paragon 25

Interim Report

January 1 to June 30, 2013

Highlights of the First Half of 2013

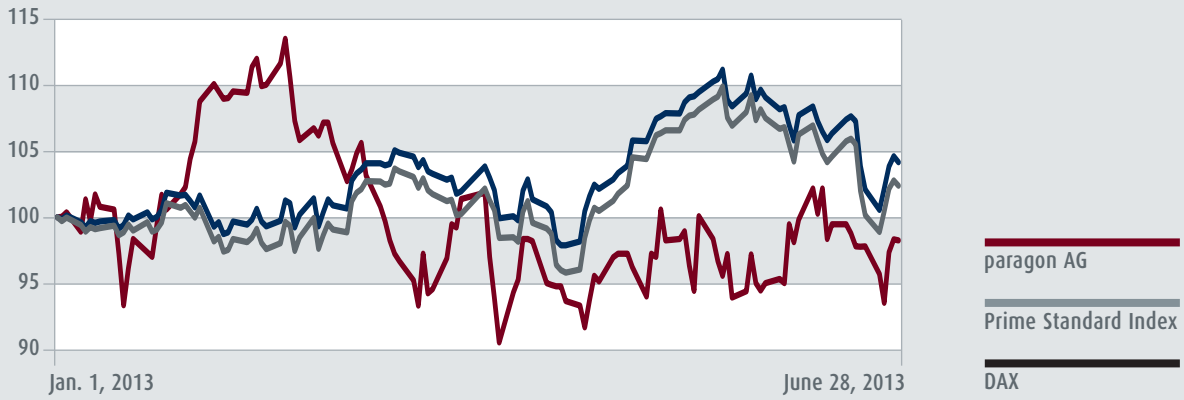
- Company continues to meet its targets
- Revenue up by 16.2% compared to Q1/2013
- Significant earnings improvement in Q2/2013
- Placement of bond in difficult market environment

Key Figures of the First Half of 2013

in EUR thousands	Jan. 1 to June 30, 2013	Jan. 1 to June 30, 2012	Change in %
Revenue	35,656	37,635	- 5.3
EBITDA	5,085	7,242	- 29.8
EBITDA margin in %	14.3	19.2	
EBIT	2,944	4,952	- 40.5
EBIT margin in %	8.3	13.2	
Net income	1,755	3,641	- 51.8
Earnings per share in EUR	0.43	0.88	- 51.8
Total assets	42,049	42,836	- 1.8
Total equity	13,343	13,439	- 0.7
Equity-to-assets ratio in %	31.7	31.4	
Free cash flow	5,529	10,822	- 48.9
Interest-bearing liabilities	14,393	13,356	7.8
Net debt*	8,864	2,534	- 249.8
Operating cash flow	- 421	4,067	- 110.4

* Net debt = interest-bearing liabilities / free cash flow

Price developments (indexed)



Overall Economic Conditions

The economic situation stabilized in the early months of 2013, even as the world economy continued to expand at a reserved pace. This is the assessment put forth by the Institut für Weltwirtschaft, Kiel (ifw – Kiel Institute for the World Economics, Kiel) in its summer forecast of June 2013. Because the pace of economic growth is low, the recovery remains vulnerable to disruptions by financial markets or by an increase in commodity prices.

The basic trend in Germany is spurred by the expansionary stance of monetary policy action. However, uncertainty about the continuing crisis in the eurozone still depresses companies' willingness to invest. Accordingly, the order situation of the industry has persisted at the achieved level as seen by the ifw.

In the automotive industry, an increasingly disparate momentum can be seen in key markets. The U.S. and China in particular are experiencing strong growth in 2013 and now account for over 40 percent of the world passenger car market. In contrast, the German Automotive Industry Association (VDA) reported weakness in the Western European market, which also partially affected the medium-sized suppliers in Germany.

