



Annual Report
Jan. 1 to Dec. 31, 2008

Key Indicators for paragon AG

	2008	2007	Change in %
Sales in millions of EUR	112.0	108.9	2.9
EBITDA in millions of EUR	- 53.5	18.7	- 386.1
EBITDA margin in %	- 47.8	17.2	-
EBIT in millions of EUR	- 66.1	6.8	- 1,072.1
EBIT margin in proportion to sales in %	- 59	6.2	-
Net income in millions of EUR	- 71.8	2.5	- 3,091.7
Earnings per share in EUR	- 17.5	0.6	- 3,016.7
Employees (excluding temporary workers)	639	654	- 2.3

Letter to Shareholders	4
Investor Relations	6
Corporate Governance	7
Report of the Supervisory Board	10
Management Report	
Events after the Balance Sheet Date	11
Business and Framework Conditions	11
Group Structure	12
Management Systems	12
Economic Situation	13
Economic Performance in the Euro-zone	13
Developments in the Automotive Industry	13
Course of Business and the Situation of the paragon Group	14
Automotive Segment	15
Electronic Solutions Segment	16
Net Assets, Financial Position and Results of Operations	16
Employees	19
Remuneration of the Managing Board	19
Capital Expenditure	19
Research & Development	19
Purchasing	20
International	20
Report on Risks and Opportunities	20
Capital Structure, Managing Board and Change of Control	23
Environmental Protection and Occupational Safety	24
Report on Anticipated Developments	24
Consolidated Financial Statements	27
Consolidated Balance Sheet	28
Consolidated Income Statement	29
Consolidated Cash Flow Statement	30
Consolidated Segment Reporting	31
Consolidated Statement of Changes in Equity	32
Notes to the Consolidated Financial Statements	33
Auditor's Report	62



Klaus Dieter Frers
(Chairman)

Dear Shareholders,

Fiscal 2008 was shaped by two completely disparate forces. paragon AG managed to avoid the negative impact of the crisis in the automotive industry until well into the fourth quarter. We were even able to show sales growth of 15.4% in the predominant Automotive segment after the third quarter and were on our way to record highs. In the fourth quarter of 2008 the negative influence of the most severe crisis to occur in the automotive industry globally was clearly felt by paragon, too, with corresponding consequences in terms of sales, revenues and earnings.

Since this annual report is only being published in August of 2010, we have elected to present it in a form that on the one hand traces the course of business from January 1 to December 31, 2008, and on the other takes into consideration subsequent events. As a result the outlook for the future refers to the years 2010 and 2011.

In fiscal 2008 we did not experience any order cancellations, but in the fourth quarter a massive number of release orders were postponed by customers. Nevertheless, total sales revenues rose by roughly 3% to EUR 112.0 million compared to EUR 108.9 million in the previous year. We had to take a loss, however, for fiscal 2008 - even before write-downs in connection with the later insolvency - due to high interest payments and a negative fourth quarter.

The core Automotive segment was fundamentally overhauled during the course of the year. The three segments – Climate Systems, Car Media Systems and Instrumentation and Control Systems – were redistributed into the divisions of Sensor/Actuator Technology and Cockpit Systems. We wanted to exploit existing market opportunities more thoroughly and further establish the business segment - with its strengths in both margins and sales - in the market by using this approach. Our full focus was on the mega-trends of health, comfort and safety, which will be the key factors in shaping the car of the future.

The Sensor/Actuator Technology division was broken down into three segments: climate, power train and electronic precision engineering. This includes climate sensors and actuators to improve air quality in the vehicle interior, extremely accurate stepper motors as basic components for precise instruments with the greatest level of gear accuracy, as well as compact transmission and clutch stroke sensors. The Cockpit Systems division includes the product departments of Communication, Instrumentation, Controls and Integration. In this area we developed solutions in the field of human-machine interface within the car, which offer visible and tangible benefits for passengers. They included flexible and compatible communication solutions, driver-oriented combination and additional instruments with a high level of differentiation potential, high-quality operating systems with the perfect look and feel, and intelligent interfaces for the straightforward integration of mobile devices in the vehicle environment.

We started a comprehensive restructuring and cost reduction programme as early as 2008 in conjunction with the crisis in the automotive markets; this required radical changes from all manufacturers and suppliers. The goal of these measures was to ensure that we could work profitably even with low sales volumes in future. All participants understood that painful cuts were necessary. The cooperation of all participants, in particular that of the financing banks, was necessary in order to get through the very nadir of the crisis and emerge stronger.

We consistently pursue the goal of placing 'more and more paragon in each vehicle'. Technological leadership, many years of electronics experience in car interiors and numerous product innovations continue to be persuasive arguments precisely in the period after the crisis, which has in the interim to a great extent been overcome.

Sincerely,

A handwritten signature in black ink, appearing to read 'Klaus F. Müller'. The signature is written in a cursive, flowing style with a large, stylized initial 'K'.

General Stock Market Environment

Stock markets evidenced tumbling prices throughout the world, especially from the second half of 2008. Triggered by the property crisis in the US, a global financial crisis arose during the course of the year under review, which ultimately resulted in the collapse of a number of banks. The global financial system was stabilized only by dint of copious liquidity and guarantee programs. The financial crisis also had an impact on the real economy. Economic development slowed significantly in all important economic zones. The massive share price collapses in the banks were followed by significant, and in some cases dramatic, share price drops in all industries and global indices. In Germany, for example, the DAX was halved to 4,000 points in November of 2008 after a level of 8,000 points at the end of 2007. The TecDax, still significantly in excess of 1,000 points at the end of 2007, slumped to almost 400 points at the end of 2008.

Performance of the paragon Share

The paragon share was not able to withstand the global effects of the financial crisis and evidenced a clear downward price trend in fiscal 2008. At the beginning of the year the share opened with a closing XETRA price of EUR 9.39, simultaneously a record high for the year. Subsequently the value dropped to a historical low of EUR 2.65 on December 23, 2008, before recovering slightly by the end of the year. While paragon's development was better than the automotive market as a whole, the share was listed at EUR 2.75 at the end of the year. This reflects a plunge of 70.7% over the year as a whole.

The following changes in shareholder structure occurred: The Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte (Baden-Württemberg Retirement Fund for doctors, dentists and veterinarians) communicated its increase in voting rights shares to 405,800 voting rights in May of 2008 and presently holds a share of 9.86% of the total volume of voting rights. Free float, at 48.65%, continues at a high level according to the definition of the Deutsche Börse AG (information based on XETRA).

Financial Market Communications

paragon AG nurtures its relationship with the financial community by means of continuous information exchange with investors, analysts, journalists and the interested public. As in previous years, the Managing Board attended the most significant industry events, including the DVFA Small Cap Conference and the Deutsche Eigenkapitalforum (German Equity Forum) in Frankfurt am Main, and reported on the current course of business and future strategy of the Group to numerous investors, analysts and journalists. During these events members of the Managing Board took the opportunity to conduct a number of one-on-one talks. Furthermore, the Managing Board remained in touch with the financial community by means of road shows and conference calls.

The Annual General Meeting offered shareholders the opportunity of aiming their questions directly at the Managing Board. The Chairman of paragon AG's Managing Board, Klaus Dieter Frers, fielded questions and introduced new products and the Company's strategy for the future. All agenda items were adopted by a majority exceeding 95%.

The Managing Board and Supervisory Board of paragon AG welcome the suggestions and recommendations of the German Corporate Governance Code. The Code promotes transparency and thereby strengthens the trust of international and domestic investors, customers and employees, as well as the financial community as a whole. The Company conforms to the principles of the German Corporate Governance Code to the extent possible. There are, however, some exceptions due to the particular circumstances of the Company with respect to its size, structure and economic situation. The Managing Board and the Supervisory Board issued a joint Declaration of Compliance on March 18, 2009, and made it permanently available to shareholders on the Company's website under "Investor Relations."

Shareholders and Annual General Meeting

paragon AG provided all documents of relevance to the Annual General Meeting on the Company's website at an early stage. The shareholders were able to view the agenda and download it in advance in the "Investor Relations" section and to familiarize themselves with its core content. The Group welcomed over 200 shareholders and journalists in the town hall of Delbrück for the May 14, 2008, Annual General Meeting. The speech given by the Chairman of the Managing Board and the Annual General Meeting presentation are available on the paragon website and can be downloaded as electronic documents.

Cooperation between the Managing Board and Supervisory Board

The Managing Board and Supervisory Board worked closely together in an atmosphere of trust in 2008 as

they had hitherto and regularly exchanged information and ideas. The Managing Board reported to the Supervisory Board on all subjects related to planning, business development, the risk situation, risk management and compliance. Furthermore, all Supervisory Board meetings took place with the attendance of the Managing Board.

Managing Board

The Managing Board of paragon AG consisted of three members as at December 31, 2008. The Managing Board's rules of procedure remained unchanged in 2008 as well.

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

Supervisory Board

The Supervisory Board of paragon AG had three members as in the previous year. The Supervisory Board monitored the work of the Managing Board on a regular basis and assisted the latter in a consulting capacity. No conflicts of interest arose among the members during the past fiscal year which would require disclosure to the Supervisory Board. The Supervisory Board conducts a self-assessment once a year to review its efficiency. No services were rendered on an individual basis in 2008.

Transparency

paragon AG informed all capital market participants on the Group's financial situation on a regular and timely basis. Transparent and punctual regular and comprehensive reporting concerning business developments and the situation of the Company was included in the annual and quarterly reports. Furthermore, ad hoc reports and press releases were published in fiscal 2008 in order to provide prompt information. All information is made available for review and download on our website.

Directors' Holdings

Members of the Managing Board held 51.32 % of shares, and Supervisory Board members 0.15 % of shares, as at the balance sheet date of December 31, 2008.

Accounting

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

In accordance with the resolution passed at the 2008 Annual General Meeting, the Supervisory Board appointed der Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft, Nuremberg, as auditors for the individual and consolidated financial statements.

Declaration of paragon AG on the German Corporate Governance Code

In accordance with Section 161 of the German Stock Corporation Act (AktG), paragon AG submits the following declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code: The Managing Board and Supervisory Board of paragon AG welcome the suggestions and recommendations of the German Corporate Governance Code. They are committed to transparent, responsible management and control emphasizing the creation of creating added value. paragon AG has conformed to and continues to conform to the recommendations of the German Corporate Governance Code in the version dated May 26, 2010 with the following exceptions: Since the 2008 annual report could only be prepared in 2010, we used the current status of the German Corporate Governance Code at the time of publication in order to simplify the explanation below. In order to explain which of the reported exceptions were not yet relevant in 2008, we added comments in square brackets as appropriate.

- A deductible has not been agreed in the Directors' & Officers' insurance policy that the Company has taken out for the Managing and Supervisory Boards. [Contracts were entered into prior to the relevant modification of the Code on June 18, 2009.] (Item 3.8).
- At the time of publication the Managing Board does not consist of several individuals. Restructuring and implementation of growth strategy requires rapid decisions. Such fast decisions can be naturally expected from a single member of the Managing Board, particularly since the new financing structure obviates the need for an in-house Chief Financial Officer. (Item 4.2.1).
- The Supervisory Board has not agreed a cap for extraordinary, unforeseen developments, since it did not consider this necessary. [The current Managing Board contract was entered into prior to the relevant modification of the Code on June 18, 2009.] (Item 4.2.3).
- No limit on severance pay (severance cap) has been agreed with the Managing Board, since the Supervisory Board did not consider this necessary. (Item 4.2.3).

- Disclosures on the remuneration of the members of the Managing Board are not itemized. This was resolved by the Annual General Meeting of 2006. (Item 4.2.4).
- No compensation report is prepared as part of the Corporate Governance report, a consequence of the resolution of the Annual General Meeting of 2006. (Item 4.2.5 and/or item 7.1.3).
- The Supervisory Board has not formed any committees. Given the size of the Company and the fact that the Supervisory Board has only three members, this is not necessary. (Item 5.3.1 to item 5.3.3).
- No age limit has been set for Supervisory Board and Managing Board members in accordance with items 5.1.2 and 5.4.1 of the Code, since the Supervisory Board deems this unnecessary.
- Disclosures on the remuneration of the Supervisory Board members are not itemized, a consequence of the resolution of the Annual General Meeting of 2006. (Item 5.4.6).
- The Company fulfils its obligation to publish the purchase and sale of Company shares and options by members of the Managing and Supervisory Boards. Separate information on such directors' dealings is not, however, provided in the Corporate Governance report in the consolidated financial statements. Such directors' dealings have not taken place for years at paragon. (Item 6.6).
- Due to special circumstances related to the automotive crisis and the insolvency that occurred in 2009, the consolidated financial statements for fiscal 2008 could not be made accessible to the public within 90 days of the end of the fiscal year. (Item 7.1.2).

Delbrück, July 29, 2010
paragon AG

The Managing Board
The Supervisory Board

In fiscal 2008 the Supervisory Board performed the duties incumbent on it under legal and statutory provisions. It monitored and reviewed the activities and work of the Managing Board on a regular basis with due diligence. It provided assistance in a consulting capacity to paragon AG on issues concerning the latter's further development. The Supervisory Board was furnished with both written and oral reports on current developments in the earnings situation according to segments, on adherence to corporate planning and on developments in the financial situation. Moreover, the Managing Board informed the Supervisory Board in advance regarding important decisions and involved it in the decision-making process. Important events and developments were reported promptly to the Supervisory Board.

The Supervisory Board reviewed and discussed the documentation and the Managing Board reports prepared in detail during the course of the four sessions held in the period under review. The Company's risks and opportunities above all were debated and deliberated. Resolutions were passed in the Supervisory Board meetings on transactions requiring Supervisory Board approval in accordance with statutory or legal provisions. There were no resolutions of this nature in the past fiscal year, however.

The audit firm Rödl & Partner GmbH, Nuremberg, was appointed by resolution of the Annual General Meeting on May 14, 2008, to audit the individual and consolidated financial statements of fiscal 2008 and commissioned accordingly by the Managing Board. The annual financial statements as at December 31, 2008, as well as paragon AG's management report for fiscal 2008, constituted the subject of the audit. The

audit firm made available to each member of the Supervisory Board for review the documentation on the annual financial statements, the management report and the proposal for the appropriation of net profits for the year, as well as the audit report. The Supervisory Board discussed the annual financial statements and the management report with the Managing Board in the presence of the external auditors in the session of August 6, 2010.

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

The auditor has audited the annual financial statements and management report prepared by the Managing Board for fiscal 2008 and issued an unqualified audit opinion. Accordingly, the annual financial statements of paragon AG as at December 31, 2008, are confirmed.

The Supervisory Board of paragon AG wishes to thank all employees, as well as the Managing Board, for their personal commitment during fiscal 2008.

Delbrück, August 6, 2010

Chairman of the Supervisory Board

A. Events after the Balance Sheet Date

Significant changes occurred at paragon AG after the balance sheet date of December 31, 2008. In 2008 and 2009 the Managing Board initiated a number of measures in order to cope with the sudden drop in orders in connection with the crisis in the automotive industry that had prevailed since the autumn of 2008. In addition to improvements in logistical and technical production processes, adjustments in personnel capacities and savings in materials usage and cost of materials were the main focus.

Furthermore, the Company endeavored from February to September of 2009 to achieve a non-judicial agreement on obtaining debt cancellation from financial creditors in order to reduce the degree of debt and to preserve paragon AG's and its subsidiaries' ability to service loans and to assure the Company's continued existence as a going concern. As part of these efforts the management consultancies Helbling, initially, and then RölfsPartner were commissioned to provide expert restructuring opinions. In expert opinions issued on March 26 and June 25, 2009, Helbling certified the feasibility and ability of paragon to restructure. The expert opinion provided by RölfsPartner on September 25, 2009, also confirmed the ability of paragon AG to restructure.

Agreement was imminent in the negotiations with financing banks on several occasions. Unfortunately, despite having obtained the expert restructuring opinions, positive results failed to materialize due to a lack of agreement among the banks and the continued existence of the individual companies and the Group was no longer certain. Precisely at this point in time paragon AG's Managing Board filed for insolvency, on October 5, 2009; the proceedings were initiated by the district court of Paderborn on January 1, 2010. On April 16, 2010, the insolvency plan submitted by the Company was approved by its

creditors. The district court consequently resolved to suspend the proceedings effective June 1, 2010, so that, at the time of preparation of the Group management report, the insolvency has ended.

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

The consolidated financial statements were prepared on the assumption of the continuation of the Company's business activities, since, after paragon AG's insolvency plan process was successfully concluded, the overwhelming portion of the Group shall continue with a new structure. We refer to details in the notes with regard to consequences for accounting and valuation in the consolidated financial statements.

B. Business and Framework Conditions

Fiscal 2008 was a very uneven year for paragon AG. The Company was able to resist the economically troubled environment and resulting automotive industry crisis into November. Record highs were even

evidenced for sales and earnings after the third quarter. In the last two months paragon AG and its subsidiaries were fully impacted by the crisis and were forced to accept a drastic slump in release orders by car manufacturers. Orders were not actually cancelled, but, due to the time lag in customer release orders, the positive results of the first ten months were not only fully exhausted, but transformed into the opposite. As held true for most suppliers to the automotive industry, paragon had nothing with which to counter these breakneck changes.

