant and equipment and intangible assets		- 7,330	- 5,115
Other operating expenses	(6)	- 9,760	- 7,202
Earnings before interest and taxes (EBIT)		6,570	5,217
Financial income		114	50
Financing expenses		- 3,180	- 1,746
Financial result	(7)	- 3,066	- 1,696
Income before taxes		3,504	3,521
Income taxes	(8)	- 1,156	- 595
Other taxes		- 99	- 63
Net income		2,249	2,863
Minority interests		985	0
Net income attributable to equity holders of the parent		1,264	2,863
Earnings per share (basic)	(9)	0.55	0.71
Earnings per share (diluted)		0.55	0.70
Average number of shares outstanding (basic)		4,066,219	4,025,205
Average number of shares outstanding (diluted)		4,107,253	4,093,890

Consolidated Balance Sheet for the year ended December 31, 2005

in € (000)	Notes	Dec. 31, 2005	Dec. 31, 2004
Assets			
Non-current assets			
Intangible assets	(10)	23,542	16,020
Goodwill	(10)	17,981	2,476
Property, plant and equipment	(11)	27,940	20,547
Financial assets	(12)	200	0
Deferred tax assets	(13)	2,111	242
Total non-current assets		71,774	39,285
Current assets			
Inventories	(14)	13,981	11,721
Trade receivables	(15)	9,704	5,702
Income tax claims		363	0
Other assets	(15)	12,371	2,351
Cash and cash equivalents	(16)	4,832	5,432
Total current assets		41,251	25,206
Total assets		113,025	64,491
Liabilities and equity			
Equity			
	(17)		
Subscribed capital		4,086	4,037
Capital reserves		7,565	7,318
Net income attributable to equity holders of the parent		1,264	2,863
Retained earnings		4,224	1,765
Reserve for currency translation differences		- 790	- 987
Equity before minority interests		16,349	14,996
Minority interests		3,695	0
Equity after minority interests		20,044	14,996
Non-current liabilities			
Long-term financial lease liabilities	(18)	1,459	1,537
Long-term loans	(18)	10,118	8,465
Profit sharing capital	(19)	17,483	7,817
Silent equity holding	(20)	8,754	0
Investment grants	(21)	10,062	9,237
Deferred tax liabilities	(13)	5,048	1,767
Provisions for pensions	(23)	853	759
Total non-current liabilities		53,777	29,582
Current liabilities			
Current portion of financial lease liabilities	(18)	1,019	809
Short-time loans and current portion of long-term loans	(18)	13,899	8,385
Trade liabilities	(18)	12,398	5,917
Other provisions	(22)	5,149	2,495
Income tax liabilities		1,783	0
Liabilities to minority shareholders		1,081	0
Other current liabilities	(18)	3,875	2,307
Total current liabilities		39,204	19,913
Total equity and liabilities		113,025	64,491

Consolidated Cash Flow Statement

in € (000)	Notes	2005		2004	
Cash flow from operating activities					
Income before taxes and deferred taxes		3,405		3,458	
Adjustment for:					
impairment losses		7,330		5,115	
Financial result		3,066		1,696	
Gains/losses from the disposal of non-current assets		- 144		0	
Change of the other provisions and provisions for pensions		- 565		- 221	
Income from reversal of special account for grants		- 1,701		- 1,572	
Other non-cash income and expense		- 177		- 10	
Change in trade receivables, other receivables and other asset		- 1,082		1,262	
Change in inventory level		- 268		- 2,620	
Change in trade payables and other liabilities		- 1,751		- 1,078	
Interest paid		- 3,180		- 1,746	
Income taxes		- 835		0	
Net cash from operating activities	(24)	7,601		4,284	
Cash flow from investing activities					
Payments for investment minus residual carrying amount of asset disposals		- 12,613		- 21,670	
Payments for the purchase of subsidiaries		- 5,214		- 2,772	
Additions of cash and cash equivalents from the acquisition of subsidiaries		1,011		1,041	
Funds from investment grants		2,094		5,495	
Interest received		114		50	
Net cash from investing activities	(25)	- 14,609		- 17,856	
Cash flow from financing activities					
Dividend distribution to shareholders		- 404		0	
Repayment of (financial) credits		- 11,887		- 8,315	
Proceeds from (financial) credits taken		8,818		16,888	
Proceeds from equity additions		211		184	
Net cash from the issuance of profit-sharing capital		9,665		7,817	
Net cash from financing activities	(26)	6,403		16,574	
Exchange rate changes		5		- 22	
Change in cash and cash equivalents		- 600		2,980	
Cash and cash equivalents at the beginning of the period		5,432		2,452	
Cash and cash equivalents at the end of the period	(27)	4,832		5,432	

Segment Report

According to business segments

in € (000)	Auto- motive 2005	Auto- motive 2004	Electronic Solutions 2005	Electronic Solutions 2004	Building Technology 2005	Building Technology 2004	Total 2005	Total 2004
Revenues from third parties	57,325	39,569	22,113	24,239	728	900	80,166	64,708
Earnings before income and taxes (EBIT)	5,822	3,934	706	1,185	42	98	6,570	5,217
Segment assets	82,376	39,652	10,927	15,808	45	1,006	93,348	56,466
Segment liabilities	11,080	3,314	1,313	2,535	5	68	12,398	5,917
Investments	11,954	14,724	2,282	7,977	0	369	14,236	23,070
Impairment losses	6,418	3,323	912	1,715	0	77	7,330	5,115

According to geographical segments

in € (000)	Europe 2005	Europe 2004	USA 2005	USA 2004	Total 2005	Total 2004
Revenues from third parties	71,477	58,969	8,689	5,739	80,166	64,708
Earnings before income and taxes (EBIT)	6,968	6,040	- 398	- 823	6,570	5,217
Segment assets	87,881	52,241	5,467	4,225	93,348	56,466
Segment liabilities	10,296	4,802	2,102	1,115	12,398	5,917
Investments	13,738	22,677	498	393	14,236	23,070
Impairment losses	7,138	4,983	192	132	7,330	5,115

Consolidated Statement of Changes in Equity

in € (000)	Subscribed capital	Exchange rate differences	Capital reserves	Profit/loss carried forward	Net income	Minority interests	Total
Balance Jan. 01, 2004	4,005	- 774	7,111	399	1,366	0	12,107
Income after taxes					2,863		2,863
Accumulated profits/losses				1,366	- 1,366		0
Capital increase (exercise of stock options)	32		152				184
Addition due to stock option valuation			55				55
Currency translation changes		- 213					- 213
Balance Dec. 31, 2004	4,037	- 987	7,318	1,765	2,863	0	14,996
Balance Jan. 01, 2005	4,037	- 987	7,318	1,765	2,863	0	14,996
Income after taxes					1,264	985	2,249
Accumulated profits/losses				2,863	- 2,863		0
Dividend distribution				- 404			- 404
Capital increase (exercise of stock options)	49		162				211
Addition due to stock option valuation			85				85
Minority interests						2,710	2,710
Currency translation changes		197					197
Balance Dec. 31, 2005	4,086	- 790	7,565	4,224	1,264	3,695	20,044

Please refer to Item (17) for information on changes in equity.

Notes to the Consolidated Financial Statements for Fiscal Year 2005

Basis of presentation

paragon AG's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU. The consolidated financial statements are based on the standards and interpretations which became mandatory as of December 31, 2005. The standards changed by the Improvements Project as well as IFRS 2 and IFRS 3 were already used in fiscal year 2004. The previous year's figures were determined following the same principles.

The income statement was prepared using the nature of expense method.

paragon AG's shares are traded on the Frankfurt Stock Exchange in the Prime Standard segment of the regulated market.

The consolidated financial statements present a true and fair picture of the paragon Group's net assets, financial position and results of operations. The requirements pursuant to Section 315a German Commercial Code (HGB) for the preparation of consolidated financial statements in accordance with IFRS, as applicable in the EU, have been met.

The IASB has issued the following standards, interpretations and changes to existing standards, which paragon must use based on its business operations. However, their application is not yet mandatory and paragon did not use them prematurely.

The IASB published IFRS 7 in August 2005. This standard combines the information relating to financial instruments, which previously had been covered in IAS 30 "Disclosures in the financial statements of banks and similar financial institutions" and IAS 32 "Financial instruments: disclosure and presentation." In doing so, individual disclosure duties were changed or increased. The use of IFRS 7 is mandatory for fiscal years starting on or after January 1, 2007. Earlier application is recommended. The standard, which is mandatory for all companies, will cause paragon to provide expanded disclosures on financial instruments when applied for the first time.

In August 2005, the IASB announced an amendment of IAS 1 in connection with the publication of IFRS 7 "Financial instruments: disclosures." Accordingly, information must be published in the financial statements enabling the reader to evaluate the goals, methods and processes of the management of capital. The amendment of IAS 1 must be applied for fiscal years starting on or after January 1, 2007. Earlier application is recommended. The first-time application of this amendment of IAS 1 by paragon will lead to expanded disclosures in the notes.

In December 2004, the IASB published an amendment of IAS 19. Among others, this amendment relates to the following aspects:

- Expansion of the alternatives for recognizing actuarial gains and losses to include an option to recognize amounts arising in the reporting period in equity, outside of profit or loss.
- Change in the reporting of defined benefit pension plans

Unless they are optional, application of the amendments of IAS 19 is mandatory for fiscal years starting on or after January 1, 2006. Earlier application is recommended. The first-time application of this amendment of IAS 19 by paragon in fiscal 2006 is only expected to result in a change in the reporting of defined benefit plans in the Group. It is not currently planned to change from the immediate recognition of actuarial gains and losses in the income statement to direct recognition in equity.

The Managing Board of paragon AG forwarded the consolidated financial statements to the Supervisory Board on March 21, 2006. It is the responsibility of the Supervisory Board to review the consolidated financial statements and to decide if it will approve them.