Business Development and Significant Events

In the second quarter of 2013, paragon was able to confirm the uptrend. Revenue increased compared to the first quarter of this year by 16.2 %, thus confirming the Managing Board's announcement at the Annual General Meeting held on May 15, 2013 predicting that growth would exceed 15 %. paragon achieved total sales volume of EUR 35.7 million in the first half of 2013 and is thus meeting its targets.

Steady improvement has been evident since the fourth quarter of 2012, in which paragon posted revenue of EUR 15.9 million. In the first three months, the Company reported sales of EUR 16.5 million (prior year: EUR 18.9 million); in the second quarter, paragon's sales of EUR 19.2 million surpassed the 2012 volume of EUR 18.7 million.

Revenue distribution by business segments

First half of 2013	in EUR thousands	in %
Sensors business segment	13,689	38.4 %
Acoustics business segment	5,860	16.4 %
Cockpit business segment	14,257	40.0 %
Electromobility business segment	95	0.3 %
Body Works Kinematics business segment	1,755	4.9 %
Total	**35,656**	**100.0 %**

In the largest business segments Sensors and Cockpit, the operating business performance was characterized by the strong inventory business with proven products for well-known automobile manufacturers in the premium segment. paragon's Acoustics business segment received an order to supply the belt microphone "belt-mic" for a second car model. This will noticeably increase the numbers of units of this product. Discussions are currently being held concerning the equipping of additional models.

In the newer business segments of Electromobility and Body Works Kinematics, paragon recorded several new orders in the second quarter. The Electromobility business segment achieved a breakthrough with battery packs. For the first time, paragon is equipping a fleet of trolley buses with high-capacity batteries manufactured in-house. The project is

being implemented as part of a long-term partnership with Vossloh Kiepe GmbH, the world leader in electric powered buses. The first joint projects for the cities of Geneva and Lucerne include 42 battery packs with an order volume in excess of EUR 1.6 million, to be delivered starting in autumn 2013. Other joint projects for the equipment of trolley buses and battery-only buses are already in preparation; total sales of high-capacity batteries for buses in 2014 could be in the order of up to EUR 10 million. In order to realize the volume of orders within the stipulated time, paragon has expanded its manufacturing facility for battery packs at the Company's headquarters in Delbrück to more than 500 square meters.

The Body Works Kinematics business segment continued its successful development. The production facilities for the first rear spoiler drive mechanisms in Delbrück have now been completed. The production of a pilot series for a well-known sports car manufacturer from Germany is underway. In the second quarter, paragon also received another order to produce an electrically adjustable rear spoiler system for a high-profile sports car of another German customer. This is already the third order for spoiler systems. Added to this was the first volume order for the manufacture of steering wheel gearshift paddles.

On July 29, 2013 paragon exercised the call option to acquire KarTec GmbH in a move to strengthen the Body Works Kinematics business segment. Through this step, the former partner has become a subsidiary of paragon AG. A later merger with paragon AG is conceivable. The purchase price is equal to the amount of paragon's loan to KarTec GmbH (EUR 1.0 million), making it unnecessary to use other liquid assets.

The sales office in China has commenced its activities after having been successfully established. For many potential customers, including joint ventures with foreign participation and local manufacturers as well, paragon has introduced in particular the product range in the field of air quality. Specific inquiries have been received regarding projects with the air quality sensor AQS® and the air improvement system AQI®. In addition, preliminary discussions are underway concerning projects with a novel sensor specifically for the Chinese market.

paragon issued a corporate bond in June 2013 to further internationalization, for investments in the new business segments Electromobility and Body Works Kinematics, for acquisitions and to repay loans or for the purpose of a liquidity reserve. As planned, the Company terminated the public offer for subscription of the bond on June 28. A total volume of EUR 10.0 million has been placed with private and institutional investors.

Results of Operations

Through active cost management, paragon succeeded in achieving better earnings figures than expected in the first six months of 2013. The EBIT margin was 8.3 %, down from 5.4 % in the first quarter of 2013. The sustainable upward trend during the year was also evidenced by the EBITDA margin: As of June 30, 2013, the EBITDA margin was 14.3 %, compared to a figure of only 12.0 % in the first quarter of the year.