Group Structure

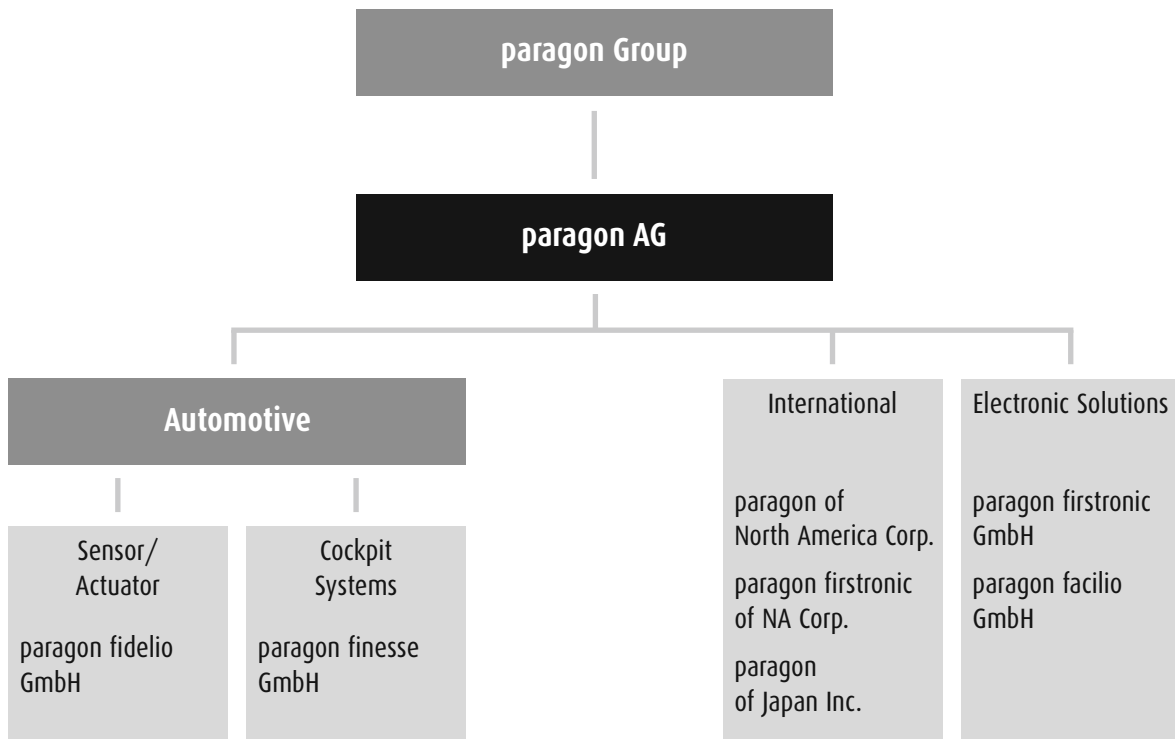
The paragon Group operated internationally in 2008. In addition to the German sites of Delbrück, Suhl, Cadolzburg, St. Georgen and Heidenheim, the Group had a production facility and a sales company in the United States, as well as sales branches in Italy, France and Japan. paragon AG, domiciled in Germany, functioned as the parent company; four domestic and four foreign subsidiaries reported to the parent. The

AG was responsible for managing the individual subsidiaries in addition to its own operating activities. In this capacity it set out corporate strategy and coordinated production and sales. The subsidiaries were autonomous in expanding the existing market shares and developing further innovations.

Automotive is paragon’s predominant business field with a sales share of approximately 82 %. As a direct supplier, the Company supplies car manufacturers with electronics from the Sensor/Actuator and Cockpit Systems divisions. The remaining 18 % of sales revenues stem from industrial electronics in the Electronic Solutions business segment.

Management Systems

The paragon Group continuously reviews the achievement of target objectives in the annual plans based on a comprehensive planning and control system. Any variances from targets are identified without delay and appropriate measures initiated promptly. The traditional financial and profitability



indicators such as cash flow, expense ratios, EBIT margin and contribution margins of the segments are above all reviewed and analyzed in this endeavor.

The Managing Board and the Supervisory Board of paragon AG receive regular reports on the segments based on the monthly, and therefore current, reports on business developments. The reports show monthly variances from planned figures in an actual to target comparison and are used as a basis to arrive at solutions in Managing and Supervisory Board meetings. In addition, top management of the paragon Group meets on a regular basis to discuss the course of business, the outlook for the Group, and other business events of particular note. Weekly discussions regarding liquidity status have been added to the management system against the backdrop of the insolvency.

Economic Situation

Conditions in the global economy deteriorated significantly in 2008 as a result of the global financial and economic crisis. Stock exchanges worldwide experienced massive price drops and record lows. By the end of the year the global recession was being felt both in the financial markets and the real economy.

The German economy grew considerably more feebly in 2008 than in the two previous years. Gross domestic product (GDP), adjusted for prices, was only 1.3% higher than that of the previous year according to information from the Federal Statistics Office. In 2007 GDP was still rising by 2.5% and in 2006 by 3.0%. In the fourth quarter of 2008 alone GDP, adjusted for price, dropped roughly 1.6% vis-à-vis the same quarter of the previous year. This was due above all to a significant slump in export activity in the wake of the financial and economic crisis. After increases of 12.4% in 2006 and 8.3% in 2007, this figure rose by only 3.9%. As imports continued to be high (+5.2%), Germany's trade balance was at -0.3%.

The consumer price index for Germany rose by 2.6% in 2008 on average, compared to 2007, according to expert information. High inflation rates in the first half of 2008 are the main cause for this rise. The rate of price increases exceeded 2% for the second time in a row (2007: 2.3%) after considerably lower rates in 2005 and 2006.

Economic Performance in the Eurozone

GDP growth in the eurozone was 0.7% in 2008 according to information provided by Eurostat, reflecting, as in Germany, considerable weakening compared to the developments of the previous years. The inflation rate in the eurozone was 3.3%, but this trend slowed sharply in the second half of the year and the rate in December was -0.1%. The global economy was able to grow by 3.6% in 2008 according to IMF estimates. Strong development in the high-growth countries of China, India and Russia was responsible for this.

A deep recession with negative growth rates was anticipated in a number of countries for 2009. For Germany a drop of 5% was forecast, especially due to the high proportion of exports, as was an accompanying deterioration in the employment markets. Economic stimulus packages enacted worldwide were designed to counteract these developments.

Developments in the Automotive Industry

After a good first half of 2008, the automotive industry posted sharp sales declines in the second half of 2008. Both domestic and export sales volumes experienced significant losses especially at the end of the year. The tangible slump in demand in the world's auto markets resulted in several companies responding early on with drastic measures, suspending production temporarily, dismissing contract workers and introducing reduced working hours. The German market suffered in addition from the poor

valuation and downgrading of the US automakers, whose sales figures tumbled by double-digits and who required massive government assistance.

During the first six months of 2008 domestic production in Germany was still 2 % above the figures of 2007, a record year. It dropped dramatically in the second half of the year. In December 2008 alone, 275,000 fewer passenger cars were manufactured. This reflects a decline of 22 %. Production decreased for the first time since 2002 by 3 % to approximately 5.5 million units in the year as a whole.

Sales of German manufacturers in foreign markets collapsed at the end of 2008 as well. For the first time in six consecutive years export volumes dropped again, losing roughly 4 % in 2008. The German automotive industry felt the steepest decline in December, when 223,000 (22 %) fewer cars were exported. Order levels were at their lowest since the end of the eighties.

In Europe, a total of 14.7 million passenger cars were sold in 2008, 13.6 million of which in Western Europe. This reflected a decline of 8 % vis-à-vis the previous year. Sales volumes slumped most dramatically primarily in the second half of the year. During this period Western Europe evidenced a decline of 15 % after a drop of 3 % in the first half of the year. The new EU member states showed relatively stable demand at -1 % for 2008. On the other hand at 2.1 million cars, 1 % fewer vehicles were registered in France in 2008. In Great Britain this figure even dwindled by 11 % to 2.1 million passenger vehicles. In Italy 13 % fewer passenger cars were sold than in the previous year at 2.2 million. New registrations of passenger cars in Spain, at 1.2 million, fell short of the previous year's figures by a resounding 28 %.

The US had its worst results since 1992 with 13.2 million light vehicles sold in 2008. This reflected a

drop of 18 %. Reasons for this included higher average fuel prices for the year, more stringent credit conditions, and falling stock and home prices, which brought about a drastic contraction in demand. For the first time since 2000 the share of traditional passenger cars once again exceeded 50 % at 51.6 %. While all vehicle segments were affected by the collapse, the decline particularly impacted sales of sport utility vehicles and large cars, previously especially popular in the US, which showed sales decreases of 39 % and 33 % respectively.

In Japan sales of passenger vehicles in 2008 at 4.2 million were 4 % under the previous year. The reasons for this appear to be related to demographic issues and changes in consumer behavior. Young people in particular prefer products such as mobile phones or MP3 players as status symbols. Foreign brand passenger car sales in Japan sank by 16 % to 192,300 vehicles.

Brazil and Argentina resisted the general trend (production rose by 8 % to 3.8 million vehicles), as did Eastern Europe (production up by 5 % to 3.2 million vehicles) and Asia (production up 2 % to 30 million vehicles). German manufacturers were able to raise sales by 9 % in the high-growth Chinese market in 2008, selling over 1 million passenger vehicles. Their market share was a healthy 18 % at the time.

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

paragon, too, felt the automobile crisis in fiscal 2008. After a strong ten months the paragon Group was unable to maintain this upwards trend and was forced to accept losses over the previous year. Nevertheless, the paragon Group's sales rose from EUR 108.9 million to EUR 112.0 million, a rise of about 3 %. Due to the weak fourth quarter of 2008 resulting from the global

automotive crisis, the Group failed to attain planned sales increases in the amount of 5 % to 10 %. The core business segment of Automotive experienced an increase of 4.3 % and has an 82 % share of total sales. The paragon Group achieved sales of EUR 92.3 million in 2008 after EUR 88.5 million in the previous year. The Electronic Solutions business segment realized sales of EUR 19.7 million following on sales of EUR 20.4 million in 2007.

It seemed for a long time as though the paragon Group would not be impacted by the automaker crisis as were other parts of the industry. Its broad customer mix, as well as the strategic orientation to core trends such as safety, health and comfort, initially provided a cushioning effect. Despite its excellent market positioning, the paragon Group could not continue to avoid the dramatic negative trend in the automotive industry at the end of the year, however.

D. Automotive Segment

The Automotive segment was clearly the strongest contributor to sales in the paragon Group in 2008. The strategy of high-level positioning and perception as systems supplier translated into tangible orders. Continuity in terms of professional project processing and reliability of the products in the series as a result of high-quality finishing created customer confidence and satisfaction. paragon attracted considerable attention, not least due to the reference project Artega GT initiated by paragon finesse GmbH, which manifested itself in an expansion of the customer base and orders for more complex products with a higher value creation component. As is known, the development, assembly and sales of Artega GT took place via Artega Automobil GmbH und Co. KG, which operates independently from paragon AG both financially and in terms of company law.

The existing cooperation agreement between paragon AG and Artega Automobil GmbH & Co. KG was dissolved as at December 15, 2009. Artega acquired the rights to the components supplied by paragon.

The course has been set decisively from an organizational and structural perspective in order to sustain this higher positioning and to orient the Company towards future growth in the best manner possible. By implementing Key Account Management Structures paragon achieved greater customer proximity and a strong focus on essential key customers in the first quarter of 2008. In this approach each Key Account Manager represents the entire product range vis-à-vis his customer. By dint of familiarity with the needs of the customer and close contact paragon can support customers as a strategic partner very early on with innovative ideas in developing the next generation of cars.

On the product side, development capacities were further consolidated in the second quarter of 2008 in order to promote collaboration and become even more powerful by bundling centers of competence. With this in mind the original three divisions of Climate Systems, Car Media Systems and Instrumentation and Control Systems were restructured into two product divisions. All aspects of the human-machine interface (HMI) were brought together in the Cockpit Systems division, while the growth field of sensors and actuators was concentrated in the Sensor/Actuator division.

The paragon Group continued to maintain its presence in the market as a leader in innovation in 2008. The introduction of the Air Quality Improver resulted in generally positive resonance and recognition in the automotive industry. Various car manufacturers provide this system for active improvement of the air in the interior of the car for vehicles destined for the Asian market. Furthermore, paragon was able to

attract additional systems partners for the novel belt microphone, belt-mic. Sales of the Media Device Interface (MDI) developed very well, too. The MDI can be used to connect an MP3 player in the vehicle, so it can be used like a CD changer with the control and display units present in the vehicle. Since it was taken over in additional car series, sales of this product grew aggressively and showed an increase of over 40% in the first three quarters. Sales of core products, such as air quality sensors, moreover, benefited from the migration to high-volume, lower car segments.

The upward trend which lasted for ten months confirmed the correctness of the strategic decisions taken and of paragon's positioning in the core Automotive segment, even if this trend was abruptly interrupted by the effect of the automotive crisis. The stability of our customer base, which became apparent especially in fiscal 2009 and during the period of insolvency, highlights this in particular.

E. Electronic Solutions Segment

According to a study of a renowned economic research institute that regularly surveys this market, Electronic Manufacturing Services (EMS) continue to be an expanding growth market. This market growth in Germany chiefly involves flexible, medium-sized companies. The customers appreciate enhanced the flexibility, shorter communication paths and close personal relationships of these companies. A shift from low cost country (primarily Asia) towards best cost country has taken place. Many customers now consider total costs, not just the unit costs of a component or device.

In order to be able to concentrate fully on the Automotive segment in future, plans existed in 2008 to sell the subsidiary paragon firstronic GmbH and thus give up the Electronic Solutions segment in favor

of focusing on the core competences in the Automotive area. After successful negotiations were concluded, a signed declaration of intent from an interested party was already on hand; the sale, however, failed to materialize due to credit restraints in connection with the global financial crisis.

In 2008 the Electronic Solutions segment offered customers individual systems solutions in the shape of electronic components, fully assembled devices and systems. The complete value creation chain was covered from the development stage to after-sales service. In 2008 the customer base was further expanded via new projects and new customers. The Electronic Solutions segment operated most actively in the area of the human-machine interface in the sectors of industrial electronics, building technology, medicine, security technology and high-quality electronics.

2008 was marked by strong growth and sustained capital expenditure in the Electronic Solutions segment. Sales rose from EUR 15.9 million to EUR 17.2 million compared to the same period in the previous year, a disproportionate increase of 11.3%. A great part of this was due to having regained orders from the Far East, achieved by means of innovative solutions and investment in automation technology.

F. Net Assets, Financial Position and Results of Operations

Net Assets and Financial Position

Total assets decreased from EUR 136.1 million as at December 31, 2007, by EUR 82.6 million to a level of EUR 53.5 million as at December 31, 2008, significantly below the previous year's value. Non-current assets dropped from EUR 95.3 million at the same date in the previous year to EUR 26.6 million on the balance sheet date. This significant change is due

essentially to write-offs of goodwill, intangible assets and property, plant and equipment, taking into account the adjustments made to the consolidated financial statements as at December 31, 2008, in connection with the insolvency proceedings over paragon AG and its subsidiaries initiated in January 2010.

Current assets declined to EUR 27.0 million (prior year: EUR 40.9 million), the result primarily of write-offs against other assets. Damage claims from a fraud case discovered in 2007 in one of paragon AG's subsidiaries in the amount of EUR 5.8 million and other claims from litigation were written down in full. The decline in trade receivables by EUR 1.9 million is due on the one hand to customers' shorter payment terms; on the other hand, individual write-offs were made to other assets as part of the adjusting items after the balance sheet date. Furthermore, cash and cash equivalents shrank by EUR 4.2 million due to ongoing repayments of financing loans.

Despite higher retained earnings, that rose from EUR 5.6 million at the end of 2007 to EUR 7.7 million as at December 31, 2008, the paragon Group is reporting negative equity due to the large consolidated net loss for the year, resulting mainly from write-downs on goodwill, intangible assets and property, plant and equipment.

Developments in provisions and liabilities in the paragon Group differed. While current liabilities rose, due especially to an increase in loans and extended use of credit lines, to EUR 55.1 million (prior year: EUR 44.5 million), non-current liabilities dropped to EUR 52.6 million (prior year: EUR 73.5 million). The reduction in loans and profit-sharing rights, the replacement of long-term loans by short-term loans and the significant decrease in deferred tax liabilities from EUR 6.7 million to EUR 0.4 million, perceptible particularly in intangible assets in connection with the

write-downs recorded, constitute the major reasons for this change.

Cash flow from operating activities rose in fiscal 2008 from EUR 6.2 million to EUR 13.5 million, brought about primarily from improvements in working capital. The funds outflow due to investment activity (EUR -11.3 million) was able to be fully financed by cash flow from operating activities as a result. Once cash flow from investment and cash flow from financing have been taken into account (EUR -6.3 million), a decline in cash and cash equivalents of EUR 4.2 million to EUR 1.2 million on the balance sheet date remains.

On the whole the write-offs and write-downs influenced the Company's net assets and financing position considerably in fiscal 2008. Due to great uncertainty regarding the Group's continued financial development and the absence of financing commitments, it was not possible to issue a positive forecast for the continuation of paragon AG and the Group as a going concern at the end of fiscal 2008. Nevertheless, paragon punctually complied with its obligations to provide financial statements, so provisional financial statements were available internally by March 13, 2009. At the same time the Managing Board was not certain at any point in time during 2009 that the financial data to be published might not represent the final status. Due to the doubts surrounding the Group's continuation as a going concern and the resultant absence of an audit opinion, as well, paragon was not in a position to inform the financial markets in the manner that had been customary hitherto.

As a result of the successful conclusion of the insolvency plan proceedings effective June 1, 2010, and the related debt relief, the Group's financial situation can be seen in a significantly more positive light on the date that the consolidated financial

statements are being prepared than was the case at the end of 2008. The new financing arrangement for paragon AG has created a healthy basis for the continuation of the Company's activities.

Results of Operations

The Company uses financial performance indicators to manage its operating activities, including the development of sales in combination with levels of orders received, as well as plan figures for the following fiscal year. The rise in sales in 2008 by 2.9% was due to organic growth.

The earnings situation of the paragon Group in fiscal 2008 has been impacted to a great degree by write-offs against goodwill in the amount of EUR -27.4 million and against property, plant and equipment and intangible assets in the amount of EUR -35.0 million; these write-offs are related to the insolvency proceedings of the subsidiaries initiated in January 2010. Despite gross income (EUR 59.9 million) at almost exactly the previous year's level (EUR 59.8 million), the Group's net income for the 2007 (EUR 2.5 million) could not be equaled in fiscal 2008 and plummeted into the negative zone (EUR -71.8 million).

The paragon Group's total operating revenue rose slightly compared to the same period in the previous year by 2.4% from EUR 120.5 million to EUR 123.4 million. Cost of materials was up 4.7% to EUR -63.5 million (2007: EUR -60.6 million). The gross profit margin, i.e. the ratio of gross margin to sales revenues, declined from 54.9% to 53.5%. Personnel expense rose modestly by 1% from EUR 27.6 million (2007) to EUR 27.9 million, so that the personnel expense ratio (in relation to sales revenues) is now 24.9% versus 25.3% in 2007.

The sharp rise in other operating expenses by EUR 9.6 million has mainly occurred due to individual write-offs relating to damage compensation claims and pending litigation (EUR 3.9 million) and trade

receivables (EUR 1.7 million,) as well as the increase in expenses for licenses (EUR 0.8 million), for anticipated losses for pending transactions (EUR 0.7 million) and for legal consulting services (EUR 0.6 million).