Scope of consolidation

In addition to the parent company paragon AG, Delbrück, Germany, eleven companies are fully consolidated. The balance sheet date for all companies is December 31. The scope of consolidation and the shareholdings can be seen in the following table:

Scope of consolidation of paragon AG

	Shareholding	Consolidation	Sales in local currency
Germany			
paragon AG	parent company		€ 44,461,384
paragon fidelio GmbH, Suhl	100 %	full	€ 931,618
paragon firstronic GmbH, Suhl	100 %	full	€ 18,840,478
paragon facilio GmbH, Delbrück	100 %	full	€ 293,790
paragon forstep GmbH, St. Georgen	100 %	full	€ 9,384,961
paragon finesse GmbH, Delbrück	100 %	full	€ 0
paragon fidelity Verw. GmbH, Suhl	51 %	full	€ 0
paragon fidelity GmbH, Cadolzburg	100 %	full	€ 4,804,052
	(through paragon fidelity Verw. GmbH)		
USA			
paragon of North America Corp., Grand Rapids/Michigan	100 %	full	USD 6,345,772
paragon firstronic of NA Corp., Grand Rapids/Michigan (vormals Miquest Corp.)	100 %	full	USD 9,777,775
Chipco Inc., Elkhart/Indiana	100 %	full	USD 1,446,998
	(through paragon of North America Corp.)		
Japan			
paragon of Japan K.K.	100 %	full	JPY 0

With economic effect of August 5, 2005 and with effect in rem of October 1, 2005, paragon AG acquired 51% of the shares of paragon fidelity Verwaltungsgesellschaft mbH located in Suhl, Thuringia, at acquisition costs of € 16,742 thousand. The company operates as a pure financial holding.

paragon fidelity Verwaltungsgesellschaft mbH itself holds 100 % of the shares of paragon fidelity GmbH (formerly Cullmann GmbH) located in Cadolzburg, Germany. paragon fidelity GmbH continues the operating activities in the communications field. Control has been exercised since October 1, 2005 so that this company is included in the consolidated financial statements as of that time.

The first-time consolidation of the fidelity subgroup was effected following the staged model, paragon fidelity GmbH first being consolidated into paragon fidelity Verwaltungsgesellschaft mbH and paragon fidelity Verwaltungsgesellschaft mbH then being consolidated into paragon AG in a second step.

Under the terms of the initial consolidation of paragon fidelity GmbH as of October 1, 2005, the following assets and liabilities

were recognized in the balance sheet of paragon fidelity Verwaltungsgesellschaft mbH (in € thousands):

Acquisition costs of the investment	10,372
Current assets	30,289
Other non-current assets	8,044
Total assets	38,333
Current liabilities	17,831
Non-current liabilities	12,281
Deferred tax liabilities	2,661
Total liabilities	32,773
Revalued equity	5,560
Goodwill	4,813

The initial consolidation of paragon fidelity GmbH resulted in goodwill in the amount of € 4,813 thousand as the difference between the acquisition costs of the shares (€ 10,319 thousand) plus the directly attributable incidental acquisition costs (€ 53 thousand) and the revalued equity (€ 5,560 thousand). For the period October 1 to December 31, 2005, the income of the subgroup came to € 2,010 thousand.

Under the terms of the initial consolidation of paragon Verwaltungsgesellschaft mbH as of October 1, 2005, the following assets and liabilities were recognized in the consolidated balance sheet of paragon AG (in € thousands):

Acquisition costs of the investment	16,742
Current assets	24
Other non-current assets	10,372
Total assets	10,396
Current liabilities	53
Total liabilities	53
Revalued equity	10,343
Goodwill from the initial consolidation of paragon fidelity Verwaltungsgesellschaft mbH	4,813
Corrected equity	5,530
thereof 51% paragon AG	2,820
Goodwill	9,109

The initial consolidation of paragon fidelity Verwaltungsgesellschaft mbH resulted in goodwill in the amount of € 9,109 thousand as the difference between the acquisition costs of the shares (€ 16,583 thousand) plus the directly attributable incidental acquisition costs (€ 158 thousand) less the goodwill from the initial consolidation of paragon fidelity GmbH (€ 4,813 thousand) and the proportional revalued equity (€ 2,820 thousand) apportionable to paragon AG.

The following table shows the carrying amounts of the subgroup fidelity before the business combination as of September 30, 2005 (in € thousands):

Current assets	30,313
Non-current assets	1,022
Total assets	31,335
Current liabilities	17,884
Non-current liabilities	12,281
Total liabilities	30,165
Equity before revaluation	1,170

In the year under review, shareholder resolutions dated May 17, 2005 and the consent of the Annual General Meeting on May 24, 2005 led to the adoption of control and profit transfer agreements with the subsidiaries fidelio GmbH, paragon firstronic GmbH, paragon facilio GmbH, paragon forstep GmbH and paragon finesse GmbH. These agreements are effective as of January 1, 2005.

paragon of North America Corp., USA is the sole shareholder of paragon firstronic of NA Corp. (formerly Miquet Corp.), USA. In an agreement dated December 16, 2005, the Group acquired all of the shares of Chipco Inc., Elkhart, Indiana. This company is also active in Electronic Solutions. Control was assumed as of October 1, 2005 so that this company is included in the consolidated financial statements as of that time. The acquisition of Chipco Inc. at a purchase price of € 2,277 thousand (\$2,701 thousand) and directly attributable incidental acquisition costs of € 52 thousand (\$65 thousand) resulted in goodwill of € 1,443 thousand (\$1,712 thousand). For the period October 1 to December 31, 2005, the income of Chipco Inc. came to \$143 thousand.

Under the terms of the initial consolidation of this company as of October 1, 2005, current assets of € 868 thousand and other non-current assets of € 565 thousand were taken over into the consolidated balance sheet. Current liabilities of € 868 thousand, non-current liabilities of € 330 thousand and deferred tax liabilities of € 73 thousand were taken over. The revalued equity amounts to € 162 thousand.

Before the business combination, on September 30, 2005, the company's carrying amounts related to current assets of € 868 thousand and other non-current assets of € 349 thousand. The carrying amounts of the current liabilities amounted to € 868 thousand and the non-current liabilities € 330 thousand. Equity (before revaluation) came to € 19 thousand.

Under the assumption that the business combination had occurred as of January 1, 2005, the company's revenues for the

reporting period would have been € 4.9 million. It is not possible to state corresponding net income for the year due to the fact that no IFRS financial statement is available for this period.

Under the terms of an agreement dated October 25, 2005, paragon of Japan K.K. was organized. paragon AG holds all of the shares of this company. paragon of Japan K.K.'s purpose is to market paragon products in the Japanese and Asian markets from the location in Japan.

Principles of consolidation

The consolidated financial statements are based on the separate financial statements of the subsidiaries included in the consolidated Group which are prepared according to uniform policies under IFRS as of December 31, 2005, and audited and certified by independent auditors.

Equity of the parent and its subsidiaries is consolidated using the purchase method in accordance with IAS 27.22. Recognizing shares in the subsidiaries at their carrying amount in the parent company is replaced by recognizing the assets and the liability items of the consolidated companies at fair value. In this way, the equity of the subsidiaries is compared with the carrying amount of the shares in the parent company. A difference on the assets side is reported as goodwill under non-current assets and is tested annually for impairment in accordance with IFRS 3 and IAS 36.

Intercompany sales, expenses and revenues as well as all receivables and payables between consolidated companies are eliminated. Results arising from intercompany deliveries are eliminated from the asset categories of non-current assets and inventory.

Currency translation

At the time they are initially recognized, foreign currency transactions are translated into local currency at the rate applicable on the date of the transaction

Monetary accounts (cash and cash equivalents, payables and receivables) in foreign currency, which appear in the individual local currency financial statements of the consolidated companies, are valued at the rate applicable on the balance sheet date according to IAS 21. Non-monetary accounts in foreign currency are carried at historical rates. Exchange differences due to the conversion of monetary positions are taken to income.

Exchange rate losses from operations in the amount of € 14 thousand and gains in the amount of € 48 thousand are contained in the income statement. These price differences are stated in other operating expenses or other operating income.

As of the balance sheet date, the balance of the currency translation differences, which was recognized as a separate item in equity, is € 790 thousand (previous year: € 987 thousand). The intrayear changes in currency differences in equity in the amount of € 197 thousand relate to the differences from the currency translation of the financial statements of the American subsidiaries, which were prepared in US dollars.

Notes to the consolidated income statement

The consolidated income statement is prepared based on the cost of production method.

Sales revenues are reported as soon as the delivery has been made or the service rendered. For delivery/supply transactions, this is basically the time of transfer of risk after the physical delivery. Furthermore, the economic benefit must be sufficiently probable and the incurred costs reliably determinable. Operating expenses are recognized at the time the service is used or at the time of economic causation.

(1) Sales revenues

Sales revenues include sales of products and services reduced by reductions in income. Of the sales revenues for the fiscal year of € 80,166 thousand (previous year: € 64,708 thousand), domestic sales accounted for € 66,438 thousand (previous year: € 55,692 thousand) and foreign sales € 13,728 thousand (previous year: € 9,016 thousand).

Sales revenues are broken down according to strategic divisions as well as regions in the appended segment report.

(2) Other operating income

Other operating income includes primarily the pro-rated liquidation of the special subsidy account amounting to € 1,701 thousand (previous year: € 1,572 thousand), expense grants taken immediately to income, proceeds from insurance payments and payments of damages, proceeds from asset disposals and proceeds from the release of provisions. The proceeds from currency translation amount to € 48 thousand.

(3) Other work performed and capitalized

Own work performed includes project-related development expenses of € 3,004 thousand, which meet the prerequisites of IAS 38.45. The capitalized amounts are recognized under intangible assets.

(4) Cost of materials

in € (000)	2005	2004
Raw materials and supplies	42,222	38,678
Purchased services	3,389	2,147
Total	45,611	40,825

(5) Personnel expense

Expenses related to salaries and wages amounted to € 14,574 thousand over the past fiscal year (previous year: € 10,161 thousand). € 3,289 thousand (previous year: € 2,220 thousand) was expended on social security contributions and pensions. This amount included expenses for pensions of € 221 thousand (previous year: € 84 thousand).

(6) Other operating expenses

Primarily legal and consultancy fees, investor relations expenses, advertising and marketing as well as corporate insurance are reported under other operating expenses. The expenses from currency translation amounted to € 14 thousand in fiscal 2005.

Other operating expenses in the reporting year amounted to € 9,760 thousand (previous year: € 7,202 thousand).

(7) Financial result

The financial result arises from the netting of interest and similar income amounting to € 114 thousand (previous year: € 50 thousand) and interest expense of € 3,180 thousand (previous year: € 1,746 thousand).

(8) Income tax

Income tax includes the taxes and income taxes to be paid under the income tax pooling arrangement for which paragon AG is the entity liable for taxes. The account also includes deferred taxes. Income tax expenses relate to € 2,405 thousand (previous year: € 287 thousand) in income taxes as well as € 1,249 thousand in deferred tax income (previous year: € 308 thousand in deferred tax expense).

Deferred taxes are the result of timing differences in reporting between the Company's statements for tax purposes and the consolidated financial statements using the "liability method."