The consistent implementation of a program to lower the cost of materials of all paragon products led to a reduction of the cost of materials ratio to 50.2 % (prior year: 51.5 %). In a year-on-year comparison, the absolute expenses decreased from EUR 19.4 million in the first six months of 2012 to EUR 17.9 million in 2013.

In order to offer innovative products with unique selling points to customers in the future, paragon continues to rely on the use of highly qualified employees. Personnel expenses remained almost constant at EUR 9.6 million despite a slight decrease in headcount (prior year: EUR 9.6 million). Compared to the first half of 2012, the personnel expense ratio increased from 25.5 % to 26.9 %.

A year-on-year comparison takes into account one-time effects on inventories and other operating income. The first six months of 2012 benefited from an increase in the finished goods inventory (EUR 0.3 million) and the reversal of provisions for litigation (EUR 0.5 million). paragon did not record a comparable effect in the first six months of 2013. The overall impact on the total operating performance amounts to EUR 1.2 million.

It should also be noted that approximately EUR 1.9 million in development revenues were realized in the second quarter of 2012 due to delayed acceptances from customers,

although the corresponding expenses were incurred already in 2011. This unique effect is is not present in the current year.

The issue of the corporate bond resulted in costs in the amount of EUR 55,000 in the second quarter of 2013 and will lead to additional costs in the amount of approximately EUR 500,000 in the third quarter. These expenses are capitalized as transaction costs under IFRS and are recognized in income over the term of the bond. The effect on income in 2013 will amount to approximately EUR 55,000. The interest on the bond estimated for 2013 comes to EUR 0.4 million.

Compared to the first quarter of 2013, paragon recorded a significant upswing in EBIT (from EUR 0.9 million to EUR 2.0 million) and in EBITDA (from EUR 2.0 million to EUR 3.1 million). Overall, the Company reported EBIT of EUR 2.9 million in the first six months of 2013 (prior year: EUR 5.0 million) and EBITDA of EUR 5.1 million (prior year: EUR 7.2 million).

As of June 30, 2013 paragon AG recorded net income according to IFRS of EUR 1.8 million (prior year: EUR 3.6 million). This resulted in earnings per share of EUR 0.43 (prior year: EUR 0.88). On a positive note, the second quarter accounted for the major portion of the net income (EUR 1.3 million), which confirms the planned upward trend throughout the year.

Financial Position and Net Assets

Total assets as of June 30, 2013 decreased slightly to EUR 42.0 million compared to EUR 42.8 million as of June 30, 2012.

Non-current assets rose by EUR 1.5 million to EUR 18.9 million (prior year: EUR 17.4 million). Current assets were reduced from EUR 25.4 million to EUR 23.2 million, primarily reflecting the decline in cash and cash equivalents. Compared to March 31, 2013, liquidity decreased by EUR 2.5 million, primarily due to the dividend or anniversary distribution of EUR 1.4 million for fiscal year 2012, which was paid during this period, as well as the the payment to creditors in the amount of EUR 0.9 million from the escrow account for the 'insolvency dividend payout'. paragon AG has no influence over the latter.

Non-current provisions and liabilities increased to EUR 16.9 million (prior year: EUR 16.3 million). In contrast, current provisions and liabilities were reduced significantly by EUR 1.3 million to EUR 11.8 million (prior year EUR 13.1 million). This decrease is mainly due to the reduction in other current liabilities by EUR 1.1 million and the payment of EUR 0.6 million in income taxes.

Net debt (interest-bearing liabilities / free cash flow) increased by EUR 1.7 million compared to March 31, 2013. The main reason for this is the aforementioned dividend or anniversary distribution.

paragon once again improved its equity position. The equity-to-assets ratio rose to 31.7% (prior year: 31.4%).

paragon also managed to achieve a turnaround with regard to operating cash flow in the second quarter of 2013. After a still negative result in the first quarter of 2013 (EUR -1.1 million), the Company generated a positive cash flow from

operating activities amounting to EUR 0.7 million from April to June. Thus, the operating cash flow reached a value of EUR - 0.4 million (prior year: EUR 4.1 million) in the first six months of 2013. This must take into account increased tax payments compared to last year (EUR 0.5 million), increased trade receivables (EUR 0.8 million) and the reduction in current liabilities (EUR 1.1 million).