Due to the fact that financial income is lower than at the same time in the previous year (2008: EUR 0.2 million; 2007: EUR 0.4 million) and financial expense is higher (2008: EUR -8.4 million; 2007: EUR -6.9 million) from the increased use of overdraft facilities, financial income deteriorated by 26.6% to EUR -8.2 million (2007: EUR -6.5 million). The higher negative financial income also influenced earnings before taxes (2008: EUR -74.3 million; 2007: EUR 0.3 million) and the consolidated net loss for the year (2008: EUR -71.8 million; 2007: EUR 2.5 million). The earnings per share (EPS) figure for fiscal 2008 was, therefore, EUR -17.46 –as at December 31, 2008 (December 31, 2007: EUR 0.60) with 4.1 million shares outstanding. Against this backdrop paragon AG's Managing Board and Supervisory Board will recommend to the Annual General Meeting for fiscal 2008 that no dividend distribution be made.

G. Employees

The paragon Group employed 639 individuals worldwide as at December 31, 2008 (previous year: 594), 576 of whom were employed domestically and 63 abroad. In addition a total of 42 contract workers were engaged in the Group as at the balance sheet date (prior year: 60).

Employees by site (not including temporary workers)	
Delbrück	91
Suhl	306
Cadolzburg	67
St. Georgen	67
Heidenheim	3
USA	58
France	3
Japan	1
Italy	1

Personnel expenses rose slightly from EUR 27.6 million to EUR 27.9 million. EUR 21.0 million was due to salaries and wages (prior year: EUR 21.6 million), EUR 3.3 million to social security contributions (prior year: EUR 2.9 million) and EUR 0.2 million to retirement expenses (prior year: EUR 0.4 million). Costs for temporary workers were posted at EUR 3.4 million (prior year: EUR 2.6 million).

H. Remuneration of the Managing Board

paragon AG's Managing Board was composed as follows at the end of 2008: Mr. Klaus Dieter Frers, Chairman of the Board and CEO, Mr. Volker Brinkmann, Chief Financial Officer, and Mr. Golo Alexander Wahl, Chief Marketing and Sales Officer.

The Managing Board's remuneration was established by the Supervisory Board and was subject to

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

I. Capital Expenditure

In 2008 the paragon Group invested EUR 10.1 million (prior year: EUR 14.4 million) on capital expenditure. Major investment projects once again included development projects (EUR 4.8 million), as well as technical equipment and machinery (EUR 2.3 million). The core investments consisted of assembly equipment for stepper motor finishing and a component testing system in the Electronics Solutions segment.

J. Research and Development

The Research and Development division continued to be of enormous importance to the paragon Group in 2008 as well. Innovative and high-quality products allowed paragon to continue to expand its leading market position as automobile supplier. Significant research activities were undertaken in the area of active air quality improvement in the car interior. The series launch, for instance, of the 'Air Quality Conditioner' (AQC) took place during the year just elapsed. Furthermore, paragon was able to win its first pilot order for the air quality improvement system Air Quality Improver (AQI).

The field of display instruments has been a focus of development due to the numerous orders obtained during 2008. Other important topics include the development of position sensors for power train applications and preparatory basic work for new projects. During fiscal 2008 expenses for research and development totalled EUR 10.3 million (prior year: EUR 10.0 million).

K. Purchasing

The principles of paragon's purchasing philosophy, consistently geared to optimum efficiency and reliability, continued to be quality, high-performance suppliers and innovative materials procurement. In order to guarantee achievement of production and earnings goals, the Group counts on close cooperation with strong partners as part of the procurement process.

Cost of materials in the year under review was approximately EUR 63.5 million; in 2007 this figure was EUR 60.6 million. Cost of materials thus rose by 4.7 % in 2008. The ratio of the cost of materials to sales rose to 56.7 % (2007: 55.7 %).

L. International

In 2008 paragon was a Group with an international set-up and global operations. The Company maintained sales offices in key parts of Europe and manufactured in the US with its subsidiary paragon firstronic of NA Corp., among other things.

In the US the Group was pursuing the goal of generating automotive orders via its EMS business based on its excellent manufacturing competencies and reputation. In total paragon firstronic of NA Corp. achieved sales revenues of EUR 6.0 million in 2008 (2007: EUR 7.5 million).

The branch in Japan continued to service an important automobile market. The technically highly demanding and critical Japanese car manufacturers were persuaded of the performance capabilities of paragon's air quality sensors by means of intensive customer contacts and joint preliminary development projects, so that specific negotiations were being anticipated for initial series orders.

paragon solidified its good contacts with the Italian car manufacturers by opening Italian sales locations in February of 2008. The model successfully introduced in France a few years ago provided the basis.

After sales in France demonstrated success particularly in the area of Climate Systems, two orders for instrumentation were won in the year under review.

M. Report on Risks and Opportunities

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

Market and Industry

In the last few years, paragon has established itself as a recognized and innovative automotive supplier. The economic development of the automotive industry therefore has a sizable influence on the Company's sales and earnings situation. The massive collapse in the wake of the global financial crisis brought about a

time lag in orders from a number of car manufacturers. Due to the fact that customers do not fluctuate, the chance exists that these orders may materialize at a later date.

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

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

paragon can boast market leadership primarily in the following product areas: Air quality sensors (established since 1994, global market share of c. 85%), stepper motors (pioneer in 1993, no. 2 worldwide), on-board clocks and chronographs (established since 1925, no. 3 worldwide), shift-by-wire systems (no. 1 in Europe) and media interfaces, cradles, consoles and microphones (pioneer of hands-

free installations in 1997, no. 2 in Europe). These market positions imply considerable opportunities for additional sales and a meaningful complement to the existing product portfolio by using existing sales channels.

paragon also sees opportunities in the area of so-called New Drives in addition to its tried and true product portfolio. Electronic solutions for hybrid cars and, especially, for electric mobility, in high demand, also play a key role here. In 2010 paragon expects to realize sales with products installed in cars with conventional drives. In terms of sales, the entry into the future field of New Drives will leave a considerable mark over the next few years.

Research and Development

As an innovative supplier, paragon is involved in numerous development projects with customers. Major deviations from project goals in timing or money could entail cost and legal risks (contractual penalties). aragon counters these risks by means of ongoing development and project control that include placing time and expense targets. The field of research and development taps into additional potential for paragon in the case of existing, as well as new, customers. By exploiting existing sales channels additional business can be generated with new products that complement the previous portfolio.

Procurement and Production

A number of raw materials have become more expensive during the course of 2008. Global competition in the segments of relevance to paragon, as well as master contracts, annual agreements and long-term supplier relations, enable paragon to assure guaranteed prices for a major portion of procurement. More than 80% of all goods purchased come from Europe; the remaining goods come from the US and Asia. Payment terms are those common to the industry. The major purchasing currency is the euro,

with a small share also in US dollars. paragon, moreover, uses continuous improvements to optimize the production and logistics structures, thereby improving the efficiency of the production process.

Information Technology

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

Liquidity and Financing

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

In 2008 agreements were in force to adhere to key financial indicators in the case of several of the paragon Group's financing arrangements. Due to the significant deterioration in the financial situation in the fourth quarter of 2008, the key indicators

demanding by the banks were not maintained. In the course of the refinancing negotiations that started subsequently the obligation to maintain the key financial indicators and all interest and principal repayments were suspended. Against the backdrop of the insolvency that has occurred in the interim for paragon AG and its subsidiaries, debt financing was radically restructured prior to the release of these consolidated financial statements. All short-term and long-term loans were replaced by new financing agreements with different maturities and no agreements about adherence to specific key financial indicators were entered into with the remaining bank.

Overall Risk

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

During the course of 2009 the situation came to a head due to the lack of agreement among the banks to the extent that the Managing Board initiated insolvency proceedings for paragon AG. The following German subsidiaries of paragon AG: paragon finesse GmbH, Delbrück, paragon facilio GmbH, Delbrück, and paragon fidelio GmbH, Suhl, petitioned for insolvency on October 7, 2009, at the district courts of Paderborn and Meiningen, respectively. The subsidiary paragon firstronic GmbH, Suhl, filed for insolvency with the district court of Meiningen on October 22, 2009. The district court of Paderborn initiated insolvency proceedings regarding the assets of the subsidiaries

paragon fidelio GmbH and paragon finesse GmbH on January 1, 2010. Insolvency proceedings regarding the assets of paragon firstronic GmbH were initiated on February 1, 2010. The insolvency proceedings of the subsidiaries have not been concluded as yet. The subsidiaries, paragon of North America Corp., Grand Rapids, paragon firstronic of North America Corp., Grand Rapids, Chipco Inc., Elkhart, and paragon of Japan Inc., Amagasaki-City, were liquidated in 2009.

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

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

N. Capital Structure, Managing Board and Change of Control

Pursuant to the provisions of section 315, paragraph 4, of the German Commercial Code, paragon AG provides the following comments:

Capital

paragon AG's equity capital was composed of 4,114,788 common shares as at December 31, 2008, which were entitled to dividends as of January 1, 2007, with a par value of EUR 1.00. Subscribed capital amounted to EUR 4,114,788. According to the information provided by the Managing Board no restrictions on transfer or voting rights existed for fiscal 2008 to its knowledge.

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

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

Managing Board

On December 31, 2008, paragon AG's Managing Board consisted of three members appointed by the Supervisory Board:

- Mr. Klaus Dieter Frers (Chairman of the Board and CEO)
- Mr. Volker Brinkmann (Chief Financial Officer)
- Mr. Golo Alexander Wahl (Chief Marketing and Sales Officer)

In other respects, the provisions of sections 84 and 85 of the German Stock Corporation Act apply.

paragon AG's Managing Board is constantly committed to the Company's interests and to enhancing

shareholder value. During fiscal 2008 no conflicts of interest arose on the part of the Managing Board that would have required disclosure to the Supervisory Board. Furthermore, no member of the Managing Board occupied a position in a Supervisory Board. Subject to the condition of a change of control resulting from a takeover bid, agreements were included in paragon AG's Managing Board contracts that they be indemnified under certain conditions.

An authorization to repurchase treasury stock in amounts of up to 10 % of equity capital and to increase capital up to 2 million shares (authorized capital) was in force. Furthermore, capital was conditionally increased by up to 2,149,874 shares (conditional capital I, II and III). Portions of the aforementioned authorizations had not yet been recorded in the commercial register prior to the preparation of the Group management report.

O. Environmental Protection and Occupational Safety

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

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

standard DIN EN ISO 14001:2005. At the same time paragon assures that raw materials and energy resources are carefully handled by using the most up-to-date manufacturing techniques. Environmental management is solidly integrated into the work processes and contributes significantly to the Group's financial success based on well-grounded quality management.

P. Report on Anticipated Developments

Given the time of preparation of paragon AG's individual and consolidated financial statements – July of 2010 – the outlook in this Group management report of 2008 is focused on 2010 and 2011. The knowledge gained in 2009 and the first seven months of 2010 are included in order to provide an up-to-date, qualified outlook.

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

Overall Economic and Industry Development

The Institut für Weltwirtschaft (ifw – Kiel Institute for the World Economy) forecasts recovery for the economy during 2010, but only at a moderate rate. The financial and economic crisis of 2008 and 2009 is gradually being overcome according to ifw estimates. The pace of expansion, however, differs greatly in

individual regions around the world. While in some emerging markets there is even a risk of the economy overheating, the utilization of economic capacities on the whole in industrial countries continues to be low. Due to the sharp increase in government debt, economic policy, especially in smaller industrialized countries, is likely to be focused on budget consolidation in the medium term. The Institute believes that the financial and property sectors are in structural crisis. For this reason, as well, the ifw anticipates a slow recovery from the huge losses suffered. In this context the risks for the economy on global basis, therefore, remain high.

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

Corporate Development

After the successful conclusion of paragon AG's insolvency proceedings the Managing Board believes its future business prospects are excellent. These forecasts are bolstered not only by significantly lower debt, but also, in particular, by the gratifying operational developments in the Company. During the first quarter of 2010 paragon was able to continuously improve on the previous year in terms of sales and the earnings indicators, EBITDA and EBT. Cash flow, too, developed positively, so a good foundation has

been laid. This satisfactory development also carried on in the following months of the insolvency period.

The Managing Board expects positive financial data for the calendar year 2010. paragon is aiming at sales revenues of EUR 58 million for calendar year 2010, as well as clearly positive operating cash flow. Operating earnings (EBITDA adjusted for the costs of restructuring and the insolvency) of EUR 7.5 million are anticipated. It is expected that positive EBIT is a possibility as early as 2010 according to the Managing Board's estimates.

The departure from the divisional structure and the new breakdown into product groups minimizes complexity and creates additional clarity. In future paragon will be active in the product groups air quality (including with the global air quality sensor leader – AQS), power trains, acoustics, stepper motors, media interfaces and cockpits. Business activities take place in four German locations: headquarters, administration and portions of development in Delbrück, North-Rhine Westphalia, main manufacturing location in Suhl, Thuringia, plant for instrumentation and stepper motors in St. Georgen, Baden-Württemberg and development of media interfaces and cockpit in Nuremberg.

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

A big advantage for the Company is the longevity of its customer relationships in the automotive industry, some of which have existed for more than ten years.

paragon did not experience any order cancellations during its insolvency phase. In fact, the Company was actually able to attract new orders during this period. The sales plan is substantiated to a great extent and over the long term by orders. Orders, which are documented by appropriate 'nomination letters' are at 97.9 % of sales plan for 2010. The business plan shows corresponding stability in this area for the following years, 2011 (91.3 %) and 2012 (86.8 %).

Q. Disclaimer

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

Delbrück, July 30, 2010

A handwritten signature in black ink, appearing to read 'Klaus D. Frers', with a stylized flourish at the end.

Klaus Dieter Frers

Chairman of the Managing Board

Consolidated Balance Sheet of paragon AG, Delbrück, as of December 31, 2008

in EUR thousands	Notes	Dec. 31, 2008	Dec. 31, 2007
Assets			
Non-current assets			
Intangible assets	(1)	6,061	31,530
Goodwill	(1)	0	27,430
Property, plant and equipment	(2)	19,898	32,130
Financial assets	(3)	180	266
Deferred taxes	(9)	447	3,901
Total non-current assets		26,586	95,257
Current assets			
Inventories	(4)	19,224	17,709
Trade receivables	(5)	4,375	6,259
Income tax assets		219	867
Other assets	(6)	849	9,606
Cash and cash equivalents	(7)	2,262	6,443
Total current assets		26,929	40,884
Total assets		53,515	136,141

in EUR thousands	Notes	Dec. 31, 2008	Dec. 31, 2007
Liabilities			
Equity			
Subscribed capital	(8)	4,115	4,115
Capital reserve		7,753	7,753
Profit carried forward		7,695	5,642
Consolidated net income/loss		- 71,836	2,464
Currency translation reserve		- 1,905	- 1,824
Total equity		- 54,178	18,150
Non-current provisions and liabilities			
Non-current finance lease obligations	(9)	947	225
Non-current borrowings	(10)	21,659	29,111
Profit-participation certificates	(13)	22,610	25,494
Special item for investment grants	(14)	6,432	9,147
Deferred taxes	(9)	359	6,691
Pension provisions	(11)	623	959
Other non-current liabilities		0	1,898
Total non-current provisions and liabilities		52,630	73,525
Current provisions and liabilities			
Current portion of finance lease obligations	(9)	470	521
Current borrowings and current portion of non-current borrowings	(10)	26,550	20,109
Trade payables		13,895	13,753
Other provisions	(15)	3,277	1,012
Income tax liabilities		1,778	2,929
Other current liabilities	(12)	9,093	6,142
Total current provisions and liabilities		55,063	44,466
Total equity and liabilities		53,515	136,141

Consolidated Income Statement of paragon AG, Delbrück,
for the period from January 1 to December 31, 2008

in EUR thousands	Notes	2008	2007
Sales revenue	(1)	112,003	108,882
Other operating income	(2)	5,118	5,034
Increase or decrease in finished goods and work in progress		1,079	- 158
Other own work capitalized	(3)	5,218	6,717
Total operating performance		123,418	120,475
Cost of materials	(4)	- 63,513	- 60,648
Gross profit		59,905	59,827
Staff costs	(5)	- 27,891	- 27,608
Depreciation and amortization of property, plant and equipment and intangible assets		- 12,591	- 11,931
Goodwill impairment		- 27,431	0
Impairment of property, plant and equipment and intangible assets		- 34,986	0
Impairment of financial assets		- 86	0
Other operating expenses	(6)	- 23,052	- 13,490
Earnings before interest and taxes (EBIT)		- 66,132	6,798
Financial income		211	442
Finance costs		- 8,423	- 6,929
Net financing costs	(8)	- 8,212	- 6,487
Earnings before taxes		- 74,344	311
Income taxes	(9)	2,508	2,153
Consolidated net income/loss		- 71,836	2,464
Earnings per share (basic)	(10)	- 17.46	0.60
Earnings per share (diluted)		- 17.43	0.60
Average number of shares outstanding (basic)		4,114,788	4,113,862
Average number of shares outstanding (diluted)		4,121,085	4,128,383

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

in EUR thousands	Notes	2008		2007	
Cash flow from operating activities					
Earnings before income taxes and deferred taxes		- 74,344		311	
Depreciation and write-ups of property, plant and equipment		12,591		11,931	
Net financing costs		8,212		6,487	
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets		- 68		304	
Increase (+), decrease (-) in other provisions and pension provisions		1,929		- 918	
Income from the reversal of the special item for investment grants		- 2,923		- 2,108	
Increase (-), decrease (+) in trade receivables, other receivables and other assets		10,628		5,649	
Goodwill impairment		27,431		0	
Impairment of intangible assets and property, plant and equipment		34,986		0	
Impairment of financial assets		86		0	
Increase (-), decrease (+) in inventories		- 1,515		- 369	
Decrease (+), Increase (-) in trade payables and other liabilities		5,745		- 6,935	
Interest paid		- 8,423		- 6,929	
Income taxes/deferred taxes paid		- 873		- 1,245	
Net cash provided by/used in operating activities	(21)		13,461		6,178
Cash flow from investing activities					
Cash receipts from disposals of property, plant and equipment		352		125	
Cash payments to acquire property, plant and equipment		- 5,120		- 7,149	
Cash payments to acquire intangible assets		- 5,003		- 7,115	
Cash payments to acquire financial assets		0		- 91	
Cash payments to acquire consolidated companies and other business units		- 1,900		0	
Cash receipts/payments from investment grants		208		1,243	
Interest received		211		442	
Net cash provided by/used in investing activities	(21)		- 11,252		- 12,545
Cash flow from financing activities					
Dividends paid		- 411		- 1,234	
Cash repayments of borrowings		- 8,160		- 3,103	
Cash proceeds from issuing borrowings		5,971		6,589	
Cash payments for the reduction of the outstanding liability relating to a finance lease		- 724		0	
Net cash received from issuing profit-participation certificates		0		7	
Net cash paid for the repayment of profit-participation certificates		0		7,000	
Net cash paid for the repayment of profit-participation certificates		- 3,000		- 5,000	
Net change in cash and cash equivalents	(21)		- 6,324		4,259
Cash-effective change in liquidity			- 4,115		- 2,108
Effects resulting from exchange differences, changes in the basis of consolidation and remeasurement			- 80		- 222
Cash and cash equivalents at beginning of period			5,393		7,723
Cash and cash equivalents at end of period	(21)		1.198		5.393