Deferred tax assets and liabilities are formed in connection with the following accounts and situations:

in € (000)	12/31/2005		12/31/2004	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	1,886	4,362	19	1,091
Property, plant and equipment	19	333	0	370
Receivables and other assets	35	15	38	13
Provisions for pensions	171	0	105	0
Other provisions		93		93
Liabilities		35		38
Profit sharing rights		210		162
Loss carryforwards			80	
	2,111	5,048	242	1,767

The increase in deferred tax assets on intangible assets is attributed to an intercompany transfer of patent rights. The increase of deferred tax liabilities on intangible assets relates primarily to the capitalization of development expenses as well as additional intangible assets acquired in connection with the acquisition of Cullmann GmbH (presently paragon fidelity GmbH).

Domestic deferred taxes were computed as of December 31, 2005, as in the previous year, based on a corporate tax rate of 25 %, a solidarity surcharge of 5.5 % as well as an effective trade tax rate of 15.2%. This reflects a combined tax rate of 37.6 % (theoretical tax rate for dividend distribution)

A combined income tax rate of 34 % was used in calculating deferred taxes in the US.

Deferred tax assets amounting to € 2,111 thousand (previous year: € 242 thousand) involve € 2,058 thousand related to domestic taxes and € 53 thousand related to foreign taxes. Deferred tax liabilities amounting to € 5,048 thousand (previous year: € 1,767 thousand) involve € 4,975 thousand related to domestic taxes and € 73 thousand related to foreign taxes.

Domestic deferred tax assets of € 2,058 thousand relate to deferred tax claims arising from timing differences in valuation.

The domestic corporate tax loss carryforwards were used up in the year under review; the deferred tax claim of € 80 thousand was released. Loss carryforwards in Germany may be used at any time provided the minimum taxation is considered, whereas in the US their use is limited to 20 years.

Foreign deferred tax claims of € 53 thousand (\$63 thousand) relate to timing differences in the valuation of inventories and receivables. Foreign deferred tax liabilities of € 73 thousand

(\$87 thousand) primarily relate to valuation disparities of non-current assets. Tax loss carryforwards in the amount of \$1,131 thousand exist for the subgroup paragon of North America Corp. as of the balance sheet date. Deferred taxes on this foreign loss carryforward were not capitalized.

Domestic deferred tax liabilities of € 4,975 thousand relate to valuation disparities resulting from timing differences and are primarily attributed to intangible assets capitalized according to IFRS which cannot be capitalized under German tax law. As part of the purchase price breakdown for the acquisition of the shares of paragon fidelity GmbH, deferred tax liabilities of € 2,661 thousand were formed without impacting the income statement.

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

Pursuant to IAS 12.81 the actual tax expense is to be compared with the tax expense that would theoretically result from using the applicable the tax rates on reported pre-tax earnings.

Of the income taxes for fiscal year 2005 in the amount of € 1,156 thousand (previous year: € 595 thousand), domestic taxes accounted for € 1,207 thousand (previous year: € 513 thousand) and foreign taxes for € -49 thousand (previous year: € 82 thousand). Income taxes are made up of current income taxes of € 2,405 thousand (previous year: € 287 thousand), of which € 2,399 thousand (previous year: € 298 thousand) is accounted for by domestic taxes and € 6 thousand (previous year: € -11 thousand) by foreign taxes, as well as deferred income taxes of € 1,248 thousand (previous year: € 308 thousand), of which € -1,192 thousand (previous year: € 215 thousand) is accounted for by domestic taxes and € -56 thousand (previous year: € 93 thousand) by foreign taxes.

The following statement reconciles the theoretical tax expense to the actual tax expense.

in € (000)	2005	2004
Consolidated net income before tax	3,405	3,457
Theoretical tax expense at a tax rate of 37.6 %	1,280	1,300
Tax effects of subsidiary with negative contributions to consolidated income	132	425
Differences arising from disparity in tax rates	-21	38
Tax effects from non-deductible expenses and tax-exempt income	-480	-361
Differences resulting from consolidation measures	0	-807
Tax expense from previous years	203	0
Actual income tax expense	1,156	595

(9) Earnings per share

Basic earnings per share are calculated by dividing consolidated income by the weighted average number of shares issued. The weighted average number of shares issued was 4,066,219 in the year under review (previous year: 4,025,205).

With consolidated income of € 2,249 thousand (previous year: € 2,863 thousand), the basic earnings per share is € 0.55 (previous year: € 0.71).

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

paragon AG's stock option plans create the basis for a potential dilution of earnings per share. Under these plans, management receives option rights for the purchase of paragon AG shares. Exercising these subscription rights depends on the price movement of the paragon share. During 2005, based on an average annual paragon share price of € 16.38 and a strike price of € 7.98 (first tranche), € 3.78 (second tranche), € 3.88 (third tranche) and € 15.09 (fourth tranche) dilution by 41,034 shares (previous year: 68,685) transpired.

The calculation of diluting shares was undertaken according to the following formula:

Potentially diluting common shares [each] =

$$\text{subscription rights issued [each]} \times \left(1 - \frac{\text{strike price}}{\text{share price}}\right)$$

1st tranche

$$2,664 = 5,195 \times \left(1 - \frac{€ 7.98}{€ 16.38}\right)$$

2nd tranche

$$4,814 = 6,258 \times \left(1 - \frac{€ 3.78}{€ 16.38}\right)$$

3rd tranche

$$31,193 = 40,876 \times \left(1 - \frac{€ 3.88}{€ 16.38}\right)$$

4th tranche

$$2,363 = 30,000 \times \left(1 - \frac{€ 15.09}{€ 16.38}\right)$$

The number of shares to be used in calculating the diluted earnings thus rose to 4,107,253 shares. Diluted earnings per share is rounded to € 0.55 (previous year: € 0.70). Diluted earnings per share was calculated according to IAS 33.24 ff.

Further explanation concerning the stock option program can be found in Ite (31).

Notes to the consolidated balance sheet

Recognition and measurement

The consolidated financial statements were prepared based on the historical cost concept except for assets and liabilities that must be recognized at fair value. In the paragon Group, this relates to specific financial instruments and provisions.

We refer in this regard to the notes to the numbered items.

In preparing the consolidated financial statements, it is necessary to make estimates and assumptions, which have an impact on the amounts indicated for assets, liabilities and contingent liabilities as of the balance sheet date as well as the reporting of income and expenses of the period under review. The actual amounts may deviate from these estimates.

Assets

Changes in non-current assets are presented in a separate consolidated statement of changes in non-current assets which is appended to the consolidated notes.

(10) Goodwill and other intangible assets

Acquired intangible assets are reported at cost. They are amortized over their useful life according to the straight-line depreciation method. In the case of licenses, patents and software, the useful life is taken to be between three and ten years. To the extent necessary, impairment losses are recorded, which can be reversed at a later date, if reasons for the original write-down are permanently eliminated. Due to the voluntary earlier application of IFRS 3 (2004), goodwill has no longer been amortized since January 1, 2004. An impairment test as defined in IAS 36 (2004) must be performed at least annually. A review showed that there were no events and circumstances in fiscal 2005 that led to an impairment or a reversal of an impairment. The goodwill in the amount of € 1,062 thousand (\$1,259 thousand) arising from the acquisition of the shares of Miquet Corp. was allocated to the cash-generating unit paragon firstronic of NA Corp. (formerly Miquet Corp.).

The goodwill in the amount of € 1,443 thousand (\$1,712 thousand) arising from the inyear acquisition of Chipco Inc. was allocated to the cash-generating unit Chipco Inc.

The goodwill in the amount of € 13.9 million arising from the inyear acquisition of Cullmann GmbH was allocated to the cash generating unit paragon fidelity GmbH and paragon fidelity Verwaltungsgesellschaft mbH.

Pursuant to IAS 36, goodwill must be assessed for retention of value once annually by performing an impairment test. In doing this, the carrying amount of a cash-generating unit is compared with the recoverable amount. In this connection, every individual unit is regarded as a cash-generating unit. The recoverable amount corresponds to the value in use determined according to the discounted cash flow method. The basis for determining future cash flows is the data from the detailed corporate planning for the fiscal years until 2010 with a subsequent transition to perpetual annuity. The free cash flows are discounted at an 11% interest rate to determine the present value of the cash flows. If the recoverable amount of a business division is less than its carrying amount, the goodwill is first subjected to an impairment loss in the amount of the difference.

An intangible asset produced in the development or during the development phase of an internal project is to be capitalized at conversion costs, providing criteria (a) to (f) of IAS 38.45 are met, and amortized over the anticipated useful life of from three to six years. Total development costs for the period amounted to € 6,194 thousand (previous year: € 2,590 thousand). Of that amount, € 3,004 thousand (previous year: € 1,123 thousand) in internal development costs were capitalized as intangible assets; amortization during the fiscal year amounted to € 1,007 thousand (previous year: € 629 thousand). This includes an impairment loss of € 98 thousand according to IAS 38.97 in conjunction with IAS 36. In total, internal development costs have been capitalized as intangible assets with a residual carrying amount of € 3,914 thousand (previous year: € 1,895 thousand) as of the balance sheet date. Development was focused on air quality sensors and air treatment for motor vehicles, car media systems in the communications segment, display instruments as well as sensor elements and paste production.

(11) Property, plant and equipment

Property, plant and equipment is accounted for at cost or conversion cost and depreciated over its useful life using the straight-line method. Subsequent purchase costs are not capitalized. Where acquisitions are made in a foreign currency, subsequent changes in exchange rates have no effect on the reporting of original cost or conversion costs.