Research & Development

paragon continued the intensive work in research and development in the second quarter of 2013. With these activities, the Company strengthens its future viability and sets itself apart from the market environment by developing unique solutions. The following were the development priorities in the individual business segments in the second quarter of 2013: customer-specific adaptation of the air improvement system AQI for two automobile manufacturers (Sensors business segment), designing the high-definition image transmission from mobile devices to vehicle displays as well as various pre-development activities in the areas of wireless charging and near field communication (Cockpit business segment), a new technology for speakers with smaller size, lighter weight and higher energy efficiency (Acoustics business segment), more storage cell variants and new functions for battery packs as well as the integration of peripheral system components such as air-conditioning modules and higher-level control units (Electromobility business segment) and the concept development of a standard central drive as a basis for future spoiler systems from paragon (Body Works Kinematics business segment). paragon invested a total of EUR 3.2 million (prior year: EUR 3.1 million) in research and development from January 1, 2013 to June 30, 2013.

Employees

On June 30, 2013 paragon AG employed 377 of its own workers and 46 temporary staff members in Germany. Compared to the prior-year reporting date (June 30, 2012: 378 including 60 temporary staff members), the total number of employees decreased slightly, due in particular to the reduction in temporary staff members. Compared to the previous quarter (March 31, 2013: 382 employees including 43 temporary staff members), the total number of employees remained nearly constant. The individual locations accounted for the following figures (own workers/ temporary staff members) as of June 30, 2013: Delbrück (94/1), Suhl (202/44), Nuremberg (28/1), and St. Georgen (53/0).

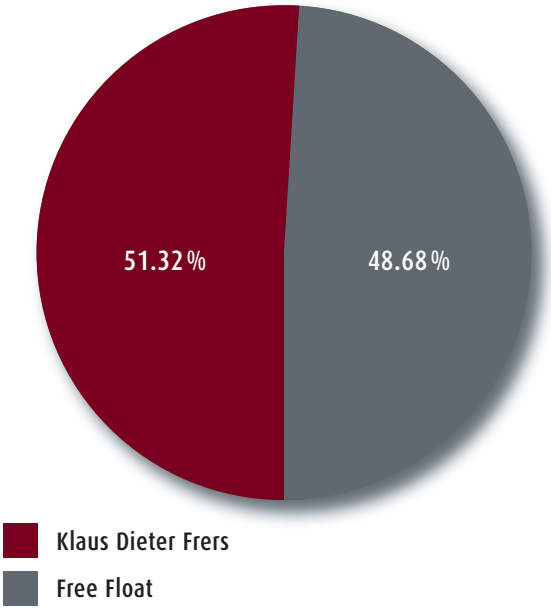
Investor Relations

During the second quarter of 2013, the German Stock Index (DAX) was again unable to maintain the values it temporarily achieved of well above the 8,000 hurdle. The index reached its year-to-date high for 2013 on May 22 when it stood at 8,531. However, by the end of the quarter, the DAX dropped back to 7,959 (June 28), almost falling to the level of the first trading day in the second quarter (7,944, April 2). Nonetheless, an increase of over 2 % was recorded since the beginning of the year (7,779, January 2) as of June 30.

paragon stock also fluctuated quite strongly in the period from April 1 to June 30, 2013. The share price fell from EUR 9.31 (April 2) to EUR 8.30 (April 5), then increased to EUR 9.34 (June 10) and dropped back to EUR 8.99 (June 28). After starting the year at EUR 9.15 (January 2), paragon stock lost almost 2 % by June 30.