Group Segment Reporting of paragon AG, Delbrück

by business segments

in EUR thousands	Auto- motive 2008	Auto- motive 2007	Electronic Solutions 2008	Electronic Solutions 2007	Total 2008	Total 2007
External sales revenue	92,338	88,497	19,665	20,385	112,003	108,882
Operating result (EBIT)	- 62,944	6,245	- 3,189	553	- 66,133	6,798
Segment assets	43,903	104,095	5,834	11,468	49,737	115,563
Segment liabilities	12,069	11,398	1,826	1,608	13,895	13,006
Capital expenditure	7,602	13,754	466	575	8,068	14,329
Depreciation and amortization	11,848	10,619	743	1,312	12,591	11,931
Impairment losses in accordance with IAS 36	56,745	138	5,672	0	62,417	138

by geographical segments

in EUR thousands	Europe 2008	Europe 2007	USA 2008	USA 2007	Japan 2008	Japan 2007	Total 2008	Total 2007
External sales revenue	107,362	101,368	4,631	7,490	10	24	112,003	108,882
Operating result (EBIT)	- 62,513	6,525	- 3,628	457	9	- 184	- 66,132	6,798
Segment assets	47,416	109,632	2,299	5,926	22	5	49,737	115,563
Segment liabilities	13,189	12,396	706	603	0	7	13,895	13,006
Capital expenditure	7,939	14,098	124	224	5	7	8,068	14,329
Depreciation and amortization	12,559	11,883	30	44	2	4	12,591	11,931

Consolidated Statement of Changes in Equity of paragon AG, Delbrück

in EUR thousands	Subscribed capital	Currency translation differences	Capital reserve	Profit/loss carried forward	Consolidated net income/loss	Total
Balance as of Jan. 1, 2007	4,113	- 1,166	7,748	4,670	2,206	17,571
Earnings after tax					2,464	2,464
Profit/loss carried forward				2,206	- 2,206	0
Dividends				- 1,234		- 1,234
Capital increase (exercise of options)	2		5			7
Currency translation differences		- 658				- 658
Balance as of Dec. 31, 2007	4,115	- 1,824	7,753	5,642	2,464	18,150
Balance as of Jan. 1, 2008	4,115	- 1,824	7,753	5,642	2,464	18,150
Earnings after tax					- 71,836	- 71,836
Profit/loss carried forward				2,464	- 2,464	0
Dividends				- 411		- 411
Capital increase (exercise of options)						0
Currency translation differences		- 81				- 81
Balance as of Dec. 31, 2008	4,115	- 1,905	7,753	7,695	- 71,836	- 54,178

A. Information on the paragon Group

(1) General information

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

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

The consolidated financial statements prepared as of December 31, 2008 and the group management report of paragon AG are submitted to the electronic Federal Gazette (elektronischer Bundesanzeiger) and are available on the Company's website (www.paragon-online.de).

(2) Effects of the global financial and economic crisis

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

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

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

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

B. Basis of accounting and accounting policies

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

These consolidated financial statements of paragon AG for the year ended December 31, 2008 have, pursuant to section 315a of the German Commercial Code (HGB), been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, as adopted by the European Union (EU) and applicable on the balance sheet date, and in accordance with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

(2) Going Concern

Due to the successful end of the insolvency proceedings as a result of the acceptance of the insolvency plan by the creditors' meeting on April 16, 2010, the consolidated financial statements of paragon AG was prepared under the going concern assumption. The carrying amounts of assets and liabilities were therefore determined on the basis of going concern values.

(3) Events after the balance sheet date

The consolidated financial statements have to be prepared on the basis of the circumstance existing as of the balance sheet date. In accordance with IAS 10.7, events after the reporting period include all events up to the date when the consolidated financial statements are authorized for issue. The consolidated financial statements as of December 31, 2008 will be authorized for issue by the Management Board and submitted to the Supervisory Board for signing on July 30, 2010. Until that date, all information available with regard to the circumstances on the balance sheet date have to be taken into account. Due to the fact that the going concern assumption did not apply during the preparation period (January to March 2009) and thereafter, and as a result of the ensuing insolvency, the preparation process for the consolidated financial statements as of December 31, 2008 was delayed until July 2010.

The aim of presenting objective circumstances in the consolidated financial statements as of December 31, 2008 therefore required a review to be conducted as to whether objective evidence existed based on today's view (July 2010) in the consolidated financial statements as of December 31, 2008 and hence, needed to be included in the consolidated financial statements as of December 31, 2008 (adjusting events). The Company identified adjusting events through a review of all measurements of assets and liabilities in July 2010 and included such events in the consolidated financial statements as of December 31, 2008. In this context, adjusting events that have become known until the authorization for issue of the consolidated financial statements on July 30, 2010, were included in the consolidated financial statements as of December 31, 2008, based on the following material accounting policies in accordance with IAS 10:

- Going concern assumption and therefore the recognition of going concern values in accordance with IAS 1
- Impairment of intangible assets during consolidation (IFRS 3) as well as goodwill in accordance with IAS 36
- Impairment of acquired and internally-generated intangible assets in accordance with IAS 36
- Measurement of property, plant and equipment in accordance with IAS 36
- Write-downs of inventories in accordance with IAS 2
- Measurement of receivables in accordance with IAS 39
- Measurement of provisions in accordance with IAS 37

The measurement procedures performed in connection with IAS 10 resulted in a net loss for the fiscal year 2008 in the amount of EUR 71,836,000. Therefore, paragon AG reports negative equity in its balance sheet as of December 31, 2008 in an amount of EUR 54,178,000.

(4) New accounting principles due to new standards

In fiscal year 2008, the following revised and new standard promulgated by the IASB as well as interpretations of the IFRIC were endorsed by the EU and were required to be applied for the first time:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions was issued in November 2006. The EU published IFRIC 11 in June 2007. EU endorsement was given in December 2008. The interpretation clarifies how to account for share-based payment transactions within the Group and how to account for share-based payment arrangements where the entity issues that entity's own equity instruments or uses equity instruments of one of its subsidiaries. IFRIC 11 is required to be applied for annual periods beginning on or after March 1, 2007. Earlier application was permitted. IFRIC 11 did not have any material effects on the consolidated financial statements.
- IFRIC 12 Service Concession Arrangements was issued in November 2006. EU endorsement was given in December 2009. IFRIC 12 deals with accounting issues of private-sector companies providing infrastructure services to the public sector within the context service concession arrangements. The basis of these arrangements are contracts where public-sector entities outsource certain services originally provided by such public-sector entities to private-sector entities. IFRIC 12 is required to be applied for annual periods beginning on or after January 1, 2008. Earlier application is permitted for those annual periods beginning before this date. IFRIC 12 did not have any material effects on the consolidated financial statements.
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction was issued in July 2007. EU endorsement was given in December 2008. IFRIC 14 was required to be applied for annual periods beginning on or after January 1, 2008. IFRIC 14 did not have any material effects on the consolidated financial statements.

At the time of preparation of the 2008 consolidated financial statements, the following IASB standards and IFRIC interpretations had already been issued, but were not required to be applied and/or had not been endorsed by the EU at that date:

- In January 2008, the IASB published amendments to IFRS 2 Share-based Payment. The amendment to IFRS 2 defines the term vesting conditions and clarifies how to account for non-vesting conditions and how to account for cancellations of share-based payment arrangements by the company or the counterparty. The amendment is required to be applied for fiscal years beginning on or after January 1, 2009. EU endorsement was given in December 2008. This amendment will have no effect on the consolidated financial statements.
- In January 2008, the IASB published a revised version of IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements. The new standards are required to be applied for fiscal years beginning on or after July 1, 2009. The revised version of IFRS 3 and the amended version of IAS 27 define the requirements for the presentation of business combinations and financial instruments and sets out rules for the structure and minimum requirements in terms of content. The Com-

pany will evaluate the expected effects of the revised version of IFRS 3 and the amended version of IAS 27 and determine a date for initial application. EU endorsement for IFRS 3 was given in June 2009. EU endorsement for IAS 27 was given in January 2009. This amendment will have no effect on the consolidated financial statements.

- IFRS 8 Operating Segments is required to be applied for fiscal years beginning on or after January 1, 2009. IFRS 8 replaces the so-called risk and reward approach as set out in IAS 14 with the management approach in relation to the identification of a segment. The relevant criterion is the information regularly provided to the so-called chief operating decision maker to make decisions. Simultaneously, the measurement of the segments will be switched to the management approach and will no longer be based on the financial accounting approach. The first-time application of IFRS 8 by paragon AG in fiscal year 2009 is expected to result in changed disclosures in segment reporting. EU endorsement was given in December 2008. The Company will evaluate the expected effects from the revised standard and determine the date of first-time application.
- The revised IAS 1 Presentation of Financial Statements (Revised) was published by the IASB in September 2007 and is intended to facilitate the analysis and comparisons of financial statements for users of such financial statements. IAS 1 defines the requirements for the presentation of financial statements and sets out rules for their structure and minimum requirements in terms of content. The amended standard is required to be applied for fiscal years beginning on or after January 1, 2009. Earlier application is permitted. EU endorsement was given in December 2008. The Company will evaluate the expected effects from the revised standard and determine the date of first-time application.
- In March 2007, the IASB published a revised version of IAS 23 Borrowing Costs. The revised standard requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The current option to recognize borrowing costs as an expense as incurred is eliminated. The changed standard is required to be applied for fiscal years beginning on or after January 1, 2009. EU endorsement was given in December 2008. This amendment will have no effect on the consolidated financial statements.
- In February 2008, the IASB published a revised version of IAS 32 Presentation of Financial Statements. The changes relate to puttable financial instruments and obligations arising on liquidations. IAS 32 defines the requirements for the presentation of financial instruments and sets out rules for the structure and minimum requirements in terms of content. The new standard is required to be applied for fiscal years beginning on or after January 1, 2009. EU endorsement was given in December 2009. The Company will evaluate the expected effects of the revised version of IAS 32 and determine a date for initial application.
- On October 13, 2008, the IASB issued amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. The amendments to IAS 39 and IFRS 7 permit to reclassify certain financial instruments in particular circumstances from the „held for trading“ category into another category. The current financial crisis is regarded as such a particular circumstance which would justify any such reclassifications. The changes to IAS 39 and IFRS 7 may be applied retrospectively as of July 1. EU endorsement was given

on October 15, 2008. This amendment will have no effect on the consolidated financial statements.

- In June 2007, the IFRIC published IFRIC 13 Customer Loyalty Programmes. The interpretation clarifies presentation and measurement of customer loyalty programs. IFRIC 13 is required to be applied for fiscal years beginning on or after July 1, 2008. EU endorsement was given in December 2008. The Company does not expect IFRIC 13 to have material effects on the consolidated financial statements.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation was published by the IFRIC in July 2008. The aim of the interpretation is identification and measurement of foreign currency risks in connection with hedge accounting within the reporting entity and its foreign operations. This interpretation is required to be applied for fiscal years beginning on or after October 1, 2008. EU endorsement was given in June 2009. IFRIC 16 will have no effect on the consolidated financial statements.
- IFRIC 17 Distribution of Non-cash Assets to Owners was published by the IFRIC in November 2008. IFRIC 17 addresses how an entity should measure distributions of assets other than cash when they are used to pay dividends to its owners. This interpretation is required to be applied for fiscal years beginning on or after July 1, 2009. EU endorsement was given in November 2009. IFRIC 17 will have no effect on the consolidated financial statements.
- In May 2008, the IASB published amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate. The changes to IFRS 1 and IAS 27 are required to be applied for fiscal years beginning after December 31, 2008. EU endorsement was given on January 23, 2009. This amendment will have no effect on the consolidated financial statements.
- In May 2008, the IASB published improvements to IFRSs as part of its annual improvements project. These comprise 35 changes to standards and consist of two parts: the first part refers to amendments that result in accounting changes for presentation, recognition or measurement purposes, while the second part contains amendments that are terminology or editorial changes only. The changes are required to be applied for fiscal years beginning after June 30, 2009. EU endorsement was given on January 23, 2009. The Company will evaluate the expected effects and determine a date for initial application.
- In November 2008, the IASB published amendments to IAS 39 and IFRS 7. The amendments to IAS 39 and IFRS 7 give information about the point at which the amendments to these standards take effect and concern the transitional provisions which the IASB published on October 13, 2008. EU endorsement of the amendments was given on September 9, 2009. The amendment will have no effect on the consolidated financial statements.
- In July 2008, the IASB published 'Eligible hedged items – amendments to IAS 39'. The amendments provide clarification concerning hedge accounting when identifying inflation as a hedged risk or portion and with option contracts used as hedging instruments. The amendments must be applied at the latest beginning with the first fiscal year commencing after June 30, 2009. EU endorsement was given on September 15, 2009. The amendment will have no effect on the consolidated financial statements.
- In November 2008, the IASB published a revised version of IFRS 1. The newly structured IFRS 1 replaces the previous IFRS 1 with the aim of facilitating the use and amendment of this standard in the future. Obsolete transitional guidelines were also deleted as part of the newly structured IFRS 1. The current requirements remain unchanged. The amendments must be applied to fiscal years beginning on or after December 31, 2009. EU endorsement was given on September 25, 2009. The amendment will have no effect on the consolidated financial statements.
- In March 2009, the IASB published amendments to IFRIC 9 and IAS 39. The amendments clarify how embedded derivatives should be treated if a hybrid contract from the 'fair value through profit or loss' category is being reclassified. The amendments must be applied to fiscal years beginning on or after December 31, 2008. EU endorsement was given on November 30, 2009. The amendment will have no effect on the consolidated financial statements.
- In March 2009, the IASB published amendments to IFRS 4 and IFRS 7. The amendments provide more detailed information on measuring fair value and liquidity risk concerning financial instruments. The amendments must be applied to fiscal years beginning on or after December 31, 2008. The amendment will have no effect on the consolidated financial statements.
- In January 2009, the IASB published amendments to IFRIC 18. IFRIC 18 clarifies and illustrates how to account for the transfer of assets or cash for the construction or acquisition of an asset by a customer. The amendments must be applied to fiscal years beginning on or after October 31, 2009. EU endorsement was given on November 27, 2009. The amendment will have no effect on the consolidated financial statements.
- In October 2009, the IASB published amendments to IAS 32. This amendment clarifies how certain rights issues should be accounted for if the emitted instruments are not denominated in the functional currency of the issuer. The amendments must be applied to fiscal years beginning on or after January 31, 2010. EU endorsement was given on December 23, 2009. The amendment will have no effect on the consolidated financial statements.
- In April 2009, the IASB published amendments to the IFRSs as part of its annual updates. Most of the amendments involve clarifications or corrections to existing IFRSs or amendments that have arisen from modifications made to the IFRSs previously. The amendments must be applied to fiscal years beginning on or after December 31, 2009. EU endorsement was given on March 23, 2010. The Company will evaluate the expected effects and determine a date for initial application.
- In June 2009, the IASB published amendments to IFRS 2. This amendment explains how to account for share-based payment transactions for which a supplier of goods or services is paid in cash and the obligation to settle the transactions falls upon another company in the group. The amendments must be applied to fiscal years beginning on or after December 31, 2009. EU endorsement was given on March 23, 2010. The amendment will have no effect on the consolidated financial statements.
- In July 2009, the IASB published amendments to IFRS 1. The amendments include information on reassessing the classification of leasing contracts. The amendments must be applied to fiscal years beginning on or after December 31, 2009. EU endorsement was given on June 23, 2010. The amendment will have no effect on the consolidated financial statements.
- In January 2010, the IASB published amendments to IFRS 1. The amendments concern the exemption for first-time adopters in

relation to IFRS 7 for information concerning fair value and liquidity risk. The amendments must be applied to fiscal years beginning on or after June 30, 2010. EU endorsement was given on June 30, 2010. The amendment will have no effect on the consolidated financial statements.

- In November 2009, the IASB published IFRS 9, Financial Instruments. Together with two further addenda, the standard will replace IAS 39. IFRS 9 should be completed in 2010. The amendments must be applied to fiscal years beginning on or after January 1, 2013. EU endorsement has not yet been given. The Company will evaluate the expected effects and determine a date for initial application.
- In November 2009, the IASB published amendments to IAS 24. The amendments clarify the definition of a related party and simplify the disclosure requirements for government-related entities. The amendments must be applied to fiscal years beginning on or after January 1, 2011. EU endorsement has not yet been given. The amendment will have no effect on the consolidated financial statements.
- In November 2009, the IASB published IFRIC 19. IFRIC 19 explains the IFRS requirements in the event that an entity partially or entirely settles a financial obligation by issuing shares or other equity instruments. The amendments must be applied to fiscal years beginning on or after July 1, 2010. EU endorsement has not yet been given. The amendment will have no effect on the consolidated financial statements.
- In November 2009, the IASB published amendments to IFRIC 14. The explanation provides an interpretation of IAS 19 and deals with questions concerning the inclusion of defined benefit assets. The amendments deal with the special case in which entities make an early payment of contributions in order to satisfy their

minimum funding requirements. The amendments must be applied to fiscal years beginning on or after January 1, 2011. EU endorsement has not yet been given. The amendment will have no effect on the consolidated financial statements.