Fixed asset schedule 2004

in € (000)	Cost as of 01/01/2004	Exchange rate changes	Additions (third party)	Addition "Haller acquisition" 08/01/2004	Re- classifications	Disposals (third party)	Accumulated depreciation/ amortization as of 12/31/2004	Carrying amount as of 12/31/2004	Carrying amount as of 12/31/2003	Depreciation/ amortization 2004
Intangible assets and goodwill										
Licenses, patents, software	3,769	- 29	10,466	1,056	911	22	3,002	13,149	2,007	1,283
Capitalized development costs	2,845	- 16	1,123	1,150		790	1,441	2,871	1,414	803
Prepayments against intangible assets	450	0	0	0	- 450	0	0	0	450	0
Goodwill	1,554	- 334	457	1,098	0	0	299	2,476	1,039	42
Total	8,618	- 379	12,046	3,304	461	812	4,742	18,496	4,910	2,128
Property, plant and equipment										
Land and buildings	5,060	- 230	4,418	1,556	1,497	48	1,144	11,109	4,130	443
Technical plant and machinery	9,570	- 125	3,192	190	365	872	6,748	5,572	4,082	1,943
Office furniture and equipment	2,213	- 59	1,683	258	0	420	1,540	2,135	1,133	601
Prepayments on equipment under construction	2,323	0	1,731	0	- 2,323	0	0	1,731	2,323	0
Total	19,166	- 414	11,024	2,004	- 461	1,340	9,432	20,547	11,668	2,987
Financial assets										
Investments	23	0	0	0	0	- 23	0	0	23	0
Total	23	0	0	0	0	- 23	0	0	23	0
Total	27,807	- 793	23,070	5,308	0	2,175	14,174	39,043	16,601	5,115

Fixed asset schedule 2005

in € (000)	Cost as of 01/01/2005	Exchange rate changes	Additions (third party)	Addition "Cullmann and ChipCo acquisition" 10/01/2005	Re- classifications	Disposals (third party)	Cost as of 12/31/2005	Accumulated depreciation/ amortization on as of 12/31/2005	Accumulated depreciation/ amortization on as of 12/31/2004	Carrying amount as of 12/31/2005	Carrying amount as of 12/31/2004	Depreciation/ amortization 2005
Intangible assets												
Licenses, patents, software	17,301	25	435	7,577	0	77	25,261	5,632	3,176	19,629	14,125	2,281
Capitalized development costs	3,162	-20	3,004	0	0	489	5,657	1,744	1,267	3,913	1,895	1,007
- hereof impairment pursuant to IAS 36								98				98
Goodwill	2,775	156	0	15,365	0	2	18,294	313	299	17,981	2,476	0
Total	23,238	161	3,439	22,942	0	568	49,212	7,689	4,742	41,523	18,496	3,288
Property, plant and equipment												
Land and buildings	12,253	112	3,907	103	1,330	600	15,774	1,934	1,144	15,189	11,109	786
Technical plant and machinery	12,320	52	4,475	921	380	727	17,041	9,061	6,748	8,363	5,572	2,265
Office furniture and equipment	3,675	29	2,001	3,132	165	753	8,085	4,081	1,540	4,167	2,135	991
Prepayments and equipment under construction	1,731	0	214	180	-1,875	9	2,116	0	0	241	1,731	0
Total	29,979	193	10,597	4,336	0	2,089	43,016	15,076	9,432	27,940	20,547	4,042
Financial assets												
Investments	0	0	200	0	0	0	200	0	0	200	0	0
Total	0	0	200	0	0	0	200	0	0	200	0	0
Total	53,217	354	14,236	27,278	0	2,657	92,428	22,765	14,174	69,663	39,043	7,330

In the case of buildings, useful life is considered to be 20 – 25 years, for technical plant between five and ten years, and for other plant and office furniture and equipment three to ten years. To the extent necessary, impairment losses are recorded pursuant to IAS 36, which can be reversed at a later date if reasons for the original write-down are permanently eliminated. The terms used for depreciation and useful life are reviewed on a yearly basis.

Where items are rented or leased and beneficial ownership lies with the Group company concerned (finance lease), they are capitalized at the lower of the net present value of lease installments or their fair value in accordance with IAS 17 and written off over their useful life. Considerable portions of movable fixed assets are financed under lease contracts that normally run for four years. Payments corresponding to future lease installments are recorded as liabilities. The net carrying amount of capitalized lease objects as of December 31, 2005 amounts to € 3,750 thousand (previous year: € 3,769 thousand). Corresponding payment obligations from future lease installments amount to € 2,478 thousand (previous year: € 2,346 thousand) and are recorded as liabilities. Capitalized lease objects are without exception technical plant and machinery.

(12) Financial assets

The shares in the amount of € 200 thousand recognized in financial assets relate to the unconsolidated investment in Paderborner Stadiongeseellschaft mbH, Paderborn, Germany. The shares are recognized at cost (€ 200 thousand) because no different present value is available.

(13) Deferred taxes

All income tax amounts to be paid in future arising from timing differences subject to taxes are accounted for as deferred tax liabilities; all future refundable amounts resulting from deductible timing differences, unutilized tax loss carryforwards and tax credits are reported as deferred tax assets. The provisions for deferred taxes are created pursuant to IAS 12. The tax rates already resolved and known at the balance sheet date or for the future are applied according to the "liability method." Additional explanation on deferred tax assets and liabilities is included under Item (8).

(14) Inventories

Inventories consist of the following:

in € (000)	12/31/2005	12/31/2004
Raw materials and supplies	7,708	5,466
Work in progress	6,259	6,255
Prepayments on inventories	14	0
Total	13,981	11,721

Inventories are valued at the lower of cost and net realizable value. In accordance with IAS 2, costs include, in addition to direct costs, overhead costs that can be attributed to the production process inclusive of appropriate depreciation on production equipment (costs of conversion). Pursuant to IAS 23.7, finance charges are directly recognized as an expense.

Inventory write-downs to the lower net realizable value recognized as an expense and came to € 399 thousand (previous year: € 184 thousand) as of the balance sheet date. As in the prior year, there were no grounds for reversals of impairment losses. Inventories valued at € 9,662 thousand (previous year: € 8,971 thousand) were used to securitize liabilities. Orders that would need to be reported under IAS 11 (long-term commissioned orders) did not exist on the balance sheet date.

(15) Trade receivables and other assets

in € (000)	12/31/2005	12/31/2004
Trade receivables	9,704	5,702
Other assets	12,371	2,351
Total	22,075	8,053

Trade receivables and other assets are recognized at amortized cost. Other assets include a receivable arising from restitution claims under Sections 30, 31 German Limited Liability Companies Act (GmbHG) against a minority shareholder of a subsidiary in the amount of € 10,865 thousand as well as grant claims for subsidiaries in connection with investments in property, plant and equipment at Suhl in the amount of € 498 thousand. Default and transfer risks are covered by appropriate allowances in the amount of € 534 thousand to the extent they are not covered by insurance. Receivables in foreign currency are translated at the exchange rate applicable at the time of the transaction. As of the balance sheet date, receivables in foreign currency are converted at rates on the balance sheet date.

(16) Cash and cash equivalents

Changes in cash and cash equivalents that constitute financing funds according to IAS 7 are shown in the appended cash flow statement. Cash on hand and bank deposits are shown at nominal value. Cash and cash equivalents include € 7 thousand in cash on hand and € 4,825 thousand in bank deposits.

Liabilities and equity

(17) Equity

Developments in equity are shown in the statement of changes in equity. Financial instruments are allocated to equity according to their economic nature under IAS 32.18.

As of December 31, 2005, the equity of paragon AG totals € 4,086,106.00 (previous year: € 4,036,634.00) and is broken down into 4,086,106 bearer shares with a notional share in capital of € 1.00 each. The capital increase was the result of the exercise of 49,472 option rights from paragon AG's stock option plan No. 1.

The capital reserve includes additional cash payments for the issue of shares. It was increased by € 162 thousand in fiscal 2005 through the exercise of option rights and by € 85 thousand through the recognition of share-based payments in accordance with IFRS 2. In the fiscal year, the capital reserve thus changed from € 7,318 thousand to € 7,565 thousand.

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.

Minority interests include the third-party shares in consolidated equity and in the net income of the consolidated companies and in fiscal year 2005 came to € 3,695 thousand (previous year: € 0 thousand).

Further explanation concerning the stock option plan can be found in Item (31).

Authorized capital

According to Section 5, Item 6, of the statutes, the Managing Board is authorized to increase the Company's share capital during the period ending Friday, April 30, 2010 to a maximum of € 2,000,000.00, in one or more stages, by issuing bearer shares against cash or non-cash contributions. The Managing Board is authorized, with the consent of the Supervisory Board, to:

- exclude the subscription rights of shareholders up to an amount of 10% of the share capital, in order to issue new shares against cash contributions at an issue price not significantly lower than the stock exchange price and
- exclude shareholders from subscription rights, in order to issue new shares against non-cash contributions for the acquisition of companies or shares in companies.

In the event that the Managing Board does not employ the authorization to exclude subscription rights, then shareholders' subscription rights can only be excluded for fractional amounts. The Managing Board is entitled to establish conditions of the share issue with the consent of the Supervisory Board. The Supervisory Board is authorized to modify the version of the statutes with respect to the scope of capital increases from authorized capital.

Dividend distribution

For fiscal year 2005, a proposal will be made to the Annual General Meeting to distribute a dividend of € 0.20 per share. This corresponds to a distribution sum of € 817,221.20 for 4,086,106 shares.

Changes in cash and cash equivalents that constitute financing funds according to IAS 7 are shown in the appended cash flow statement. Cash on hand and bank deposits are shown at nominal value. Cash and cash equivalents include € 7 thousand in cash on hand and € 4,825 thousand in bank deposits.

18) Liabilities

in € (000)	12/31/2005	12/31/2004
Current liabilities		
Current portion of financial lease liabilities	1,019	809
Short-time loans and current portion of long-term loans	13,899	8,385
Trade liabilities	12,398	5,917
Other current liabilities	4,956	2,307
Non-current liabilities		
Long-term financial lease liabilities	1,459	1,537
Long-term loans	10,118	8,465
- including those with a remaining term in excess of five years -	2,714	2,638

Liabilities are normally reported at amortized purchase. Any difference between amounts received and amounts repayable at maturity is amortized.

Receivables in foreign currency are translated at the exchange rate applicable at the time of the transaction. At the balance sheet date receivables in foreign currency are translated at rates on the balance sheet date.

Liabilities under finance leases (in particular lease agreements) normally have a term of four years. Repayments for the following years amount to € 2,478 thousand (previous year: € 2,346 thousand, of which € 1,019 thousand will come due during the 2006 calendar year. Future interest payments related to lease agreements amount to a total of € 209 thousand of which € 128 thousand will come due during 2006.

On the balance sheet date, current and non-current liabilities to banks are primarily securitized by

- Property charges for liabilities from loans in the amount of € 5,620 thousand
- Global assignment of all present and future trade receivables
- Collateral assignment of warehouse contents in the amount of € 9,662 thousand
- Directly enforceable guarantee on the part of Mr. Klaus Dieter Frers fixed at € 1,153 thousand
- Collateral assignment of plant, property and equipment in the amount of € 27,940 thousand

The term of non-current financial liabilities is up to 15 years. The interest rates for liabilities to banks are between 3.306 % and 8.25 % and are fixed for the contract term for the major portion of the loans and accordingly are not exposed to any significant risk of change. Single risks relating to variable-interest loans are

hedged by derivative financial instruments in the form of interest-rate swaps.

Other current liabilities are primarily composed of compensation for the recognized profit-sharing capital of € 1,334 thousand (previous year: € 216 thousand), liabilities from transport taxes and other indirect taxes in the amount of € 680 thousand (previous year: € 394 thousand), social security liabilities of € 483 thousand (previous year: € 327 thousand) as well as salary and wages liabilities of € 263 thousand (previous year: € 264 thousand).