ISIN:	DE 000 555 8696
WKN:	555869
Ticker symbol:	PGN
Market segment:	Prime Standard
Sector:	Technology
Stock exchange:	Frankfurt/Main (Xetra)
Number of shares:	4,114,788
Share price on June 28, 2013:	EUR 8.99
Market capitalization on June 28, 2013:	EUR 37.0 million

On June 4, 2013, Dr. Kalliwoda Research GmbH, Frankfurt / Main, released an update of its analysis of paragon stock based on the financial results for the first quarter. Despite the expected weaker business development, the analysts reiterated their buy recommendation and price target of EUR 20.48.



The 12th Annual General Meeting of paragon AG on May 15, 2013 at the Stadthalle Delbrück was entirely in the spirit of the Company's 25-year anniversary. The shareholders formally approved the actions of the Managing Board and Supervisory Board and approved nearly 100 percent of the recommendations of management. This unanimity was also true for the resolution on the appropriation of profits for fiscal year 2012. In addition to a dividend of EUR 0.25 per eligible share, paragon paid a one-time special dividend of EUR 0.10 for the 25-year anniversary.

In June 2013 paragon issued a corporate bond with a fixed annual interest rate of 7.25 % and a term of five years. The bond was offered to the public in Germany, Austria and Luxembourg. In numerous discussions with investors, paragon has received a very positive response. In light of the extremely difficult market conditions in the financial markets on the date of issue, the Managing Board evaluated the placement volume of EUR 10.0 million as satisfactory, even if only half of the originally planned volume could be placed. The lower income will have an impact on the number and size of the acquisitions to be financed with the proceeds of the issue (purchase price plus associated liquidity reserve). This does not have an impact on other future projects. The bond was not necessary in any case for the current business.

The bonds were included in the open market of Deutsche Börse AG (Open Market of the Frankfurt Stock Exchange) and simultaneously recorded in the Entry Standard segment for corporate bonds. The transaction was managed by Close Brothers Bank AG as the sole global coordinator and book-runner.

Risk Report

The uneven development in the global automotive markets also poses challenges for paragon. The close relationship with the German premium manufacturers that are very well positioned in the fast-growing regions has a stabilizing effect in this heterogeneous market environment. At the time of publication, no additional risks have been identified that might jeopardize the Company's continued existence.

Detailed information on paragon AG's individual risk situation was given in the opportunities and risk report of the Annual Report for the fiscal year ended on December 31, 2012. The statements contained therein with respect to the overall risk continue to be applicable.

Outlook

In its summer forecast, the Institut für Weltwirtschaft, Kiel (ifw – Kiel Institute for the World Economics, Kiel) has made a slight downward revision of its expectation for an increase in global production from 3.4 % to 3.2 %. For 2014, the economic experts see an increase of 3.8 %, so that the utilization of global production capacity should increase slightly again. The ifw estimates that world trade will rise in 2013 by 2.8 %; it is expected to accelerate to 4.5 % in 2014.

The Institute expects that gross domestic product in Germany will rise by 0.5 % in the current year. In 2014, growth may amount to 1.8 %. After that, the utilization of macroeconomic production capacity should exceed the normal level by 0.6 %. In addition, the ifw expects a further increase in the labor force and stronger inflation. The cost of living should rise by 2.1 % in 2014 after 1.7 % in 2013.

The Association of the Automotive Industry (VDA) reports an inconsistent trend in the development of the global market. The industry experts expect 2 % growth to 70.5 million units in 2013. This overall positive trend is tempered by a significant weakness of the market in Western Europe, which will drop to 11 million units this year compared to the long-held 14-million mark. This loss, attributable primarily to declines in Italy, Spain and France, is expected to be more than offset by growth in the U.S. and China. The German premium manufacturers, which include paragon's key customers, are very well positioned in these growth markets, and as such have so far been able to largely offset the weakness in Western Europe.