- In May 2010, the IASB published the exposure draft 'Fair Value Option for Financial Liabilities'. This draft follows the portion that was already completed on the classification and valuation of financial assets and is part of the project concerning a follow-up standard to IAS 39. It is currently planned that the new regulations will take compulsory effect as from January 1, 2013. EU endorsement has not yet been given. The amendment will have no effect on the consolidated financial statements.
- In May 2010, the IASB published amendments to the IFRSs as part of its annual updates. Most of the amendments involve clarifications or corrections to existing IFRSs or amendments that have arisen from modifications made to the IFRSs previously. In addition, amendments were made to a total of seven standards. They are required to be applied to fiscal years beginning on or after January 1, 2011. EU endorsement has not yet been given. The Company will evaluate the expected effects and determine a date for initial application.

5) Scope of consolidation

In addition to the parent company, paragon AG, Delbrück, Germany, four foreign (2007: four) and four domestic (2007: five) subsidiaries are included in the scope of consolidation. The balance sheet date for all companies is December 31. Under the merger agreement dated July 23, 2008 and November 18, 2008 and the resolutions of the General Meeting of the same date, paragon fidelity GmbH, Cadolzburg, was merged with paragon finesse GmbH, Delbrück, on March 31, 2008. The merger was recorded in the commercial register of the company receiving the assets at the local court in Paderborn on February 6, 2009.

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

Name and registered office of the company	Currency	Shareholding of paragon AG in [%]			Sales in local currency (prior to consolidation)
		Direct	Indirect	Total	
Parent:					
paragon AG, Deutschland, Delbrück	EUR	-	-	-	81,267,506.17
Consolidated subsidiaries:					
paragon fidelio GmbH, Germany, Suhl ^{1),2)}	EUR	100 %	-	100 %	3,945,282.48
paragon firstronic GmbH, Germany, Suhl ^{1),2)}	EUR	100 %	-	100 %	17,177,289.46
paragon facilio GmbH, Germany, Delbrück ^{1),2)}	EUR	100 %	-	100 %	0.00
paragon facilio GmbH, Germany, Delbrück ^{1),2)}	EUR	100 %	-	100 %	27,652,678.64
paragon of North America Corp., USA, Grand Rapids/Michigan	USD	100 %	-	100 %	5,088,873
paragon firstronic of North America Corp., USA, Grand Rapids / Michigan	USD	-	100 %	100 %	8,589,446
Chipco Inc., USA, Elkhart / Indiana	USD	-	100 %	100 %	0
paragon of Japan Inc., Japan, Amagasaki-City / Hyogo-Ken	YEN	100 %	-	100 %	57,410,212
Non-consolidated subsidiaries:					
Monawi GmbH, Heidenheim ⁴⁾	EUR	100 %	-	100 %	0.00

¹⁾ With profit transfer agreement to paragon AG, Delbrück

²⁾ The company fulfilled the necessary requirements pursuant to section 264 (3) of the German commercial code and was therefore exempted from the obligation of disclosing its financial statements and preparing a management report.

³⁾ After merger of paragon fidelity GmbH, Cadolzburg, with paragon finesse GmbH, Delbrück

⁴⁾ In liquidation (formerly: Cullmann GmbH)

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

(6) Principles of consolidation

The consolidated financial statements are based on the individual financial statements of the subsidiaries included in the consolidated Group, which are prepared according to uniform accounting and valuation principles in accordance with IFRS as of December 31, 2008.

Subsidiaries are fully consolidated from the time they are acquired, meaning from the point at which the Group assumes control over them. Their inclusion in the consolidated financial statements ends when the parent company no longer exercises such control. When it submitted a petition to open insolvency proceedings concerning its domestic subsidiaries and to liquidate its foreign subsidiaries in the US and Japan in 2009, the paragon Group lost control over those companies in accordance with IAS 27.32, even though the absolute or relative legal relationship between the companies had not changed. On the contrary, all subsidiaries still had to be included in the consolidated financial statements as of December 31, 2008.

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

Receivables and payables between the companies included in the consolidated financial statements are offset against each other as part of debt consolidation. Interim results arising from intercompany goods and services are eliminated and deferred tax burdens and savings from consolidations affecting net income are taken into account. Intercompany revenue, as well as other intercompany income, is offset against the corresponding expenses as part of the consolidation of expenses and income.

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

(7) Currency translation

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

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

In the individual financial statements of paragon AG and its subsidiaries, receivables and liabilities denominated in foreign currencies

are valued at the transaction rate in effect at the time they are added and adjusted to the exchange rate in effect as of the balance sheet date. Exchange rate gains and losses are recognized in income under other operating income or other operating expenses.

Exchange rate losses from operations in the amount of EUR 564,000 (2007: EUR 165,000) and exchange rate gains in the amount of EUR 412,000 (2007: EUR 111,000) are recognized in the income statement under other operating expenses or other operating income.

As of the balance sheet date, the balance of the currency translation differences, which was recognized as a separate item in equity, is EUR -1,905,000 (2007: EUR -1,824,000). The changes in exchange rate differences in equity in the amount of EUR 81,000 (2007: EUR 658,000) primarily relate to the differences arising from the currency translation of U.S. subsidiaries, which were prepared in U.S. dollars.

The exchange rates used for currency translation developed as follows:

Foreign currency for 1 EUR	Balance sheet – middle rate as of Dec. 31	Income statement – average rate	Balance sheet – middle rate as of Dec. 31	Income statement – average rate
	2008		2007	
U.S. dollar (USD)	1.4006	1.47401	1.4748	1.3728
Japanese yen (JPY)	126.64	152.679	165.34	161.441

(8) Significant accounting and valuation principles

The individual financial statements of the entities included in the consolidated financial statements, which are all drawn up as of the reporting date of the consolidated financial statements, are prepared according to uniform group accounting and valuation principles. For this purpose, individual financial statements that are drawn up according to country-specific regulations are adjusted to the uniform group accounting and valuation principles if they do not correspond to IFRS and are significant in nature. The accounting and valuation principles used in the previous year have been reapplied unaltered.

The consolidated financial statements were prepared in euros (EUR). The reporting currency is the euro in accordance with IAS 21. All amounts – unless stated otherwise – are disclosed in thousands of euros (EUR '000). The fiscal year of paragon AG and its consolidated subsidiaries corresponds to the calendar year.

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

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

Intangible assets

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

Research costs are recognized as expenses in the period in which they are incurred. Development costs arising from projects focused on developing patents and client-specific solutions are recognized as intangible assets at cost, provided the unambiguous attribution of expenses required by IAS 38 is possible, technical feasibility and commercialization are assured, and the anticipated realization of future economic benefit has been demonstrated. Costs comprise all costs directly and indirectly attributable to the development process, as well as necessary portions of project-related overhead costs. If the asset recognition requirements have not been fulfilled, the development costs are recognized immediately in income within other operating expenses in the year in which they were incurred. After their initial recognition, development costs are entered in the balance sheet at cost less cumulative amortization and cumulative impairment losses.

If intangible assets have limited useful lives, they are written down on a straight-line basis in accordance with their economic useful lives. Amortization begins upon completion of the development phase and from the point at which the asset can be used. Intangible assets with indefinite useful lives are subject to annual impairment tests. At each reporting date, the carrying amounts of such intangible assets are used as a basis for determining whether there are reasons to believe an impairment exists. If such reasons are found, an impairment test is performed in accordance with IAS 36. The residual values, useful lives and amortization methods are reviewed at the end of each fiscal year and adapted as necessary.

The useful lives for internal development costs correspond to the anticipated product life cycles and amount to between three to four years. The useful lives for licenses, patents and software range from three to ten years.

Goodwill

Goodwill acquired as a result of corporate mergers represents the amount by which the entity's payments on account exceeds future economic useful lives, and which cannot be divided among individually identifiable and separate assets. Apart from this, the entity records the identifiable, acquired assets, liabilities and contingent liabilities as of the time they are acquired. Goodwill is not subject to regular amortization, however, an impairment test is carried out at least once per year to determine whether any potential impairment losses exist.

Property, plant and equipment

Additions to property, plant and equipment are measured at cost plus ancillary acquisition costs and less all reductions to acquisition costs. If the cost of certain components of an item of property, plant and equipment is significant when measured against the item's total cost then such components are entered and depreciated in the balance sheet individually. Depreciation takes place on a straight-line basis. In the case of buildings, the useful life is considered to be 20 to 25 years, for technical plant five to ten years, and for other plant and office furniture and equipment three to ten years.

Fully depreciated items of property, plant and equipment are shown under costs and cumulative depreciation until the assets become inoperative. Amortized costs and cumulative depreciation are deducted from the revenue derived from retired assets. Results derived from retired assets (proceeds from asset retirement less residual carrying amounts) are shown in the consolidated income statement under other operating income or other operating

expenses. All residual values, useful lives and depreciation methods are reviewed annually and adapted as necessary.

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

Lease agreements

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

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

Determining whether an agreement constitutes a lease agreement is done on the basis of the economic nature of the agreement at the time it is concluded. Therefore, an estimate is made regarding every lease agreement as to whether fulfilling the agreement is dependent on using a specific asset or specific assets and whether the agreement grants a right to use the asset.

A sale-and-lease-back transaction involves the sale of an asset, which is already in the possession of the future lessee, to the lessor, and the subsequent continued use of the asset by the lessee by means of a lease agreement. In this respect, two economically interdependent agreements are involved (purchase agreement and lease agreement). However, the transaction is entered in the balance sheet of the lessee as one item. Depending on how the lease-back agreement is organized, it is either entered in the balance sheet as an operating lease or a finance lease.

Impairment of non-financial assets

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

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

For items of property, plant and equipment and intangible assets (with the exception of goodwill) a test is carried out as of every balance sheet date to see if there are reasons to believe that a previously calculated impairment loss no longer exists or has diminished. If such reasons exist, an estimate of the recoverable amount of the asset or CGU is made. A previously calculated impairment loss is only reversed if the assumptions used to arrive at the recoverable amount have changed since the calculation of the last impairment

Consolidated statement of changes in non-current assets 2007

in TEUR thousands	ACQUISITION COST						DEPRECIATION/AMORTIZATION						CARRYING AMOUNT		
	01.01.2007	Currency translation	Addition	Disposal	Reclas-sification	31.12.2007	01.01.2007	Currency translation	Current depreciation and amorti-zation	Impair-ments in accordance with IAS 36	Disposals	Reclas-sifications	31.12.2007	31.12.2007	31.12.2006
Intangible assets															
Licenses, patents, software	33,066	- 37	871	819	0	33,081	9,479	- 44	3,576	0	816	0	12,195	20,886	23,587
Capitalized development costs	11,255	- 19	6,244	0	0	17,480	4,315	- 9	2,393	138	0	0	6,837	10,643	6,940
Goodwill	27,977	- 244	0	0	0	27,733	313	- 10	0	0	0	0	303	27,430	27,664
Total intangible assets	72,298	- 300	7,115	819	0	78,294	14,107	- 63	5,969	138	816	0	19,335	58,959	58,191
Property, plant and equipment															
Land and buildings	18,358	- 108	2,149	16	943	21,326	2,832	- 27	1,021	0	16	0	3,810	17,516	15,526
Technical equipment and machinery	21,127	- 120	1,901	1,007	1,599	23,500	11,767	- 119	3,358	0	992	0	14,014	9,486	9,360
Other equipment, furniture and office equipment	9,159	- 18	885	1,300	700	9,426	5,802	- 12	1,420	0	1,249	0	5,961	3,465	3,357
Payments on account and assets under construction	3,162	- 109	2,213	361	- 3,242	1,663	0	0	0	0	0	0	0	1,663	3,162
Total property, plant and equipment	51,806	- 355	7,148	2,684	0	55,915	20,401	- 158	5,799	0	2,257	0	23,785	32,130	31,405
Financial assets															
Investments in subsidiaries	0	0	25	0	0	25	0	0	25	0	0	0	25	0	0
Equity investments	200	0	66	0	0	266	0	0	0	0	0	0	0	266	200
Total financial assets	200	0	91	0	0	291	0	0	25	0	0	0	25	266	200
Total	124,304	- 655	14,354	3,503	0	134,500	34,508	- 221	11,793	138	3,073	0	43,145	91,355	89,796

Consolidated statement of changes in non-current assets 2008

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

loss was made. Reversals of impairment losses are limited to the extent that neither the carrying amount of an asset nor its recoverable amount may exceed the carrying amount that would have resulted after taking into account scheduled depreciation if no impairment loss to the asset had been calculated in previous years.

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

Goodwill and other intangible assets without determinable useful lives are subject to annual impairment testing. Testing also takes place if circumstances indicate that the value could have decreased.

Goodwill resulting from corporate acquisitions is attributed to a CGU that draws benefit from the synergies of the acquisition. In the paragon Group, goodwill has been attributed to the legal entities of the consolidated subsidiaries. Each individual legal entity is regarded as a CGU. Such groups represent the lowest reporting level at which management controls goodwill for management purposes.

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

Effects of the insolvency / liquidation of subsidiaries in 2009

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

Due to the insolvency / liquidation of subsidiaries in 2009, impairment tests at the level of those CGUs revealed that no additional future economic benefit can be generated from the goodwill derived from corporate acquisitions that had been capitalized up to that point, as the subsidiaries were not continued based on the knowledge related to the status of the respective insolvency proceedings that was available up to the point the consolidated financial statements were prepared. Cash flow forecasts and basic assumptions concerning planning periods and discount rates were therefore unnecessary. All goodwill has been impaired fully in the result.

As the subsidiaries (being individual legal entities) will not be continued from today's perspective, no values in use can be calculated for these entities (CGUs) or for the non-financial assets concerned. Moreover, the impairment tests were based exclusively on the fair values in the form of divestiture or disposal values less disposal costs of the items of property, plant and equipment and intangible assets with determinable useful lives. Due to the long preparation and adjusting event period stretching to July 2010, essentially reliable knowledge existed concerning fair values. The fair values were determined both on the basis of external information, such as purchase agreements or court orders, as well as on the basis of internal estimates, such as plans relating to the future use of the assets concerned.

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

Financial instruments

A financial instrument is an agreement that simultaneously leads to the formation of a financial asset at one entity and to a financial A

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

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

Financial assets, finance lease liabilities and derivative financial instruments held for trading purposes are measured at fair value in the paragon Group. Financial instruments belonging to the category 'loans and receivables' are entered in the balance sheet at their carrying amounts. Scheduled amortization costs take into account amortization payments and the amortization of any possible difference between costs and the anticipated payment inflows at maturity, using the effective interest rate method and less any possible decreases stemming from write-downs due to potentially uncollectible accounts.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In accordance with IAS 39, at paragon this particularly includes profit-sharing rights, trade liabilities and other current liabilities, obligations to banks, and the negative fair values of derivative financial instruments held for trading purposes that are not part of a hedging relationship. With the exception of the negative fair values of derivative financial instruments, paragon classifies its financial liabilities in the measurement category 'loans and receivables' and measures them at their amortized costs, taking into account amortization payments and the amortization of any possible difference between costs and the payment obligation to be fulfilled upon maturity using the effective interest method.

Financial assets are deleted from the accounts if the contractual rights in relation to cash flows from such financial assets have expired, or if paragon has transferred its contractual rights in relation to cash flows from the financial asset to a third party, or has assumed a contractual obligation to immediately pay the cash flow to a third party as part of an agreement that fulfills the requirements of IAS 39.19 (pass-through arrangement) and thereby (1) either transferred all significant opportunities and risks connected with the financial asset, or (2) in fact neither transferred nor retained all significant opportunities and risks connected with the financial asset, but transferred the power of disposition over the asset. paragon records a new asset if (1) all contractual rights to cash flows from an asset have been transferred, or (2) all significant opportunities and risks connected with the asset have neither been transferred nor retained but paragon retains the power of disposition over the transferred asset. Financial liabilities are deleted from the accounts if the underlying obligation has been fulfilled, abolished or has expired. If an existing financial liability to the same creditor is replaced with significantly new contract terms or if the terms of an existing liability are fundamentally changed, such a replacement or change is treated as a write-off of the original liability and the recognition of a new one. The difference between the respective carrying amounts is recognized in income.

Financial assets and financial liabilities that are not denominated in euros are initially recognized using the middle rate as of the trans-

action date and subsequently translated as of each reporting date. Any translation differences that arise are recognized in income.

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

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

Income taxes

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

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

Deferred taxes are recognized using the balance sheet liability method in accordance with IAS 12 ('Income Taxes'). Deferred tax assets and liabilities are recognized for differences arising from the different treatment of specific balance sheet items in the IFRS consolidated financial statements and the tax accounts ('temporary concept'). In addition, deferred taxes are recognized for future tax reduction claims.

Deferred taxes on loss carryforwards are carried as assets if it can be assumed that they can be expected to be used in future periods due to the availability of adequate taxable income.

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

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

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

Inventories

Inventories are measured at the lower of cost or net realizable value. In accordance with IAS 2 'Inventories', inventories include all expenses that are directly attributable to finished goods and work in progress, as well as all systemically attributable fixed and varia-

ble production overhead costs. In addition to production material and direct labor, they therefore also contain proportional production material and overhead costs. Management and social security expenses are taken into account provided they can be attributed to production. Financing costs are not recognized as part of production costs. Inventory risks resulting from the storage period and reduced usability are taken into account during the calculation of the net realizable value using value discounts. Lower values at year-end stemming from reduced market prices are also taken into account. Raw materials and trading goods are primarily measured using the moving average method.

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

Trade receivables and other current assets

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

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

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

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

Cash and cash equivalents

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

Provisions for pensions

Provisions for pensions are calculated using the projected unit credit method in accordance with IAS 19 'Employee Benefits'. This method not only takes into account the pension benefits and benefit entitlements known as of the balance sheet date, but also the increases in salaries and pension benefits to be expected in the future by estimating the relevant impacting factors. The calculation is based on actuarial opinions, taking into account biometric principles. Amounts not yet recorded in the consolidated balance sheet result (through actuarial gains and losses) result from changes in inventory and differences between the assumptions made and actual developments. Actuarial gains and losses that arise during the fiscal year

are immediately recognized in income in accordance with IAS 19.95. The possibility of only recognizing actuarial gains and losses in income if they fall outside a fluctuation margin of 10% of total obligations was not elected. The option to offset actuarial gains and losses in full against retained earnings as provided for in IAS 19.93a was not elected either. The service cost is shown under personnel expenses, and the interest accretion to provisions is allocated to the financial result.