Derivative financial instruments

As of the balance sheet date, derivative financial instruments existed in the form of interest rate hedging instruments, interest rate swaps and currency hedging instruments. Due to its international activities, the paragon Group is exposed to a number of financial risks. These include in particular the impacts of changes in interest rates and exchange rates.

paragon uses non-exchange-traded interest rate swaps as financial derivatives. The transactions are only entered into with banks of irreproachable financial standing. All derivatives are recognized in the balance sheet at market value. The market value of financial instruments is determined on the basis of published market prices on the balance sheet date.

paragon uses currency forwards in the form of forward plus contracts to hedge currency risks. They are recognized at market value in the balance sheet as of December 31, 2005. Market value is determined using the Black Scholes financial mathematics model.

Market values are recognized in other current liabilities and in other assets.

in €

	Face values		Market values	
	12/31/2005	12/31/2004	12/31/2005	12/31/2004
Interest rate swap				
IKB CorporateLab S.A.	1,041,666.82	2,291,667.00	- 921.84	- 10,508.00
Commerzbank AG	1,041,667.00	2,500,000.00	6,400.00	9,906.00
Commerzbank AG	925,000.00	0.00	- 25,503.00	0.00
Currency forward				
Commerzbank AG	250,000.00	0.00	27,336.00	0.00

Gains or losses from changes in the market value of derivative financial instruments are included in net income.

(19) Profit sharing capital

By resolution of the Annual General Meeting held on Thursday, May 12, 2005, the Managing Board was authorized, with the consent of the Supervisory Board, to issue profit-sharing rights in the aggregate par value of up to a maximum of € 15 million on one or several occasions in the period until December 31, 2008 while excluding the subscription rights of the shareholders. The maximum term of the profit-sharing rights is seven years. Please refer to the minutes of the Annual General Meeting of May 12, 2004 for further details concerning the resolution.

In a profit-sharing rights agreement dated June 3, 2004, paragon AG awarded profit-sharing rights at a par value of one euro each as part of the private placement against the payment of profit-sharing capital in the total amount of € 8 million. Of that amount, 5 million profit-sharing rights at a par value of one euro each were issued to IKB Private Equity GmbH, Düsseldorf and 3 million profit-sharing rights at a par value of one euro each were issued to DKB Deutsche Kreditbank AG, Suhl. Of that amount, a total of € 3 million was made available to the Company on July 1, 2004 and a total of € 5 million was made available on December 31, 2004. The term of all acquired profit-sharing rights will end no later than December 31, 2010. paragon AG is entitled and obligated to repay the profit-sharing capital to the acquiring parties in the form of two partial amounts of € 3.0 million each before the end of the term of the profit-sharing rights. This early repayment need only be made on July 1, 2009 or July 1, 2010 if the profit-sharing capital has not been reduced by losses.

In a profit-sharing rights agreement dated October 27, 2005, paragon AG issued additional profit-sharing rights totaling € 6.0 million at a par value of one euro each to Force 2005-1 Ltd. Partnership, St. Helier, Jersey, Channel Islands as part of the private placement. This company is a member of a consortium in which, among others, IKB Deutsche Industriebank AG, Düsseldorf and Deutsche Bank AG, London, act as administrators or lead managers. The term of these acquire profit-sharing rights will end no later than January 15, 2013.

Due to the contractual form, this profit-sharing capital must be recognized as a financial liability according to the provisions of IAS 32. The directly attributable transaction costs amounting to € 210 thousand have reduced the value of the addition of the profit-sharing capital as defined by IAS 39.43 and will be recorded as expenses over the term of the profit-sharing capital.

For this profit-sharing capital, the profit-sharing rights holders will receive total compensation of € 1,201 thousand in fiscal 2005, which is made up of a profit-independent and a profit-dependent component.

By resolution of the Annual General Meeting held on May 12, 2004, the Managing Board was further authorized to offer profit sharing rights in the aggregate par value of up to a maximum of € 15 million on one or several occasions until December 31, 2008 to the shareholders for subscription. Based on this resolution, the Managing Board of paragon AG decided to issue profit-sharing rights in the aggregate par value of up to € 14,511,016.80 to the shareholders of paragon AG. They were broken down into 12,092,514 equal ranking profit-sharing rights having a par value of € 1.20 per profit-sharing right. The shareholders of paragon AG were given preference in acquiring profit-sharing rights through exercise of the subscription right in the period from November 4, 2004 to December 31, 2004. The subscription right ratio was 1:3; one paragon share entitled the shareholder to purchase three profit-sharing rights. The subscription period for shareholders ran from November 4, 2004 to December 3, 2004. If not all shareholders have exercised their subscription right by the end of the preferential subscription period, shareholders and interested investors may subscribe to additional profit-sharing rights by way of oversubscription subject to a premature closure or allocation. The minimum subscription amount is € 120. The profit-sharing rights are traded neither on the floor of the stock exchange nor over the counter; they can only be transferred by assignment with the consent of the Company. For the minimum term until December 31, 2010, an annual fixed compensation of six percent plus a profit-dependent compensation of up to three percent depending on the EBITDA margin will be paid. By the balance sheet date, a total of 3,363,584 profit sharing rights at a par value of € 1.20 per profit-share were subscribed. The profit-sharing rights amount to € 4,036,300.80 as of the balance sheet date. The profit-sharing rights have been entitled to compensation since the respective granting date. The compensation for fiscal 2005 totals € 133 thousand.

Due to the contractual form, this profit-sharing capital must be recognized as a financial liability according to the provisions of IAS 32. The directly attributable transaction costs amounting to € 248 thousand have reduced the value of the addition of the profit-sharing capital as defined by IAS 39.43 and will be recorded as expenses over the term of the profit-sharing capital.

(20) Silent equity holding

In the course of the acquisition of 51% of the shares of paragon fidelity Verwaltungsgesellschaft mbH, paragon also acquired a silent equity holding of IKB Private Equity GmbH, Düsseldorf, Cullmann GmbH, Cadolzburg (presently paragon fidelity GmbH) in the amount of € 8,754 thousand. The equity holding is time-limited to December 30, 2008. Repayment may be made optionally in one sum or three annual installments of equal size. The compensation is dependent on the net income of paragon fidelity GmbH.

(21) Special subsidy account

This represents government investment allowances and investment grants. According to IAS 20, these 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 grants and subsidies are accounted for as deferred liabilities and liquidated over the average useful life of the asset subsidized. The liquidation amounts are recognized in other operating income with impact on the income statement.

Other public grants, which in the future will not be offset by additional expenses, are also recognized in other operating income with impact on the income statement. Government assistance during the year under review amounted to € 2,591 thousand (previous year: € 7,639 thousand), of which € 2,526 thousand consists of asset-related grants.

Provisions

Provisions developed as follows during the year under review:

in € (000)	01/01/2005	Addition from acquisitions	Amount utilized	Reversal	Increases	12/31/2005
Other provisions	2,495	4,765	2,714	1,818	2,421	5,194
Provisions for pensions and similar obligations	759	0	0	0	94	853
Total:	3,254	4,765	2,714	1,818	2,515	6,002

(22) Other provisions

Legal or constructive obligations give rise to provisions in the balance sheet pursuant to IAS 37, in the event that a funds outflow to settle the obligation is deemed likely and the amount can be reliably estimated. The amount reported as the provision is the best estimate of the payment that will be required to fulfill the current obligation as of the balance sheet date.

Other provisions are created with respect to risks arising from retroactive vacation entitlements, director's fees, bonuses, warranties as well as legal and consulting fees and other obligations from ongoing business operations. Other provisions include tax provisions of € 223 thousand for risks arising from claims pending for withholding tax under liability principal status resulting from an external audit pursuant to Section 50 a Income Tax Act (EStG). Back payment liabilities in the amount of € 26 thousand for value-added taxes result from a current external audit for fiscal years up to and including 2004.

Other provisions include additions in the amount of € 4,765 thousand from the acquisitions in the year under review. The remaining terms of all other provisions amounting to a total of € 5,149 thousand (previous year: € 2,495 thousand) are less than one year.

(23) Provisions for pensions

A provision for a defined benefit plan as defined by IAS 19 was created for pension liabilities. This relates to an individual fixed amount commitment at age 65 based on an individual contract. In addition to this existing pension agreement, a new commitment was made in fiscal year 2005. The concerns a commitment at age 65 established under an individual contract, which is based on length of employment and salary level. The provision was valued based on actuarial expert opinion using the "projected unit credit method" pursuant to IAS 19. The calculation is based on assumptions of an interest rate of 4.25% (previous year: 5.25%), annual benefits indexing of 0% (previous year: 1.0%) for the previous commitment and of 10% for the new commitment and annual pension indexing of 0% (previous year: 1.5%). The retirement age is assumed to be 65 years for accounting purposes. Mortality and morbidity statistics are based on Prof. Dr. Klaus Heubeck's tables RT 2005 G (previous year: RT 1998). The anticipated yield on the plan assets is 4.25% p.a.

The increase in the pension provision totals € 291 thousand (previous year: € 154 thousand) not taking into account any changes in plan assets. This reflects service costs recognized as personnel expenses amounting to € 51 thousand (previous year: € 45 thousand), interest of € 44 thousand (previous year: € 40 thou-

sand and an actuarial loss of € 196 thousand (previous year: € 70 thousand). The corridor provision was not applied.

The carrying amount of the reinsurance claim deducted as plan assets from the obligation amounts to € 592 thousand (previous year: € 357 thousand). The present value of the pension liability as of the balance sheet date is € 1,130 thousand (previous year: € 839 thousand). After deducting reinsurance claims a reportable obligation of € 539 thousand (previous year: € 482 thousand) remains.

Another portion of the pension provisions relates to obligations of paragon forstep GmbH for benefits from the group relief fund of Andreas Haller Fabrik für Feinmechanik GmbH & Co. KG and was valued based on an actuarial expert opinion using the projected unit credit method pursuant to IAS 19. The calculations are based on

the benefit plan of the group relief fund. In doing so, an interest rate of 4.25 % (previous year: 5.75%) and pension indexing of 1.5% were included in the calculation. Thirty-five projected benefits having a present value of the earned pension claims of the active and inactive employees in the amount of € 162 thousand (previous year: € 130 thousand) as well as current benefits having a present value of € 152 thousand (€ 146 thousand) were calculated and set up as a provision.

The total amount allocated to the pension provision was € 38 thousand (previous year: € 154 thousand). This reflects service costs recognized as personnel expenses amounting to € 3 thousand (previous year: € 45 thousand), interest of € 15 thousand (previous year: € 39 thousand) and an actuarial loss of € 20 thousand (previous year: 70 thousand). The corridor provision was not applied.

Notes on the cash flow statement

The cash flow statement was prepared according to the indirect method as defined in IAS 7.18.b.

(24) Net cash from operating activities

Net cash used for operating activities includes interest paid in the amount of € 3,180 thousand (previous year: € 1,746 thousand). This increase in interest payments primarily results from the further issue of profit-sharing capital.

(25) Net cash from investing activities

Additional acquisitions of subsidiaries caused substantial cash outflows. Funds amounting to € 7,848 thousand were expended; they were offset by acquired cash and cash equivalents of the subsidiaries in the amount of € 2,634 thousand. This concerned primarily the acquisition of paragon fidelity GmbH (formerly Cullmann GmbH, Cadolzburg) and the acquisition of Chipco Inc., Elkhart, Indiana. Assets valued at € 39,766 thousand and liabilities amounting to € 34,040 thousand were acquired at the time. Please refer to the details on the scope of consolidation.

Additional cash outflows this year included the completion of the reconstruction at Sommerbergstraße 18 in Suhl at € 1,456 thousand and the renovation and reconstruction of the Bösendamm location in Delbrück at € 789 thousand. Investments in technical plant and machinery at € 3,054 thousand were primarily occasioned by the acquisition of paragon fidelity GmbH and the associated takeover of the third-party products.

(26) Net cash from financing activities

A total of € 5,171 thousand was borrowed to finance property, plant and equipment; the repayment period is up to five years. Additional significant inflows of funds were also generated by the issue of profit-sharing rights. The net inflow of funds from this source was € 9,578 thousand. Repayments of € 243 thousand were made on finance lease agreements.

(27) Cash and cash equivalents at the end of the period

Cash and cash equivalents comprise € 7 thousand in cash on hand and € 4,825 thousand in bank deposits.

Notes on the segment report

Segment reporting is undertaken to conform to internal reporting lines at paragon. The breakdown of asset and income figures as well as additional indicators according to business area and region are presented in the segment report as stipulated in IAS 14. The business segments are individually detailed in the management report.

Allocation of income and expense as well as asset and liability accounts that cannot be directly attributed to a business area is undertaken using a suitable allocation key, provided that such income, expense and asset and liability accounts relate to overall corporate aspects. Segment assets include intangible assets; plant, property and equipment; inventories and trade receivables. Segment liabilities include trade payables that do not form part of finance lease contracts according to IAS 17.

The write-downs include an impairment loss of € 98 thousand, as defined by IAS 38.97 in conjunction with IAS 36, which is attributable to the Automotive business segment. Non-cash expenses and income are not shown explicitly in the segment reporting, as it is not possible to allocate them uniquely to the segments generating them.

Sales between the segments were transacted at conditions customary to the market – as is also customary in transactions with third parties. Only an insignificant number of intersegment sales were transacted in fiscal 2005.

Please see attachment 4 for segment reporting.

The following applies to segment assets in the segment report:

in € (000)	12/31/2005	12/31/2004
Total assets	113,025	64,491
./. Monetary assets	- 4,832	- 5,432
./. Deferred taxes	- 2,111	- 242
./. Other non-segment-specific assets	- 12,735	- 2,351
Segment assets	93,348	56,466

The following applies to segment assets in the segment report:

in € (000)	12/31/2005	12/31/2004
Total liabilities	113,025	64,491
./. Equity	- 20,043	- 14,996
./. Special item	- 10,063	- 9,237
./. Loans and other liabilities	- 70,522	- 34,341
Segment liabilities	12,398	5,917

Other notes

(28) Contingent liabilities

No commitments relating to bills existed as of December 31, 2005.

(29) Other financial liabilities

Other financial liabilities total € 5,522 thousand; € 2,444 thousand is due during the calendar year 2006. Other financial liabilities amount to € 1,967 thousand for the next 1 to 5 years and € 1,111 thousand after 5 years.

Other financial liabilities include open purchase orders for property, plant and equipment amounting to € 246 thousand as well as an open purchase order for electronic components amounting to € 1,067 thousand that are already stored in the consignment warehouse in the Suhl plant. Other financial obligations also include rental or lease agreements. Obligations arising from operating lease agreements over the next five years amount to € 1,249 thousand, of which € 639 thousand is due in 2006. Leased objects are primarily motor vehicles that are returned to the lessor after the expiration of the binding basic lease term. The expense from currency translations amounted to € 653 thousand in fiscal 2005.

The building at Schwalbenweg 29, 33129 Delbrück is leased by paragon AG. Mr. Klaus Dieter Frers is the building's landlord. In the past year, the Company and Mr. Frers jointly renovated the office building am Schwalbenweg in Delbrück while splitting the costs. Mr. Frers assumed the costs of the building structure and paragon AG took over the expenses for the interior finishing work in the form of tenant's fixtures. As a consequence, the lease agreement was extended for ten years on January 30, 2004. The addition of another floor to this building led to another adjustment of the lease agreement as of January 1, 2005. The expense for the calendar year came to € 150 thousand (previous year: € 130 thousand).

The building at Bösendamm 11, 33129 Delbrück is also rented by paragon AG. The building's landlord is Frers Grundstücksverwaltungs GmbH, Delbrück. As of March 22, 2005, the lease agreement was extended for 10 years. Expense in the year under review came to € 98 thousand; in 2006 it will be € 130 thousand.

Liabilities from lease agreements came to € 491 thousand in fiscal year 2005. The liabilities will amount to € 1,360 thousand for the next 1 to 5 years and € 1,109 thousand after 5 years.

Please refer also to the notes on Item (30).

(30) Related party transactions

Related parties include members of the Managing Board and the Supervisory Board and their immediate families.

Total compensation of the Managing Board is € 1,545 thousand (previous year: € 1,147 thousand). This includes fixed amounts totaling € 573 thousand (previous year: € 529 thousand) and performance-related components totaling € 420 thousand (previous year: € 450 thousand). Moreover, this amount is composed of a € 291 thousand pension provision allocation increment as well as a monetary benefit for vehicle use and share purchase of € 260 thousand. Please refer to details in the Section "Stock option plan" under Item (31) for information on the performance-related components providing long-term incentives. More detailed explanations of the pension provision can be found in Item (23).

In the past calendar year, the members of the Supervisory Board received fixed compensation as well as variable compensation through stock appreciation rights. Please refer to Item (31) in this regard. Total compensation of the Supervisory Board in the year under review was € 56 thousand (previous year: € 62 thousand). Of that amount € 41 thousand was fixed compensation; the variable compensation component totaled € 15 thousand (previous year: € 21 thousand).

On the balance sheet date, the Managing Board held 2,114,730 shares out of a total of 4,086,106, of which 2,105,730 are in the hands of Mr. Klaus Dieter Frers. The Supervisory Board holds 6,000 shares.

In 2005 rental payments totaling € 252 thousand were paid to the Frers family based on existing agreements; € 248 thousand related to the two company buildings in Delbrück.

The remaining obligations toward the former minority shareholder of Miquet Corp., Donald L. Goris, which still existed as of the balance sheet date of the previous year, were completely repaid in the total amount of € 52 thousand (\$ 71 thousand).

As of the balance sheet date, a directly enforceable fixed guarantee without consideration on the part of Mr. Klaus Dieter Frers existed for paragon AG's obligations to banks in the amount of € 1,153 thousand.

Moreover, on the balance sheet date, an agreement was in existence between the State of Thuringia (represented by the Thüringer Aufbaubank, Erfurt) and Mr. Klaus Dieter Frers concerning a co-debtor obligation under public law, according to which Mr. Frers in addition to paragon AG assumes the liability for reimbursement as recipient of grants. This liability would arise if the State of Thuringia requested the Company to reimburse an investment subsidy in the amount of € 3,850 thousand.

Furthermore, please refer to the details under Item (28).

(31) Share-based payments

paragon AG has already applied IFRS 2 "Share-based payment" since fiscal year 2004. Accordingly, the rules of IFRS 2 with respect to share-based payment must already be applied to relevant transactions after November 7, 2002 if it was not yet possible to exercise the corresponding options on January 1, 2005.

Stock option plan

paragon AG grants its employees and its Managing Board members stock options that entitle the holder to purchase one share for each option after the expiration of the blocking period at a previously fixed subscription price (plain vanilla options). According to IFRS 2, the value of employee options that are paid in shares (equity settled payments) is determined at the time of the grant based on a recognized option pricing model. The total expense resulting from this is spread out uniformly over the blocking period of the option and is recognized as equity in the capital reserve. Changes of the option value due to changed parameters (e.g., later price changes) have no impact on the expense to be recognized. The same applies to options that lapse after the end of the blocking period. The valuation of these stock options was performed within a binomial model. The value of the options was determined considering suitable probabilities based on price scenarios at fixed intervals of time. The assumption of an early exercise before the expiration of the total term of the option reduces the amount stated in the balance sheet.

Based on the resolution of the Annual General Meeting of October 17, 2000, modified by the resolutions of the Annual General Meetings of May 15, 2002 and May 12, 2004, stock options in four tranches have so far been granted annually to some employees and the Managing Board of paragon AG in connection with Stock Option Plan No. 1. The first tranche was offered to the employees and the Managing Board on January 10, 2001; the second tranche was offered on April 10, 2002, the third tranche on April 7, 2003 and the fourth tranche on November 6, 2004.

If the options could not yet be exercised on January 1, 2005, the rules of IFRS2 must be applied to them with the third and fourth tranche since they were granted after November 7, 2002.

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

Date of grant	April 7, 2003
Total term of the option plan	6 years
Blocking period	2 years or 3 years
Share price when options were issued	€ 3.73
Strike price of the option	€ 3.88
Anticipated dividend yield	1.80 %
Risk-free interest rate	2.92 %
Volatility of the share	36.0 %

The valuation of the options is based on the average historical volatility of the share.

Option value as of April 7, 2003 € 0.94

As a modification of the existing authorization, the Managing Board, with the consent of the Supervisory Board, or the Supervisory Board were authorized by resolution of the Annual General Meeting of May 12, 2004 to grant option rights to a total of 123,976 bearer shares of the Company with a term up to six years to the members of the Company's Managing Board or to senior executives of the Company acting in accordance with their employment agreements as "division managers" on one or several occasions in the period until the end of 2005. In its meeting on September 28, 2004, the Supervisory Board decided to offer for purchase a total of 30,000 option rights in the fourth tranche to members of the Managing Board within two weeks of the announcement of the quarterly results for the third quarter of 2004.