Other provisions

In accordance with IAS 37 ('Provisions, Contingent Liabilities and Contingent Assets'), other provisions are recognized if legal or factual liabilities to third parties exist which are based on past transactions or events and will likely lead to outflows of resources. The amount of the provisions is determined based on the best possible estimation of the expenditures needed to discharge the liability, in accordance with IAS 37, without offsetting them against recourse claims. The evaluation of the probability that pending proceedings will be successful and the qualification of the possible amount of the payment obligations are based on an estimate of the situation in question. In each case, the most probable settlement amount has been taken into account. Long-term provisions have been measured at their discounted settlement amount as of the balance sheet date.

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

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

Government subsidies

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

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

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

Trade liabilities and other current liabilities

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

Recognition of income and expenses

Income is recognized when it is probable that there will be economic benefit for paragon and the amount of the income can be reliably determined. Income is measured at the fair value of the consideration received. Discounts, rebates and value added tax or

other duties are not taken into consideration. If transactions provide for a declaration of acceptance on the part of the purchaser, the value added tax concerned is only taken into account if such a declaration takes place. If the sale of products and services involves several delivery and service components, such as varying compensation agreements like prepayments, milestone payments and similar payments, it is examined whether several separate realization times for partial sales should be taken into account. Contractually agreed prepayments and other one-off payments are differentiated and released to income over the period that the contractually agreed consideration is performed.

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

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

Borrowing costs

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

Share-based payments

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

Non-current assets and discontinued operations held for sale

Principles

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

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

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

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

Effects of the insolvency / liquidation of subsidiaries in 2009

The insolvency / liquidation of subsidiaries in 2009 does not fulfill the requirements of IFRS 5.

(9) Use of estimates and assumptions

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

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

Determining the fair values of assets and liabilities acquired through mergers

The fair values and the breakdown of acquisition costs over the acquired assets, liabilities, contingent liabilities and goodwill were initially determined based on past experience and by estimating future cash flows.

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

Capitalized development costs

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

On the one hand, due to the insolvency / liquidation of subsidiaries in 2009, paragon estimates that no additional future benefit will be derived from all subsidiary development projects capitalized and acquired in accordance with IFRS 3. On the other hand, development projects have not been continued since 2009 due to the financial situation of the paragon Group. Based on this estimation, all such capitalized development costs were fully impaired in accordance with IAS 10 in connection with IAS 36.

Inventories

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

Other assets and liabilities

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

The actual values may deviate from the assumptions and estimates made, requiring a significant adjustment of the carrying amounts of the assets or liabilities concerned.

Goodwill

The paragon Group tests whether goodwill is impaired at least once annually. This requires an estimate to be made of the value in use of the cash generating units to which goodwill is attributed. In order to estimate the value in use, management must estimate the expected future cash flows of the cash generating units and select a suitable discount rate in order to calculate the present value of such cash flows. Corporate planning for 2010 onward is still characterized by a high degree of uncertainty due to the difficult global economic situation.

Primarily due to the insolvency / liquidation of subsidiaries in 2009, it has become clear that no additional future benefit can be generated from the capitalized goodwill of these CGUs. Consequently, all goodwill has been fully impaired in accordance with IAS 10 in connection with IAS 36.

Deferred tax assets

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

Provisions for pensions

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

As part of the measurement as of December 31, 2008, the discount rate was raised from 5.25% to 6.30% to reflect the anticipated long-range change in the market interest rate.

(10) Change of estimates

Primarily due to the insolvency / liquidation of subsidiaries in 2009, changes were made to estimates concerning higher-risk receivables, and the fair values of non-financial and financial assets and liabilities, leading to decreases in value in accordance with IAS 36 in connection with IAS 10. For information concerning their presentation in the consolidated financial statements and the nature and amount of these changes, please refer to the sections 'Accounting and valuation principles', 'Use of estimates and assumptions', and 'Explanations of individual items in the consolidated balance sheet'.

As part of the measurement of pension provisions as of December 31, 2008, the discount rate was raised from 5.25% to 6.30% to reflect the anticipated long-range change in the market interest rate. The resulting effect was recognized in current earnings in the year under review as actuarial gain in the defined benefit obligation.

C. Notes on individual items in the consolidated income statement

(1) Sales revenues

Sales revenues include sales of products and services less any sales reductions. Of the sales revenues for the fiscal year of EUR 112,003 thousand (prior year: EUR 108,882 thousand), domestic sales accounted for EUR 81,817 thousand (prior year: EUR 76,963 thousand) and foreign sales for EUR 30,366 thousand (prior year: EUR 31,919 thousand).

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

(2) Other operating income

Other operating income includes income from the reversal of the special account for subsidies of EUR 2,036 thousand (prior year: EUR 2,108 thousand) and income from the release of other provisions of EUR 211 thousand (prior year: EUR 293 thousand). This item also contains other income from grants from the federal employment office, exchange rate differences, use of company cars by employees, rentals and the disposal of assets. Income from currency translation amounts to EUR 412 thousand (prior year: EUR 111 thousand).

(3) Other own work capitalized

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

in EUR thousands	2008	2007
Project-related development costs	4,787	6,244
Production costs of test rigs	431	473
Other own work capitalized	5,218	6,717

(4) Cost of materials

in EUR thousands	2008	2007
Raw materials and supplies	59,278	56,825
Cost of purchased services	4,235	3,823
Cost of materials	63,513	60,648

(5) Personnel expense

Personnel expense amounted to EUR 27,891 thousand this past fiscal year (prior year: EUR 27,608 thousand) and can be broken down as follows:

in EUR thousands	2008	2007
Wages and salaries	21,026	21,596
Social security contributions	3,281	2,941
Pension expenses	206	447
Expenses for temporary staff	3,378	2,624
Staff costs	27,891	27,608

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

	2008	2007
Salaried employees	333	327
Wage-earning employees	243	220
Average number of employees	576	547

(6) Other operating expenses

Other operating expenses are comprised primarily of legal and consultancy fees, investor relations expenses, advertising and marketing, vehicle costs, costs related to EDP fees and EDP training, costs related to building rentals and energy, as well as leasing and corporate insurance expenses. Expenses from currency translation amount to EUR 564 thousand in fiscal 2008 (prior year: EUR 165 thousand).

Other operating expenses in the reporting year amounted to EUR 23,052 thousand (prior year: EUR 13,490 thousand). The rise in other operating expenses is due primarily to the need to undertake write-downs for damage claims and related litigation in the amount of EUR 3,846 thousand. Other taxes included under other operating expenses in the year under review amount to EUR 41 thousand (prior year: EUR 46 thousand).

(7) Depreciation, amortization and impairment losses

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

(8) Financial result

in EUR thousands	2008	2007
Financial income	211	442
Interest income	211	442
Finance costs	-8,423	-6,929
Payments on profit-participation certificates	-2,643	-3,100
Other financial and interest expenses	-5,780	-3,829
Net finance costs	-8,212	-6,487

(9) Income taxes

in EUR thousands	2008	2007
Current taxes	-364	97
Current domestic taxes	-361	135
Current foreign taxes	-3	-38
Deferred taxes	2,872	2,056
Deferred domestic taxes	1,850	1,040
Deferred foreign taxes	1,022	1,016
Income taxes	2,508	2,153

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

Domestic deferred taxes were computed as at December 31, 2008, at a combined income tax rate of 29%. This includes a corporate tax rate of 15% and a solidarity surcharge of 5.5%. A combined income tax rate of 34% was used in calculating deferred taxes in the US and 41% in Japan. No significant changes arose for paragon as a result of changes in the Corporate Tax Reform Act of 2009.

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

Deferred tax assets amounting to EUR 447 thousand (prior year: EUR 3,901 thousand) involve EUR 447 thousand (prior year: EUR 2,501 thousand) related to domestic taxes and EUR 0 thousand (prior year: EUR 1,400 thousand) related to foreign taxes. Deferred tax liabilities amounting to EUR 359 thousand (prior year: EUR 6,691 thousand) relate to EUR 359 thousand (prior year: EUR 6,691 thousand) related to domestic taxes and EUR 0 thousand (prior year: EUR 0 thousand) related to foreign taxes. Domestic deferred tax assets of EUR 447

thousand (prior year: EUR 2,501 thousand) relate to deferred tax claims arising from timing differences in valuation.

in EUR thousands	2008		2007	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	26	169	1,584	6,281
Property, plant and equipment	211	0	190	0
Receivables and other assets	132	11	987	34
Provisions for pensions	78	0	147	0
Other provisions	0	0	0	44
Liabilities	0	107	0	175
Profit participation rights	0	72	61	157
Tax loss carryforwards	0	0	932	0
Deferred tax assets and liabilities prior to offsetting	447	359	3,901	6,691
Offset	-37	-37	-1,679	-1,679
Deferred tax assets and liabilities, net	410	322	2,222	5,012

The reduction in deferred tax assets stems primarily from decreases in valuation due to timing differences as compared to the previous year, which are in turn brought about by write-offs on intangible assets, as well as on receivables and other assets. Furthermore, write-offs on deferrals of tax loss carryforwards created in previous years were undertaken. The decrease in deferred tax liabilities on intangible assets relates chiefly to write-offs on acquired intangible assets undertaken during the fiscal year, created from relevant purchase price allocations.

Domestic corporate and trade tax loss carryforwards arise from consolidated net earnings for 2008. In 2008 no deferred tax liabilities were recorded with respect to tax loss carryforwards from fiscal 2008 and previous years, since both paragon AG and its domestic subsidiaries were in insolvency starting from October of 2009. According to the Group's estimates, based on awareness of facts up to the time in which the consolidated financial statements are released, these tax loss carryforwards will not be usable in future for the reduction of income taxes. In Germany tax loss carryforwards can be utilized indefinitely taking into account minimum taxation, according to which a positive tax basis exists up to EUR 1,000 thousand without limitation and up to 60% for amounts in excess of this; usability in the US is limited to 20 years.

Foreign deferred tax claims of previous years in the amount of EUR 1,400 thousand related to subsidiaries in the US and Japan as at December 31, 2007. Due to the insolvency and/or liquidation of the respective subsidiaries the deferred tax claims from foreign subsidiaries recorded in previous years were liquidated in full in accordance with IAS 10 in conjunction with IAS 36.

Deferred tax liabilities in the amount of EUR 359 thousand (prior year: EUR 6,691 thousand) reflect temporary differences in valuation and chiefly apply to intangible assets capitalized under IFRS but which may not be capitalized under German tax law.

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

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

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

in EUR thousands	2008	2007
Consolidated net income before income taxes	-74,344	311
Calculatory tax expense at a tax rate of 28.4% (prior year: 37.6%)	-21,114	117
Tax effects from goodwill impairment in accordance with IAS 36	7,790	0
Tax effects from impairment of intangible assets and property, plant and equipment in accordance with IAS 36	9,936	0
Tax effect from non-deductible expenses and tax-free income	-8	-210
Tax expense from previous years	364	-135
Consolidated net income before tax	0	-131
Effects from changes in tax rates	0	-1,367
Loss carryforward	0	135
Other	523	-562
Current tax expense	-2,508	-2,153

(10) Earnings per share

Basic earnings per share are calculated by dividing Group net income by the weighted average number of shares issued. The weighted average number of shares issued was 4,114,788 in the year under review (prior year: 4,113,862).

With Group net income of EUR -71,836 thousand (prior year: EUR -2,464 thousand), the basic earnings per share is EUR -17.46 (prior year: EUR 0.60).

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

paragon AG's stock option plans create the basis for a potential dilution of earnings per share. Under these plans management receives option rights for the purchase of paragon AG shares. Exercising these subscription rights depends on the price movements of the paragon share. During 2008, based on an average share price of EUR 6.40 (prior year: EUR 11.57) and a strike price of EUR 7.98 (first tranche), EUR 3.78 (second tranche), EUR 3.88 (third tranche) and EUR 15.09 (fourth tranche), dilution by 6,297 shares occurred (prior year: 14,521 shares).

The diluting shares are calculated according to the following formula:

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

Third tranche: 6,299 = 15,998 x (1 - EUR 3.88 / EUR 6.4)

Fourth tranche: 0 = 30,000 x (1 - EUR 15.09 / EUR 6.4)

The number of shares to be used in calculating the diluted earnings thus rose to 4,121,085 (prior year: 4,128,383 shares). The diluted earnings per share figure is rounded to EUR -17.43 (prior year: EUR 0.60). The diluted earnings per share figure was calculated according to IAS 33.24 et seq.

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

D. Notes on individual items of the consolidated balance sheet

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

(1) Intangible assets

Capitalized development costs

Development costs of EUR 496 thousand (prior year: EUR 10,643 thousand) have been capitalized under intangible assets. Total development costs for the period amounted to EUR 10,336 thousand (prior year: EUR 10,020 thousand). Of this amount internal development costs of EUR 4,787 thousand (prior year: EUR 6,244 thousand) were capitalized as intangible assets.

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

Depreciation, amortization and impairment losses in the fiscal year amount to EUR 14,930 thousand (prior year: EUR 2,531 thousand). This includes impairment losses of EUR 12,556 thousand (prior year: EUR 138 thousand) taking into account all adjusting items and findings to the point in time at which the consolidated financial statements (IAS 10) were released. Against the backdrop of the insolvency or liquidation of the subsidiaries, capitalized development costs in the amount of EUR 9,844 thousand were written off in accordance with IAS 10 in conjunction with IAS 36. Capitalized development costs of EUR 1,143 thousand were written off in the fiscal year at paragon AG in connection with the suspension of development projects in 2009. Furthermore, a review of future cash inflows of development projects designated for continuation resulted in an impairment loss of EUR 1,569 thousand.

Impairment losses on intangible assets with a definable useful life

Taking into account adjusting items and findings that became known up to the point in time at which the consolidated financial statements were released and in accordance with IAS 36 impairment losses were undertaken on intangible assets with a definable useful life (licenses, patents, software and capitalized development costs) and allocated to cash-generating units as follows:

Intangible assets	Carrying amount after impairment 2008	Impairment in accordance with IAS 36	Carrying amount before impairment 2008
in EUR thousands			
Cash Generating Unit (CGU)			
paragon AG	5,961	14,276	20,237
paragon Finesse GmbH	100	10,450	10,550
paragon Firstronic GmbH	0	8	8
paragon Fidelio GmbH	0	0	0
paragon USA	0	76	76
Total	6,061	24,810	30,871

The allocation of impairment losses to segments can be found in segment reporting.

Goodwill

Due to the insolvency and/or liquidation of subsidiaries in 2009 impairment tests at the level of these cash-generating units indi-

cated that no future economic benefit could be generated from the goodwill recognized from corporate acquisitions. In consequence all goodwill was written down in full:

in EUR thousands	Goodwill 2008	Impairment in accordance with IAS 36	Goodwill 2007
Cash Generating Unit (CGU)			
paragon Finesse GmbH	0	25,413	25,413
paragon Fidelio GmbH	0	3	3
paragon of North America Corp.	0	1,043	1,043
paragon firstronic of North America Corp.	0	972	972
Total goodwill	0	27,431	27,431

(2) Property, plant and equipment

Depreciation, amortization and impairment losses in the fiscal year amount to EUR 17,008 thousand (prior year: EUR 5,799 thousand). This includes impairment losses of EUR 10,176 thousand (prior year: EUR 0 thousand) according to IAS 36 taking into account all adjusting items and findings to the point in time at which the consolidated financial statements (IAS 10) were released. Against the backdrop of the insolvency or liquidation of the subsidiaries, capitalized development costs in the amount of EUR 9,192 thousand were written off in accordance with IAS 10 in conjunction with IAS 36. Impairment losses are allocated as follows to the cash-generating units.

Property, plant and equipment	Carrying amount after impairment 2008	Impairment in accordance with IAS 36	Carrying amount before impairment 2008
in EUR thousands			
Cash Generating Unit (CGU)			
paragon AG	17,357	0	17,357
paragon Finesse GmbH	1,840	3,144	4,984
paragon Firstronic GmbH	0	4,692	4,692
paragon Fidelio GmbH	130	995	1,125
paragon USA	571	1,345	1,916
Total	19,898	10,176	30,074

The allocation of impairment losses to segments can be found in segment reporting.

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

Portions of movable fixed assets are financed under lease contracts with terms from four to five years as a rule. Payments reflecting future lease installments are recorded as liabilities. The net carrying amount of capitalized assets under financial leases as at December 31, 2008, amounts to EUR 891 thousand (prior year: EUR 1,812 thousand). Corresponding payment obligations from future lease installments amount to EUR 1,417 thousand (prior year: EUR 746 thousand) and are recorded as liabilities. Capitalized lease objects are without exception technical plant and machinery.

(3) Financial assets

Shares in the amount of EUR 180 thousand (prior year: EUR 266 thousand) reflected under financial assets relate primarily to the unconsolidated investment in Paderborner Stadiongesellschaft mbH, Paderborn. Shares were written down by EUR 86 thousand in fiscal 2008. The write-down is based on the purchase agreement available at the time of the release of the consolidated financial statements.

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

(4) Inventories

Inventories consist of the following:

in EUR thousands	2008	2007
Raw materials and supplies	8,783	8,838
Changes in work in progress and finished goods	9,943	8,517
Advance payments on inventories	498	354
Inventories	19,224	17,709

During the fiscal year write-downs of inventories were recorded in cost of materials in the amount of EUR 201 thousand (prior year: EUR 301 thousand); this reflects all findings concerning adjusting items that became known until the point in time of the release of the consolidated financial statements. As in the previous year, there were no grounds for reversals of impairment losses. The carrying amount of inventories recorded at net realizable value (fair value minus selling costs) is EUR 102 thousand as at December 31, 2008. As in the previous year, no inventories were used as collateral for liabilities as at the balance sheet date.

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

(5) Trade receivables

Under a factoring agreement paragon AG sold its trade receivables on a revolving basis. This agreement was terminated with the purchasing financial institution effective February 19, 2009. The last receivables sales took place in February of 2009. In total trade receivables of EUR 10,564 thousand (prior year: EUR 7,971 thousand) had been sold as at the balance sheet date; payments of EUR 3,014 thousand (prior year: EUR 1,275 thousand) had been received in this respect as at December 31, 2008.