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

Date of grant	November 6, 2004
Total term of the option plan	6 years
Blocking period	2 years or 3 years
Share price when options were issued	€ 15.75
Strike price of the option	€ 15.09
Anticipated dividend yield	1.80 %
Risk-free interest rate	2.92 %
Volatility of the share	36.0 %

The valuation of the options is based on the average historical volatility of the share.

Option value as of November 6, 2004 € 5.52

In a resolution of the Annual General Meeting of May 12, 2004 the Managing Board was authorized, with the consent of the Supervisory Board, to grant option rights to a total of 115,000 bearer shares of the Company with a term up to six years to the

members of the Company's Managing Board or to senior executives of the Company acting in accordance with their employment agreements as "division managers" on one or several occasions in the period from January 1, 2006 to December 31, 2008. The option rights entitle the holder to acquire one share of the Company per option right. This authorization applies to the Supervisory Board for the issuance of option rights to the members of the Managing Board of paragon AG. In order to secure these subscription rights from stock options, the share capital was increased conditionally (conditional capital II) by resolution of the Annual General Meeting of May 12, 2004 by up to € 115,000.00 through the issue of up to 115,000 bearer shares.

In fiscal year 2005, a total personnel expense totaling € 84,625.00 (previous year: € 54,692.00) was allocated to capital reserve for the granting of stock options of the third and fourth tranche of stock option program No. 1.

Stock Appreciation Rights Program (STAR Program)

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

The stock appreciation rights program No. 1 (2003 conditions for the granting of stock appreciation rights to paragon AG's Supervisory Board members) was adopted in a resolution of the Annual General Meeting of May 14, 2003. The STAR program includes a total of 20,000 stock appreciation rights which the Managing Board must offer to paragon AG's Supervisory Board members in five tranches. In mid-November 2003, 4,000 stock appreciation rights were offered and granted to the Supervisory Board in a first tranche at a price of € 8.24. Of that amount, a total of 3,000 rights were exercised in November 2004, for which cash payments amounting to € 21 thousand were rendered. The remaining 1,000 stock appreciation rights of the first tranche were still outstanding on the balance sheet date. As a second tranche, an additional 4,000 stock appreciation rights were offered and

granted to the Supervisory Board in November 2004 at a price of € 15.09. These 4,000 stock appreciation rights of the second tranche were still outstanding on the balance sheet date. In November 2005, an additional 4,000 stock appreciation rights were offered and granted to the Supervisory Board at a price of € 16.43. These rights may not be exercised at the present time.

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

Total term of the option plan	4 years
Blocking period	1 year
Anticipated term to end of blocking period	1.5 years
Share price on 12/30/05	€ 13.86
Strike price of the option	
2005 tranche	€ 16.43
2004 tranche	€ 15.09
2003 tranche	€ 8.24
Anticipated dividend yield	1.80 %
Risk-free interest rate	2.92 %
Volatility of the share	36.0 %
Option value as of December 31, 2005	
2005 tranche	€ 2.24
2004 tranche	€ 1.99
2003 tranche	€ 5.88

A provision in the amount of € 14,587.00 was established for the 9,000 stock appreciation rights of the Supervisory Board outstanding as of December 31, 2005.

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

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

	Stock Option Plan No. 1				STAR No. 1		
	1st tranche	2nd tranche	3rd tranche	4th tranche	1st tranche	2nd tranche	3rd tranche
Issue date	Jan. 2001	Apr. 2002	Apr. 2003	Nov. 2004	Nov. 2003	Nov. 2004	Nov. 2005
Stock options granted	46,365	47,990	71,469	30,000			
Stock granted Appreciation Rights (SAR)					4.000	4.000	4.000
Strike price in €	7.98	3.78	3.88		8.24	15.09	16.43
Expiration of waiting time	Jan. 2003	Apr. 2004	Apr. 2005	Nov. 2006	Nov. 2004	Nov. 2005	Nov. 2006
in units							
Options outstanding at start of year	10,431	26,078	65,292	30,000			
SARs outstanding at start of year					1,000	4,000	0
Options granted	0	0	0	0			
SARs granted					0	0	4,000
Options exercised	5,236	19,820	24,416	0			
SARs exercised					0	0	0
Options forfeited	0	0	0	0			
SARs forfeited					0	0	0
Options outstanding at year-end	5,195	6,258	40,876	30,000			
SARs outstanding at year-end					1,000	4,000	4,000
Options exercisable at year-end	5,195	6,258	8,238	0			
SARs exercisable at year-end					1,000	4,000	0
in €							
Valuation per option as of Dec. 31, 2005			0.94	5.52			
Valuation per SAR as of Dec. 31, 2005					2.24	1.99	5.88

(32) Events after the balance sheet date

No events of special significance occurred after the closing of fiscal year 2005.

(33) Risk management

Please refer to the Management Report for information on the Group's risk management system.

(34) Group pension plan

Since January 1, 2002, paragon AG has offered employees a pension option by joining a group relief fund, with compensation payments to the reinsurance-funded plan. In order to meet associated claims, a reinsurance policy has been taken out with the

insurance company Delta Lloyd Deutschland AG, part of AVIVA, plc., London.

During the reporting year, paragon AG paid an amount of € 60 thousand into the reinsured relief fund.

(35) Board members

During the period under review paragon AG's Managing Board consisted of the Chairman of the Board, Mr. Klaus D. Frers, Qualified Engineer, responsible for the Technology, Corporate Development and Sales & Marketing departments, as well as the Chief Financial Officer, Mr. Hans-Jürgen John, MBA, responsible for both the Finance and Investor Relations departments.

Members of paragon AG's Supervisory Board

		Memberships in supervisory boards and monitoring bodies
Prof. Dr.-Ing. Walter Kunerth Chairman	Management Consultant, Zeitlarn	Götz Management Holding AG, Regensburg (Chairman) Gildemeister Aktiengesellschaft, Bielefeld Autoliv, Stockholm (Member of the Board of Directors)
Dr. Klaus G. Weyer	Managing Board of ELMOS Semiconductor AG, Dortmund	
Dr. Peter Penczynski	Physicist, Langquaid	President of Konnex Association, Brussels

(36) Employees

The average number of employees engaged in the companies included in the consolidation during 2005 was 450 (previous year: 311), of which 205 were industrial workers (previous year: 156).

(37) Declaration of Compliance with the German Corporate Governance Code

The statement stipulated in Section 161 of the AktG was submitted; shareholders have permanent access to this statement at the Company's website (www.paragon-online.de).

(38) Fees

The total fee paid to the independent auditor in fiscal year 2005 came to € 360 thousand. The amount is broken down into costs

for the audit at € 182 thousand, other assurances and valuation services at € 117 thousand, tax consulting at € 13 thousand and other services at € 48 thousand.

Delbrück, March 21, 2006



Frers
Managing Board



John
Managing Board

Auditor's report

We have audited the consolidated financial statements, consisting of the balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement and the notes – as well as the group management report – for the fiscal year January 1 through December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with the IFRS, as adopted by the EU, and the requirements of German commercial law pursuant to Section 315a (1) HGB is the responsibility of the Company's legal representatives. It is our responsibility to submit an assessment of the consolidated accounts based on our audit examination. Our audit does not include a substantive evaluation of the declaration of conformity under § 161 of the German Stock Corporation Act.

We conducted our audit of the consolidated financial statements according to German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and with additional consideration of the International Standards on Accounting (ISA). Those standards require that we plan and perform the audit such that misstatements and violations materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the Company's business activities and economic and legal environment and evaluation of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis

within the framework of the audit. The audit includes assessing the separate annual financial statements of the companies included in the consolidation, determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the companies' legal representatives as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated annual financial statements comply with the IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Bielefeld, March 21, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Schumacher
Wirtschaftsprüfer



Hakmann
Wirtschaftsprüfer

During the fiscal year 2005, paragon AG's Supervisory Board performed its duties in compliance with legal and statutory provisions and remained closely involved with the Company's activities. In the course of four sessions, paragon's Managing Board provided the Supervisory Board with information on the Company's economic situation, significant business transactions and corporate planning. Moreover, the Supervisory Board received monthly written reports regarding the course of business. In addition, on an ongoing basis, the Chairman of the Supervisory Board was kept informed by paragon AG's Managing Board with respect to key developments and decisions. In the event that individual actions required the Supervisory Board's approval, resolutions in this respect were thoroughly discussed in advance on the occasion of Supervisory Board meetings.

The Supervisory Board worked together with the Managing Board in implementing recommendations of the German Corporate Governance Code. The statement required under section 161 of the AktG (German Stock Corporation Act) was submitted jointly by the Supervisory and Managing Boards and has been made permanently accessible to shareholders.

Developments with respect to the net worth, financial and earnings position of the Company were closely followed – the Supervisory Board approved all transactions that required its consent under legal and statutory provisions. Important topics in 2005 included the takeover of Cullmann GmbH and its structural integration into

the Group, establishment of paragon's Japanese subsidiary, Japan K.K., construction of separate production facilities for paragon firstronic GmbH, the addition and integration of new employees at the respective Group locations, and activities of the U.S. subsidiaries including their net worth, financial and earnings positions.

In its meeting on March 21, 2006, the Supervisory Board reviewed the individual and consolidated financial accounts of paragon AG as at December 31, 2005. The annual financial statements of paragon AG and the consolidated statements, as well as the management report of paragon AG and the consolidated management report were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Bielefeld, and awarded an unqualified audit opinion. The Supervisory Board also examined the Managing Board's submissions. KPMG's audit reports were made available to all members of the Supervisory Board. The external auditor participated in the financial accounts session of the Supervisory Board on March 21, 2006, and reported on all significant audit findings. The Supervisory Board accepted the audit results and approved paragon AG's individual and consolidated financial statements for 2005. The annual accounts are thereby approved.

An audit certificate without reservation was awarded the report on the relationship between paragon AG and Mr. Klaus Dieter Frers and closely connected persons and companies, prepared voluntarily by paragon AG's Managing

Board under precedents contained in section 312 of the AktG and examined by the KPMG Deutsche Treuhand-Gesellschaft Wirtschaftsprüfungsgesellschaft, Bielefeld. According to this certificate factual information in the report is correct, remuneration by the Company was not inappropriately high nor in compensation for adverse affects with respect to the legal transactions listed in the report. None of the measures included in said report gave rise to circumstances that would result in an assessment significantly at variance with that of the Managing Board. The voluntary report submitted by the Managing Board and the auditor's report were provided to the Supervisory Board. The Supervisory Board also reviewed the voluntary report prepared by the Managing Board and at the conclusion of their review raised no objections to the final declaration of the Managing Board and agreed with the results of the auditor's examination. The auditor under precedent contained in section 314 of the AktG participated in negotiations of the Supervisory Board concerning the Managing Board's report of relations with Mr. Klaus Dieter Frers and closely connected persons and companies and reported the key results of his examination.

With respect to the early risk recognition system, the external auditor has determined that the Managing Board has instituted all measures required under section 91 paragraph 2 of the AktG with respect to instituting a monitoring system in an appropriate manner and that the monitoring system is capable of identifying at an early stage any developments that might jeopardize the Company's survival.

The Supervisory Board agrees to the proposal of the Managing Board to utilize profits to pay a dividend of € 0.20 and to carry forward the remainder to next year.

No conflicts of interest arose for Supervisory Board members during the reporting period.

I wish to thank all of the paragon Group's employees on behalf of the Supervisory Board for their dedicated commitment and their contribution to a successful 2005. My thanks also to the Managing Board for its constructive spirit of cooperation and trust. The Supervisory Board wishes all of you success with the challenges that 2006 will bring and with the continuation of the paragon Group's success story.

Delbrück, March 21, 2006



Prof. Dr.-Ing. Walter Kunerth
Chairman of the Supervisory Board

Technical & General

3D position sensor

Sensor to determine clearly the 3-dimensional position of the transmission selector lever within a transmission system at any time.

Actuator

A device in a control loop that positions a controller when it receives the appropriate control signal.

Bluetooth

Industry standard for wirelessly networking devices over short distances. Bluetooth offers a wireless interface with which both small mobile devices such as cell phones and PDAs, as well as computers and peripherals, can communicate with each other.

Cradle

Telephone adapter into which the cell phone is placed and connected with the equipment, for instance in a car.

DIN EN 50194

German and European standard for electrical devices for the detection of combustible gases in dwellings.

Rotating knob

Control dial

EMS

Electronic Manufacturing Services, international description for services related to electronics.

Frequency selectivity

System is impervious to disruptions from other frequencies (cell phones, etc.) due to a software algorithm that seeks out the appropriate frequency.

Reverberation sensor

Sensors that can identify the position of a magnet.

Hollow axle

An axle is a machine part used to bear and support wheels and rolling parts, as well as other components. In order to decrease weight, axles can also be constructed as hollow axles.

Induction

Generating electrical tension by a change in magnetic field strength.

Inductive

Based on induction

Interface

A connection between two parts of a system (usu. computing).

ISO TS 16949

Highest internationally recognized quality management standard for companies in the automotive industry, developed jointly by the International Automotive Task Force (IATF) and the Japanese Association of Automotive Manufacturers (JAMA).

ISO TS 14001

Internationally recognized standard that establishes the requirements for special environmental management systems.

ISO 15504

See SPICE.

Picking

Collecting certain part quantities (items) from a total quantity (assortment) based on an order.

Clutch sensor

Sensor that registers the position of the clutch pedal.

LED

Acronym for 'Light Emitting Diode'.

Circuit board

A circuit board serves as a mount and electrical connector for electronic components without the use of traditional wires; the connections are created by means of one or more conductive layers placed on insulating material.

Photo sensor principle

The photo sensor principle uses two different components. Light emitted from the infrared transmitter diode is conducted to the receiving diode via two opposing light guides. If a finger or object moves between the two light guides, detection of the interruption of the light ray assures continuous control of the application.

MDA

Acronym for Mobile Digital Assistant. A PDA with an integrated cell phone is also called a smart phone.

Multimedia

The definition of multimedia applies to contents and works consisting of the following digital media: text, photography, graphics, animation, audio, video, interaction, games.

OEM

Original Equipment Manufacturer, international description for the manufacturer responsible for the original end product.

PDA

Acronym for Personal Digital Assistant. A PDA is a small, portable computer, usually equipped with an operating system with quick start-up which is generally used for personal calendar, address and task management in addition to many other programs.

Quick-spec

A project supported by the Federal Ministry for Education & Research for innovative development of air quality sensors using silicon-based technologies.

Ventilation device

Device to neutralize odors and sterilize interior air naturally by means of ionization.

Reflection principle

In the reflection principle infrared reflex photo sensors are used that are positioned directly beneath the finger hollow. These function as transmitting and receiving diodes at the same time, thereby continuously controlling the application. If a finger approaches, the emitted light is reflected from the surface of the finger and then detected by the reflex photo sensor again.

RoHS

Acronym for "Restriction on Use of Hazardous Substances in Electrical and Electronic Equipment"

Step motor

A special type of electric motor, the mechanism of which triggers locomotion in target-oriented steps.

Shift-by-wire

Electronic transmission of switching operation in a vehicle without traction rope.

Signal Splitter

Combination of electronic analysis and indicator units that splits an existing signal and transmits it for display

Slider

Regulator which functions by sliding a finger over it.

Smartphone

A smartphone combines the performance of a cell phone with that of a PDA. In a smartphone the PDA operating system is supplemented by typical phone functions. This would include Personal Information Manager (PIM) with calendar, address book, task list, notebook, phone applications including short lists and phone register; on-line applications such as web browsers or e-mail programs.

SMD

Acronym for Surface Mounted Device – electronic component that has no connecting wires, but is placed directly on the surface of an electronic plate and contacted there in a soldering bath.

SPICE

Acronym for Software Process Improvement and Capability Determination. SPICE is a model for analyzing the effectiveness of corporate processes and was adapted as 'Technical Report' in 1998 under the standard ISO 15504.

Telematics

Technology that combines the technological fields of telecommunications and informatics.

Tier 1

International definition for direct suppliers.

Tier 2

International definition for suppliers that supply the direct suppliers.

WEEE

Acronym for Waste Electrical and Electronic Equipment.

Finance

Cash flow

Flow of cash and cash equivalents generated from current business activities in a period of time, adjusted for significant non-cash expenses and income.

Cash flow statement

View of the liquidity development and the payment flows with consideration of the effects of inflows and outflows of funds within the fiscal year.

DAX

Deutscher Aktienindex: measures the performance of the 30 largest German Prime Standard companies with respect to order book turnover and market capitalization.

Debt capital

Comprehensive designation for the provisions, liabilities and deferred income to be reported on the liabilities side of the balance sheet.

Deferred taxes

Asset and/or liability accounts in the balance sheet for balancing the difference between the tax liability actually assessed and the tax burden based on accounting under commercial law.

Designated Sponsor

Banks or financial service companies that provide price limits for the purchase and sale of stocks (quotes) in Xetra electronic trading and accordingly bridge over temporary imbalances between supply and demand.

EBITDA

Earnings before interest, taxes, depreciation and amortization.

EBIT

Earnings before interest and taxes.

EBT

Earnings before taxes.

Equity

Resources made available to the company through payments and/or deposits from owners or from retained profits.

Free float

Number or proportion of shares not possessed by strategic investors and thus available for stock exchange trading.

Goodwill

Portion of the purchase price that exceeds the net value of the assets ascertained according to going-concern value.

GEX

German Entrepreneurial Index. The new Deutsche Börse index of medium-sized companies. It was introduced on January 3, 2005 and includes all "owner-dominated" companies that are listed on the Frankfurt Stock Exchange FWB® and whose IPO was not longer than ten years ago. More than 120 companies of extremely diverse sizes currently satisfy these criteria.

IFRS

International Financial Reporting Standards, the obligatory accounting standard for all companies listed on European stock exchanges starting in 2005.

Market capitalization

The value of a company resulting from multiplying the shares issued by the share price.

Prime Standard

Listing segment of Deutsche Börse for companies that satisfy particularly high international standards for transparency. The following transparency requirements must be satisfied for admission to listing on the Prime Standard: quarterly reports, international accounting standards according to IFRS or US-GAAP, presentation of a corporate calendar, at least one analysts' conference per year, ad hoc notifications also in English. Companies wanting to be listed in this segment must request admission. A listing in the Prime Standard is a prerequisite for inclusion in one of the indices of Deutsche Börse.

Prepaid expenses and deferred income

Receipts and payments within the reporting period, whose consequences on the company's performance affect a period after the balance sheet date.

Roadshow

Presentation in which an issuing company or a lead manager promotes the value of the company or the purchase of shares or bonds of the company in various financial centers.

ROI (Return on Investment)

Period-specific return on the invested capital. It gives a comparative assessment of investment projects of different types and scales in terms of the yield on the capital tied up in them.

TecDAX

Special index of Deutsche Börse that shows the development of the 30 largest technology companies of the Prime Standard that follow the companies contained in the DAX stock index with respect to order book turnover and market capitalization.

2005	<p>Foundation of paragon of Japan K.K.</p> <p>Acquisition of Cullmann GmbH and entering into the business with Car Media Systems</p> <p>Opening of new production facility for Electronic Solutions in Suhl</p>
2004	<p>Acquisition of the Andreas Haller Fabrik für Feinmechanik GmbH & Co. KG</p> <p>Formation of the sensor element plant paragon fidelio GmbH</p> <p>Entering into the business with display instruments for automobiles</p>
2003	<p>Take over of the air quality sensor sector of Robert Bosch GmbH</p> <p>Expansion of the locations in Suhl and Delbrück</p>
2002	<p>Company-wide introduction of the quality standard ISO/TS 16949</p> <p>Introduction of the business segment of Building Technology</p>
2001	<p>Acquisition of the Miquet Corp. (Grand Rapids, MI, USA)</p> <p>Doubling and modernization of the production area in the USA</p>
2000	<p>World market leader in air quality sensors for automobiles</p> <p>Formation of the paragon of North America Corp.</p> <p>paragon AG goes public at German Stock Exchange (Börse)</p>
1999	<p>First patents in communication electronics (acoustic sensors)</p> <p>Company-wide (corporation) introduction of the quality standards QS 9000, VDA 6.1 and ISO 9001</p>
1998	<p>Start of the production of components of operating elements in the automobile</p>
1997	<p>Concentration of production in Suhl</p> <p>Large series application of paragon air quality sensors in automobiles</p>
1995	<p>First air quality sensors introduced into automobiles by paragon</p>
1994	<p>Start of the development of air quality sensors</p>
1993	<p>Company-wide introduction of the quality standard ISO 9002</p> <p>Start of development and production of sensors</p>
1991	<p>Plant for Electronic Services in Zella-Mehlis (formerly robotron)</p>
1988	<p>Formation as electronic manufacturer in Delbrück by Klaus Dieter Frers</p>

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Dates

March 22, 2006	Financial Statement Press Conference (Delbrück, GER)
March 23, 2006	DVFA Analysts' Conference (Frankfurt a. M., GER)
May 10, 2006	Publication of First Quarter Statements
May 17, 2006	Annual Meeting (Delbrück)
August 9, 2006	Publication of Second Quarter Statements
November 8, 2006	Publication of Third Quarter Statements



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