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

in EUR thousands	2008	2007
Trade receivables, gross	5,327	6,584
less valuation allowances	-952	-325
Trade receivables	4,375	6,259

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

in EUR thousands	Carrying amount	of which neither impaired nor past due	of which past due but not impaired, as follows			
			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
31.12.2008						
Trade receivables	4,061	793	1,769	739	426	334
31.12.2007						
Trade receivables	5,465	4,297	590	322	169	87

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

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

in EUR thousands	2008	2007
Impaired trade receivables before allowances	1,266	1,119
Allowance for credit losses	-952	-325
Impaired trade receivables after allowances	314	794

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

(6) Other current assets

Other current assets include:

in EUR thousands	2008	2007
Other current assets		
Loan receivables	0	3,164
Creditors with debit balances	143	235
Security deposit factoring	0	528
Receivables from claims for damages	39	3,916
Prepaid expenses	269	1,065
Miscellaneous other Assets	398	698
Other current assets	849	9,606

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

in EUR thousands	Carrying amount	of which neither impaired nor past due	of which past due but not impaired, as follows			
			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
31.12.2008						
Other current assets	849	849	0	0	0	0
31.12.2007						
Other current assets	9,606	9,606	0	0	0	0

In recording other current financial assets all findings on adjusting items that became known up to the release of the consolidated financial statements were subject to special review and taken into account above all in measuring fair values in accordance with IAS 10 in conjunction with IAS 36. Based on these findings impairment losses of EUR 4,934 thousand (prior year: EUR 0 thousand) were recorded. This includes write-downs on current financial assets in the amount of EUR 3,566 thousand, which were already recorded in the consolidated financial statements as at December 31, 2008, in connection with the insolvency and/or liquidation of subsidiaries in 2009 and in accordance with IAS 10. In addition other current assets transferred from the paragon AG's individual financial statements in the amount of EUR 1,368 thousand were written off once adjusting items were taken into account.

Otherwise there were no indications that notable payment defaults were likely to arise in the case of other current assets as at December 31, 2008.

(7) Cash and cash equivalents

Cash on hand and bank deposits are shown at nominal value. Cash and cash equivalents include EUR 21 thousand (prior year: EUR 19 thousand) in cash on hand and EUR 2,241 thousand (prior year: EUR 6,424 thousand) in bank deposits. Bank deposits include time deposits pledged as collateral in the amount of EUR 1,065 thousand (prior year: EUR 1,050 thousand). Consequently the financing funds in accordance with IAS 7 are comprised of cash and cash equivalents minus these bank deposits, which cannot be converted to cash at any moment. Changes in financing funds are shown in the consolidated cash flow statement.

(8) Total equity

The development of individual components of Group equity for fiscal 2008 and 2007 are shown in the statement of changes in equity.

Stock capital

paragon AG's share capital as of December 31, 2008 amounts to EUR 4,115 thousand (prior year: EUR 4,115 thousand) and is divided into 4,114,788 bearer shares with a notional share in capital of EUR 1.00 each. No increase in capital stock due to the exercise of options under the stock option plan took place in fiscal 2008.

Authorized capital

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

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

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

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

Moreover, in accordance with the resolution of the Annual General Meeting on May 22, 2007, the Managing Board is authorized to acquire shares of the Company as intended under section 71 (1) no. 8 of the AktG (German Stock Corporation Act). The authorization for the purchase of treasury shares resolved at the Annual General Meeting of May 17, 2006, was rescinded from the moment at which the new authorization became effective.

The new authorization is restricted to the acquisition of shares not exceeding 10% of existing capital stock in order to

- Offer them to third parties in the course of mergers or of acquisitions of companies, parts of companies or interests in companies,

- Sell them at a price not significantly lower than the Company's share price as quoted on the stock exchange at the time of the sale,
- Fulfill conversion rights and options granted at the time the bonds were issued, or
- To withdraw them.

The new authorization is in effect until November 21, 2008. It may not be exercised to trade in treasury shares.

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

Conditional capital

(a) Conditional capital I

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

(b) Conditional capital II

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

(c) Conditional capital III

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

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

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

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

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

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

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

Capital reserves

Capital reserves at EUR 7,753 thousand as at December 31, 2008, are unchanged from the previous year.

Reserve for currency translation differences

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

The net balance of currency translation differences as at the balance sheet date is EUR -1,905 thousand (prior year: EUR -1,824 thousand). Currency differences in equity relate primarily to differences arising from conversion of the annual financial statements prepared by the US subsidiary in US dollars.

Dividends

The Annual General Meeting does not intend to propose a dividend per share for fiscal 2008 (prior year: EUR 0.10). For 4,114,788 shares (prior year: 4,114,788 shares), this implies a total dividend payment of EUR 0.00 (prior year: EUR 411 thousand)

(9) Obligations under finance leases

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

in EUR thousands	Remaining term to maturity < 1 Year	Remaining term to maturity between 1 and 5 years	Remaining term to maturity more than 5 years	31.12.2008	31.12.2007
Minimum lease payments	545	1,030	0	1,575	809
Future interest payments	-75	-83	0	-158	-63
Finance lease obligations (reduction of outstanding liability)	470	947	0	1,417	746
of which reported under non-current liabilities				947	225
of which reported under current liabilities				470	521

(10) Liabilities to banks

Current and non-current liabilities to banks total EUR 48,209 thousand (prior year: EUR 49,220 thousand); collateral for liabilities to banks exist in the amount of EUR 9,385 thousand (prior year: EUR 10,722 thousand).

So-called covenants regarding adherence to specific financial ratios were agreed with respect to credit financing of the paragon Group in the amount of EUR 22,498 thousand (prior year: EUR 22,629 thousand). Non-compliance with these financial covenants would give the financial institutions an extraordinary right of termination. The Company was not able to achieve the financial covenants agreed the loan agreements in fiscal 2008. No extraordinary termination rights were asserted regarding the loan liabilities recorded up to December 31, 2008, until the initiation of insolvency proceedings with respect to paragon AG on October 5, 2009, and subsequently also with respect to all German subsidiaries. Once insolvency proceedings were initiated the extraordinary termination rights could no longer be asserted.

Liabilities to banks are secured by property charges for loan liabilities in the amount of EUR 8,532 thousand (prior year: EUR 9,895 thousand) and by collateral assignment of property, plant and equipment of EUR 852 thousand (prior year: EUR 827 thousand).

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

Liabilities to banks have terms of:

in EUR thousands	Remaining term to maturity < 1 Year	Remaining term to maturity between 1 and 5 years	Remaining term to maturity more than 5 years	31.12.2008	31.12.2007
Liabilities to banks	26,550	21,659	0	48,209	49,220
of which reported under non-current liabilities				21,659	29,111
of which reported under current liabilities				26,550	20,109

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

Due to the significant deterioration in the financial situation in the fourth quarter of 2008, the key indicators demanded by the banks were not maintained. In the course of the refinancing negotiations that started subsequently the obligation to maintain the key financial indicators and all interest and principal repayments were suspended.

Against the backdrop of the insolvency that has occurred in the interim for paragon AG and its subsidiaries, debt financing was radically restructured prior to the release of these consolidated financial statements. All short-term and long-term loans were replaced by new financing agreements with a range of terms; the banks did not require that specific financial indicators be maintained.

(11) Provisions for pensions

A provision for a defined benefit pension plan was created in accordance with IAS 19. This relates in part to a commitment of a fixed amount at age 65 based on an individual contract. In addition to this existing pension agreement, a new commitment was made in fiscal year 2005. This concerns a commitment at age 65 established under an individual contract, which is based on length of employment and salary level. Pension provisions exist for pension commitments to members of the Managing Board and former employees of companies of the paragon Group and their survivors.

Another portion of the pension provisions relates to obligations of paragon finesse GmbH, Delbrück, under a group relief fund of the former Andreas Haller Fabrik für Feinmechanik GmbH & Co. KG for 12 active employees, 12 inactive employees and 18 vested employees who had left employment at an earlier stage. Valuation was based on actuarial expert opinion using the projected unit credit method' pursuant to IAS 19. Calculations are based on the benefit plan of the group relief fund.

The following assumptions underpin the actuarial computations:

in %	2008	2007
Discount rate	6.30	5.25
Expected return on plan assets	4.50	4.50
Wage increase (new commitment until 2009 service period; 0% for subsequent periods)	10.00	10.00
Pension increase	2.00	2.00
Fluctuation	0.00	0.00

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

Net present value of defined benefit obligation:

in EUR thousands	2008	2007
Present value of defined benefit obligation at beginning of year	2,031	1,879
Service cost	279	293
Interest cost	106	85
Benefits paid	-11	-11
Actuarial gains (-)/losses (+)	-474	-215
Present value of defined benefit obligation at the balance sheet date	1,931	2,031

Fair value of plan assets:

in EUR thousands	2008	2007
Fair value of plan assets at beginning of year	1,072	830
Expected return on plan assets	55	39
Actuarial gains (-)/losses (+)	-127	-105
Employer contributions	308	308
Fair value of plan assets as of the balance sheet date	1,308	1,072

Net value of defined benefit obligation reported:

in EUR thousands	2008	2007
Present value of defined benefit obligation	1,931	2,031
less fair value of plan assets	-1,308	-1,072
Unfunded defined benefit obligation	623	959

The net value has developed as follows:

in EUR thousands	2008	2007
Unfunded defined benefit obligation at beginning of year	959	1,050
Pension expense	-17	229
Contributions paid	-319	-320
Unfunded defined benefit obligation as of the balance sheet date	623	959

The following amounts were included in the consolidated income statement:

in EUR thousands	2008	2007
Service cost	279	293
Interest cost	106	85
Expected return (-) on plan assets	-55	-39
Actuarial gains (-)	-347	-110
Pension expense	-17	229

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

in EUR thousands	2008	2007
Present value of defined benefit obligation	1,931	2,031
less fair value of plan assets	-1,308	-1,072
Unfunded defined benefit obligation	623	959

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

(12) Other liabilities

Other current liabilities contain liabilities arising from pass-through obligations in connection with the factoring to SFS, the remaining liability to IKB Private Equity GmbH, Düsseldorf, in connection with the silent equity holding reported until 2005, as well as the payment for recognised profit-sharing rights.

Other non-current liabilities can be broken down as follows:

in EUR thousands	2008	2007
Other non-current liabilities		
Repayment obligation of silent contribution (first tranche)	0	1,898
Other non-current liabilities	0	1,898

Other current liabilities include the following items:

in EUR thousands	2008	2007
Other current liabilities		
Accrual for ABS	3,809	1,275
Repayment obligation of silent contribution (first tranche)	1,895	1,898
Accruals	1,849	2,188
Liabilities from other taxes	1,025	3
Payments on profit-participation certificates	396	775
Liabilities due to employees	1	3
Other current liabilities	118	0
Other current liabilities	9,093	6,142

The terms of other liabilities are shown below:

in EUR thousands	Remaining term to maturity < 1 Year	Remaining term to maturity between 1 and 5 years	Remaining term to maturity more than 5 years	31.12.2008	31.12.2007
Other liabilities	9,093	0	0	9,093	6,142
of which reported under non-current liabilities				0	0
of which reported under current liabilities				9,093	6,142

(13) Profit-sharing rights

Profit-sharing rights exist in the amount of EUR 22,610 thousand (prior year: EUR 25,494 thousand) in the form of subordinate loans bearing both fixed and variable interest rates. Profit-sharing rights in the amount of EUR 3,000 (prior year: EUR 5,000 thousand) were repaid early as at December 31, 2008.

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

Profit-sharing rights 2004

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

- The profit-sharing rights granted based on this resolution were repaid early in the amount of EUR 3,000 thousand as at December 31, 2008, and EUR 5,000 thousand as at December 31, 2007. Transaction costs not amortized by the time of the repayment were recorded against income. A total of EUR 849 thousand in cancellation and compensatory interest payments were paid in fiscal 2008.
- In a profit-sharing rights agreement dated October 27, 2005, paragon AG issued additional profit-sharing rights totaling EUR 6,000 thousand with fixed interest payments of 8.1% p.a. to Force 2005-1 Ltd. Partnership, St. Helier, Jersey, Channel Islands as part of the private placement. The term of these profit-sharing rights ends no later than January 15, 2013. Payments on these profit sharing rights amounted to EUR 486 thousand in the fiscal year just elapsed (prior year: EUR 486 thousand). Transaction costs of EUR 210 thousand, which are amortized over the term, arose in connection with the issue. The carrying amount as at December 31, 2008, is EUR 5,882 thousand (prior year: EUR 5,853 thousand).

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

- Based on this resolution paragon AG's Managing Board decided to issue profit-sharing rights with a total par value of EUR 14,511 thousand to paragon AG shareholders (public tranche), divided into 12,092,514 equivalent profit-sharing rights with a par value of EUR 1.20 each. The shareholders of paragon AG were given preference in acquiring profit-sharing rights through exercise of the subscription right in the period from November 4, 2004, to December 3, 2004. The subscription right ratio was 1:3; i.e. one paragon share entitled the shareholder to purchase three profit-sharing rights. The minimum subscription amount was EUR 120.00. The profit-sharing rights are traded neither on the floor of the stock exchange nor over the counter; they can only be transferred by assignment with the consent of the Company. For the minimum term until December 31, 2010, annual fixed compensation of six percent plus profit-related compensation of from one to three percent, depending on the EBITDA margin, will be paid. As of the balance sheet date, a total of 3,363,584 profit sharing rights at a par value of EUR 1.20 per profit-share were subscribed. For fiscal 2008, compensation amounts to EUR 283

thousand (prior year: EUR 323 thousand). The carrying amount as at December 31, 2008, is EUR 3,954 thousand (prior year: EUR 3,912 thousand).

Profit-sharing rights 2006

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

- profit-sharing rights issued under this authorization confer no entitlements to memberships nor conversion or option rights relating to the Company's shares and
- profit-sharing rights issued under this authorization confer no share in the Company's liquidation proceeds.

The Managing Board is authorized to exclude shareholders' subscription rights with the consent of the Supervisory Board.

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

- paragon AG then granted new profit-sharing rights in the amount of EUR 6,000 thousand at a par value of one euro each to StaGe Mezzanine Capital S.A., Luxembourg, as part of a private placement as provided for in the profit-sharing rights agreement dated December 14, 2006. The term of these acquired profit-sharing rights will end no later than December 20, 2013. No ordinary termination of these profit-sharing rights is anticipated. The Managing Board made use of its authorization to exclude shareholders' subscription rights in relation to these profit-sharing rights.
- Holders of profit-sharing rights receive compensation consisting of a fixed amount unrelated to profit and a profit-related component for the profit-sharing rights they have been granted. For fiscal 2008, compensation amounts to EUR 479 thousand (prior year: EUR 446 thousand). Transaction costs of EUR 317 thousand, which are amortized over the term, arose in connection with the issue. The carrying amount as at December 31, 2008, is EUR 5,774 thousand (prior year: EUR 5,729 thousand).
- Furthermore, paragon granted new profit-sharing rights in the amount of EUR 7,000 thousand at a par value of one euro each to PREPS 2008-1 plc, Ireland, as part of a private placement as provided for in the profit-sharing rights agreement dated January 10, 2007. The term of these acquired profit-sharing rights will end no later than January 10, 2014. No ordinary termination of these profit-sharing rights is anticipated. The Managing Board made use of its authorization to exclude shareholders' subscription rights in relation to these profit-sharing rights. Holders of profit-sharing rights receive compensation consisting of a fixed amount unrelated to profit and a profit-related component for the profit-sharing rights they have been granted. For fiscal 2008, compensation amounts to EUR 546 thousand (prior year: EUR 446 thousand). Transaction costs of EUR 250 thousand, which are amortized over the term, arose in connection with the issue. The carrying amount as at December 31, 2008, is EUR 7,000 thousand (prior year: EUR 7,000 thousand).

Profit-sharing rights have the following remaining terms:

in EUR thousands	Remaining term to maturity < 1 Year	Remaining term to maturity between 1 and 5 years	Remaining term to maturity more than 5 years	31.12.2008	31.12.2007
Profit participation rights	0	22,610	0	22,610	25,494
of which reported under non-current liabilities				22,610	25,494
of which reported under current liabilities				0	0

(14) Investment grants

These are government investment allowances, reported as liabilities in accordance with IAS 20. Public subsidies in the year under review totaled EUR 207 thousand (prior year: EUR 1,462 thousand). They all relate to asset subsidies.

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

December 31, 2007								
in EUR thousands	Nominal amount		Amortized cost		Fair value			
	Cash reserve		Loans and receivables		Held for trading		Available for sale	
	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value
ASSETS								
Cash and cash equivalents	6,443	6,443						
Trade receivables			6,259	6,259				
Other assets			9,606	9,606				
Positive fair values of financial instruments					158	158		
Financial assets							266	266
Total assets	6,443	6,443	15,865	15,865	158	158	266	266
EQUITY AND LIABILITIES								
Liabilities to banks			49,220	49,418				
Profit participation rights			25,494	25,609				
Finance leases			746	726				
Trade payables			13,753	13,753				
Negative fair values of derivative financial instruments					35	35		
Other liabilities			8,040	8,040				
Total equity and liabilities	0	0	97,253	97,546	35	35	0	0

(15) Other provisions

Movements in other provisions are shown below:

in EUR thousands	01.01.2008	Utilization	Reversal	Additions	31.12.2008
Guarantees and ex gratia payments	206	196	10	378	378
Credits	154	154	0	430	430
Impending losses	53	0	29	737	761
Miscellaneous provisions	599	693	14	1,816	1,708
Other provisions	1,012	1,043	53	3,361	3,277

(16) Additional information on financial instruments

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

Determination of fair value

The fair value of cash and cash equivalents, short-term receivables, trade payables and other liabilities roughly reflects the carrying amount.

The Company measures long-term receivables based on specific parameters such as interest rates and the customer's credit standing and risk structure. Accordingly, paragon sets up allowances for anticipated defaults on receivables.

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

The fair value of liabilities under profit-sharing rights amounts to EUR 0 thousand as at the balance sheet date of December 31, 2008. Due to the subordinate nature of profit-sharing rights, they were satisfied only after the higher-ranking insolvency creditors during the period of paragon AG's insolvency. No further interest or principal payments were made related to profit-sharing rights from the balance sheet date of December 31, 2008, until the acceptance of the insolvency plan in the creditor meeting of April 2010.

paragon determines the fair value of liabilities to banks by discounting the anticipated cash flows using the interest rates applicable for similar financial liabilities with a comparable remaining term. The fair value of this portion of liabilities to banks is EUR 7,545 thousand. In the case of the portion of liabilities to banks that was satisfied in the course of the insolvency proceedings as insolvency dividends (EUR 37,053 thousand), the insolvency dividends allocated of EUR 4,705 thousand were recorded as fair value.

Financial assets available for sale represent for paragon a residual measure of the financial assets that cannot be recognized in any of the other possible measurement categories. The price in an active market is recognized as the fair value, if such a price is available. The only financial asset held for trading involves the shareholding in Paderborner Stadiongesellschaft mbH, Paderborn. A different fair value of EUR 180 thousand was calculated as part of a purchase offer. As a result the shareholdings were written down to the different fair value in fiscal 2008. Please refer to Note (3).

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

Interest rate derivatives

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

Currency derivatives

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

Net gains and losses

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

in EUR thousands	2008	2007
Trade receivables and other receivables	-5,735	40
Financial assets and financial liabilities held for trading	-915	340
Financial assets available for sale	-86	0
Net gains/losses	-6,736	380

Net gains and losses from receivables include changes in bad debt allowances, gains and losses from derecognition, as well as payment inflows and reversals of impairment losses on receivables originally written down, which were recorded against income in the consolidated financial statements.

Net gains and losses from financial assets and financial liabilities held for trading include all fair value changes of the derivative financial instruments.

(17) Derivative financial instruments

In addition to the primary financial instruments, paragon employs various derivative financial instruments. As part of risk management, the Company primarily limits the risk from interest rate and exchange rate fluctuations by employing derivative financial instruments. Additional information on risk management strategies can be found in Note (18). The Company engages in the use of derivative financial instruments only with financial institutions of the very highest credit standing. Nominal values are equivalent to the purchase and/or sale prices of the derivative financial instruments. The fair values recorded correspond to the current values of the derivative financial instruments, reflecting the price at which third parties would assume the associated rights and duties under contracts as at the balance sheet date.

Derivative financial instruments for currency hedging

The paragon Group is exposed to a number of financial risks due to its international activities. This includes, in particular, the effects of changes in exchange rates. paragon takes an integrated approach in hedging the risks inherent in fluctuating exchange rates. Group-wide risks are consolidated and centralized and hedged using derivative financial instruments. If necessary, paragon AG enters into forward exchange contracts as part of the hedging process. There were no forward exchange contracts recorded as at December 31, 2008.

in EUR thousands	2008	2007
Fair values		
- Currency hedges (futures)	0	4
Positive fair values	0	4

in EUR thousands	2008	2007
Fair values		
- Currency hedges (futures)	0	-35
Negative fair values	0	-35

Derivative financial instruments for interest rate hedging

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

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

in EUR thousands	2008	2007
Fair values		
- Interest rate derivatives not part of a hedging relationship (swaps)	0	154
Positive fair values	0	154

in EUR thousands	2008	2007
Fair values		
- Interest rate derivatives not part of a hedging relationship (swaps)	-761	0
Negative fair values	-761	0

(18) Management of risks from financial instruments

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

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

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

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

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

Market-sensitive assets in connection with pension plans (plan assets) are not the subject of quantitative and qualitative statements. Please refer in this regard to Item (11).

Foreign currency risks

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

paragon determines the sensitivity of foreign currency fluctuations by aggregating the net currency position of the operating business not reflected in the Company's functional currency. Sensitivity is calculated by simulating a 10 percent depreciation of the euro in relation to all foreign currencies. The simulated appreciation of the euro would have resulted in a reduction of future payment inflows in the amount of EUR 268 thousand as of December 31, 2008 (prior year: EUR 18 thousand). To the extent future purchases are not hedged against currency risks, a depreciation of the euro against other currencies would have adverse impacts on the financial position and results of operations because of foreign currency outflows that exceed foreign currency inflows in the Company.

The following table shows the net foreign currency risk of the individual primary currencies as of December 31, 2008:

in EUR thousands	31.12.2008		31.12.2007	
	USD	CHF	USD	CHF
Currency risk from balance sheet items	2,640	38	1,471	178
Currency risk from pending transactions	0	0	0	0
Transaction-related currency risk	2,640	38	1,471	178
Items economically hedged through derivatives	0	0	2,275	0
Net exposure to currency risk	2,640	38	0	178
Change of currency exposure resulting from a 10% appreciation of the euro	264	4	0	18

Four paragon companies are located outside of the euro currency zone. The individual local financial statements of these companies are translated into euro, the Group's currency. Investment in foreign companies is generally long-term in nature and income is to be continuously reinvested.

In the event that paragon sells a foreign company, the Company would integrate the effects of the transaction-related foreign currency risk in the sensitivity analysis. paragon records translation-related effects that arise if the value of the net asset position, converted to euro, changes due to fluctuations in the foreign currencies under equity in the consolidated financial statements. Risks from translating foreign currency sales and earnings of subsidiaries are not hedged.

Interest rate risks

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

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

In the case of financial liabilities with variable interest rates the interest rate risk is measured by cash-flow sensitivity. The table below shows the effects if the interest rate level were to have increased or decreased by 1% as at the balance sheet date.

in EUR thousands	31.12.2008		31.12.2007	
	+ 1%	- 1%	+1%	- 1%
Cash flow risk				
from floating-rate financial instruments	-247	248	-264	265
Balance sheet risk and income statement risk				
from derivative financial instruments not part of a hedging relationship				
Increase (+)/decrease (-) in earnings	448	-496	634	-671
Increase (+)/decrease (-) in equity	448	-496	676	-686

Liquidity risks

Liquidity risk, i.e. the risk that paragon might not be able to meet its financial obligations, is limited by means of flexible cash management. As at December 31, 2008, cash and cash equivalents of EUR 2,262 thousand (prior year: EUR 6,443 thousand), as well as free credit lines in the amount of EUR 3.7 million (prior year: EUR 21.0 million), were available to paragon. In addition to the aforementioned instruments to assure liquidity, paragon continuously follows the developments in the financial markets in order to be able to take advantage of emerging financing options that might prove beneficial.

The following table shows all fixed payments for redemptions, repayments and interest related to financial liabilities, including derivative financial instruments with negative fair value and taking into account the deconsolidation of subsidiaries in 2009, as well as the results of the implementation of the insolvency plan starting June 1, 2010.

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

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

in EUR thousands	2008	2007
Cash and cash equivalents	2,262	6,443
Total liquidity	2,262	6,443
Current financial liabilities and current portion of non-current financial liabilities	27,347	23,630
Non-current financial liabilities	44,889	51,830
Total financial liabilities	72,236	75,460
Net debt	69,973	69,017

Credit risk

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

(19) Capital management

The paramount goal of capital management is to maintain a good equity-to-assets ratio and to meet the minimum capital requirements of the lending banks. The capital structure is managed and adapted to changing economic conditions. Dividend payments to shareholders are adjusted and, if necessary, new shares issued in order to maintain or adapt the capital structure. A dividend was paid in 2008. During fiscal 2008 and 2009 no fundamental changes in capital management goals, methods or processes were introduced.

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

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

(20) Contingent liabilities and other financial obligations

As at December 31, 2008, no contingent liabilities external to the Group or other financial liabilities exist that have not been recorded. Other financial obligations are shown below:

in EUR thousands	Remaining term to maturity < 1 Year	Remaining term to maturity between 1 and 5 years	Remaining term to maturity more than 5 years	31.12.2008	31.12.2007
Capital commitments	12,852	176	39	13,067	29,300
Lease from rental contracts	487	2,693	0	3,180	7,505
Lease obligations	726	693	37	1,456	1,111
Other commitments	545	1,030	0	1,575	2,500
Other financial obligations	14,610	4,592	76	19,278	40,416

(21) Comments on the consolidated cash flow statement

The consolidated cash flow statement summarizes the cash flows of the fiscal year according to IAS 7 ("Cash Flow Statements") in order to present information on movements of the Company's funds. The cash flow statement was prepared according to the indirect method as defined in IAS 7.18b. A distinction is made between cash flows from operating, investment and financing activities.

Cash and cash equivalents shown in the consolidated cash flow statements include all liquid funds reported in the consolidated balance sheet, provided they are available on a short-term basis.

in EUR thousands	2008	2007
Bank balances	2,241	6,424
Cash on hand	21	19
Cash and cash equivalents	2,262	6,443
Term deposits pledged as collateral	-1,064	-1,050
Cash	1,198	5,393

(22) Comments on consolidated segment reporting

Segment reporting reflects paragon's internal reporting system, which in turn corresponds to the risk and reward approach under IAS 14. The breakdown of asset and income figures, as well as additional indicators according to business area and regions, are presented in the segment report as stipulated in IAS 14. Business segments are individually detailed in the Group management report.

Income, expense, asset and liability accounts that cannot be directly attributed to a business segment are allocated using a suitable allocation key, provided that such income, expense and asset and liability accounts do not 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 agreements according to IAS 17.

Segment assets are reflected as follows in the segment report:

in EUR thousands	2008	2007
Total assets	53,515	136,141
- monetary assets	-2,262	-6,443
- deferred taxes	-447	-3,901
- other non-segment-specific assets	-1,069	-10,234
Segment assets	49,737	115,563

Segment liabilities in the segment report are shown below:

in EUR thousands	2008	2007
Total equity and liabilities	53,515	136,141
- Equity	54,178	-18,150
- Special item	-6,432	-9,147
- Loans and other liabilities	-85,948	-95,838
Segment liabilities	15,313	13,006

Amortization, depreciation and impairment losses in the fiscal year as provided for in IAS 38.97 in conjunction with IAS 36 have been recorded in the amount of EUR 14,547 thousand (prior year: EUR 10,756 thousand) for the Automotive segment. In addition, non-cash expenses and income are not shown explicitly in segment reporting, as it is not possible to allocate them specifically to the segments generating them. Only an insignificant number of intersegment sales were transacted in fiscal 2008.

(23) Related Party Disclosures

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

Total remuneration of the Managing Board includes salaries and one-off payments, as well as severances and expenses related to severance payments in the amount of EUR 1,939 thousand (prior year: EUR 1,983 thousand). In addition payments occurring after the termination of the employment relationship in the amount of EUR 5 thousand (prior year: EUR 244 thousand) are included in total remuneration. There were no expenses associated with share-based payment in the fiscal year (prior year: EUR 0 thousand).

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

Members of the Supervisory Board received fixed remuneration in the calendar year just elapses, as well as variable remuneration via Stock Appreciation Rights; refer to comments on the Stock Appreciation Rights Program (STAR Program) in the section "Share-based Payment" in this respect. Total remuneration of the Supervisory Board in the period under review amounted to EUR 42 thousand (prior year: EUR 42 thousand), all of which falls under fixed remuneration. There were no expenses associated with share-based payment in the fiscal year (prior year: EUR 0 thousand).

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

Rental payments in the amount of EUR 167 thousand (prior year: EUR 237 thousand) were paid to the Frers family in 2008, of which

EUR 127 thousand (prior year: EUR 202 thousand) relates to a company building in Delbrück.

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

Moreover, on the balance sheet date, an agreement exists 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 grant recipient. This liability would arise if the State of Thuringia requested the Company to reimburse an investment subsidy in the amount of EUR 4,898 thousand (prior year: EUR 4,898 thousand) of which EUR 4,898 thousand (prior year: EUR 4,898 thousand) has been paid out as of the balance sheet date.

Under the cooperation agreement concluded on January 1, 2007, the following items were charged to Artega:

in EUR thousands	2008	2007
Rents	486	77
Out-of-pocket expenses	146	115
Interest	19	38
Development work	0	1,100
Total:	651	1,330

As of December 31, 2008, receivables resulting from the charges of 2007 and 2008 were due from Artega. The cooperation agreement concluded with Artega provides clear terms for these receivables with respect to due date and possible collateralization. The cooperation agreement between paragon AG and Artega Automobil GmbH was terminated effective December 15, 2009. All claims and obligations of either contracting partner arising from the cooperation agreement to date have been fulfilled during the term of the contract.

(24) Statutory Boards of the Company

The Managing Board of paragon AG consisted, during the period under review, of the Chairman of the Board, Ing. Klaus D. Frers, responsible for the Technology and Corporate Development divisions, the Chief Financial Officer, Mr. Volker Brinkmann, responsible for the Finance and Investor Relations divisions and Mr. Golo Alexander Wahl, responsible for Marketing and Sales. Mr. Volker Brinkmann and Mr. Golo Alexander Wahl left the Company on March 17, 2009, and November 30, 2009, respectively.

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

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

(25) Share-based Payment

paragon AG grants its senior management stock options that entitle the holder to purchase one share for each option after the expiration of the blocking period at a previously set subscription price ('plain vanilla' options).

- Stock option plan 1

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

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

Based on the resolution of the Annual General Meeting of October 17, 2000, modified by the resolutions of the Annual General Meetings of May 15, 2002, and May 12, 2004, stock options in four tranches have so far been granted annually to some employees and the Managing Board of paragon AG in connection with Stock Option Plan 1. Additional conditional capital II, entailing a conditional capital increase of up to EUR 290 thousand by the issue of 289,900 common shares, was created to secure these option rights. The first tranche was offered to employees and Managing Board members on January 10, 2001; the second tranche was offered on April 10, 2002, the third tranche on April 7, 2003, and the fourth tranche on November 6, 2004.

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

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

Date granted	7. April 2003
Total term of option plan	6 years
Of which blocking period	2 or 3 years
Share price at time of option issue	EUR 3.73
Strike price of the option	EUR 3.88
Anticipated dividend yield	1.60 %
Risk-free interest rate	3.40 %
Historic average share volatility	26.0 %
Option value as at April 7, 2003	EUR 0.94

As a modification of the existing authorization, the Managing Board, with the consent of the Supervisory Board, or the Supervisory Board on its own, were authorized by resolution of the Annual General Meeting of May 12, 2004, to, on one or more occasions, grant option rights to a total of 123,976 of the Company's bearer shares with a term up to six years to members of the Company's Managing Board or senior executives of the Company or executives acting as 'division managers' in accordance with their employment contract in

the period until the end of 2005. In its meeting on September 28, 2004, the Supervisory Board decided to offer for purchase a total of 30,000 option rights in the fourth tranche to members of the Managing Board within two weeks of the announcement of the quarterly results for the third quarter of 2004.

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

Date granted	6. November 2004
Total term of option plan	6 years
Of which blocking period	2 or 3 years
Share price at time of option issue	EUR 15.75
Strike price of the option	EUR 15.09
Anticipated dividend yield	1.60 %
Risk-free interest rate	3.30 %
Historic average share volatility	35.0 %
Option value as at November 6, 2004	EUR 5.52

In fiscal 2008, personnel expense totaling EUR 0 thousand (prior year: EUR 0 thousand) was allocated to the capital reserve for the granting of stock options of the third and fourth tranche of stock option plan 1.

• Stock option plan 2

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

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

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

• Stock Appreciation Rights Program (STAR Program)

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

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

Issue date	Stock option program No. 1				STAR program		
	First tranche	Second tranche	Third tranche	Fourth tranche	First tranche	Second tranche	Third tranche
Issue date	Jan. 2001	Apr. 2002	Apr. 2003	Nov. 2004	Nov 2003	Nov 2004	Nov 2005
Options granted	46,365	47,990	71,469	30,000	4,000	4,000	4,000
Strike price in €	7.98	3.78	3.88	15.09	8.24	15.09	16.43
Expiration of holding period	Jan 2003	Apr. 2004	Apr. 2005	Nov. 2006	Nov. 2004	Nov. 2005	Nov. 2006
in units							
Options outstanding at start of year	0	4,172	15,998	30,000	0	4,000	4,000
Options granted	-	-	-	-	-	-	-
Options exercised	-	-	-	-	-	-	-
Options exercised	-	4,172	-	-	-	4,000	-
Outstanding options	-	-	15,998	30,000	-	-	4,000
Exercisable options	-	-	15,998	30,000	-	-	4,000
in EUR							
Valuation of options as of December 31, 2008			0.94	5.52			
Valuation of options as of 31. December 2007			0.94	5.52			
Option value per SAR as of December 31, 2008							0.00026
Option value per SAR as of 31. December 2007						0.10	0.0016

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

The 2003 tranche expired according to plan in November of 2007 and the 2004 tranche in November of 2008.

As at December 31, 2008, there was no need to create a provision for the outstanding 4,000 stock appreciation rights of the Supervisory Board due to the low option value.

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

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

(26) External audit fee

The expense recorded in fiscal 2008 as fees for the external audit of paragon AG's consolidated financial statements conducted by Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft amount to EUR EUR 186 thousand and include a fee for the external audit, as well as fees for the audit of the legally stipulated individual financial statements of paragon AG and its domestic subsidiaries.

(27) Risk management

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

(28) Payments to employees

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

paragon AG contributed EUR 62 thousand (prior year: EUR 63 thousand) in the year under review.

(29) Declaration regarding the German Corporate Governance Code

The statement of compliance with the German Corporate Governance Code stipulated in Section 161 of the AktG was submitted on December 9, 2008; shareholders have permanent access to this statement at the Company's website (www.paragon-online.de).

(30) Exemption pursuant to section 264 (3) No. 4a of the German Commercial Code

Under a resolution passed in the Annual General Meetings of paragon firstronic GmbH, Suhl, paragon finesse GmbH, Delbrück, paragon fidelio GmbH, Delbrück, and paragon facilio GmbH, Delbrück, on July 31, 2007, and December 29, 2007, these companies, by approval of the sole shareholder, paragon AG, Delbrück, have been exempted from disclosure obligation and from the obligation to prepare a management report and notes. The exemption for these subsidiaries was published in the electronic version of the German Federal Gazette on February 28, 2008.

(30) Responsibility Statement

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

Delbrück, July 30, 2010



paragon AG
The Managing Board
Klaus Dieter Frers

We have audited the consolidated financial statements – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement, segment reporting and the notes – and the group management report prepared by paragon AG, Delbrück, for the financial year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional provisions under German commercial law pursuant to section 315a (1) of the German Commercial Code (HGB) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the financial position and financial performance in the consolidated financial statements in accordance with the applicable accounting principles and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities included in consolidation, the scope of consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall

presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

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

Nuremberg, July 30, 2010

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Keller
Wirtschaftsprüfer

Freytag
Wirtschaftsprüfer

Contact

paragon AG

Head office

Schwalbenweg 29

33129 Delbrück

Phone: +49(0)5250 9762-0

Fax: +49(0)5250 9762-60

E-mail: info@paragon-online.de

Internet: www.paragon-online.de

Corporate Communications

Phone: +49(0)5250 9762-161

Fax: +49(0)5250 9762-60

E-mail: investor@paragon-online.de



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