For 2013, the paragon Managing Board had announced a slow start and an improvement throughout the year with a focus in the fourth quarter. The Company's development in the first six months of 2013 has confirmed this prediction in full. The second quarter posted significant double-digit sales growth compared to the first three months, growth which was also reflected positively in the earnings figures. Against this backdrop, the Managing Board reaffirmed its forecast for fiscal 2013. Overall, the Company's management expects 5 % growth in revenue, as in 2012, as well as a stable EBIT margin.

paragon looks forward to further developments in 2013 with confidence. Due to the plant holidays of the manufacturers, the Company expects, as planned, a slight decline in sales in the third quarter of this year compared to the previous quarter. Looking at the same period last year (Q3/2012: EUR 16.9 million), sales are expected to be of a similar magnitude. At the end of the third quarter, the start of several new products – including in the newer business segments of Body Works Kinematics and Electromobility – will lead to further increases in sales. As of November, more products will be added, which will have a positive impact in the fourth quarter.

Also in the subsequent period, the Company will be able to introduce attractive new solutions that will bring significant benefits to automotive manufacturers and accelerate the development of sales of paragon. This includes new microphones for various models of a German premium manufacturer. These products, which are already in development, will be ready for mass production at the end of 2014 or mid-2015.

paragon will undertake a reorientation in the use of existing buildings at the Company's headquarters in Delbrück as of July 1, 2013. The representative location in the Artegastraße will serve as the new company headquarters housing the Managing Board, Finance and Controlling. Additional development departments will be based in Schwalbenweg in the future for the business segment Body Works Kinematics, among others. At Bösendamm, the premises for the business segment Electromobility will be expanded, prototype construction will be centralized and a test rig will be set up. With this spatial restructuring, paragon is equipping itself for further growth.

The Managing Board is in discussion with various companies that would fit well with the current business segments of paragon AG. There is the prospect that acquisition projects may be successfully concluded by year-end 2013.

Balance Sheet of paragon AG, Delbrück, as of June 30, 2013

in EUR thousands	June 30, 2013	June 30, 2012
Assets		
Non-current assets		
Intangible assets	5,743	3,456
Property, plant and equipment	13,022	13,292
Financial assets	0	200
Other assets	127	160
Deferred taxes	0	299
Total non-current assets	**18,892**	**17,407**
Current assets		
Inventories	7,293	6,962
Trade receivables	4,356	2,003
Income tax assets	1,041	196
Other assets	1,831	1,387
Cash and cash equivalents	8,636	14,881
Total current assets	23,157	**25,429**
Total assets	**42,049**	**42,836**

in EUR thousands	June 30, 2013	June 30, 2012
Equity and liabilities		
Equity		
Subscribed capital	4,115	4,115
Capital reserve	2,450	3,478
Revaluation surplus	- 803	- 426
Profit/loss carried forward	5,826	2,631
Net income/comprehensive income	1,755	3,641
Total equity	**13,343**	**13,439**
Non-current provisions and liabilities		
Non-current lease obligations	139	203
Non-current borrowings	11,921	11,589
Special item for investment grants	1,793	2,389
Deferred taxes	252	0
Pension provisions	2,797	2,081
Total non-current provisions and liabilities	**16,902**	**16,262**
Current provisions and liabilities		
Current portion of finance lease obligations	254	150
Current borrowings and current portion of non-current borrowings	2,079	1,414
Trade payables	3,567	3,854
Other provisions	237	280
Income tax liabilities	74	700
Other current liabilities	5,593	6,737
Total current provisions and liabilities	**11,804**	**13,135**
Total equity and liabilities	**42,049**	**42,836**

Income Statement of paragon AG, Delbrück, for the period from January 1 to June 30, 2013

in EUR thousands	First half of 2013 Jan. 1 to June 30, 2013	First half of 2012 Jan. 1 to June 30, 2012	Q2 2013 Apr. 1 to June 30, 2013	Q2 2012 Apr. 1 to June 30, 2012
Sales revenue	**35,656**	**37,635**	**19,167**	**18,702**
Other operating income	529	936	264	267
Increase or decrease in finished goods and work in process	- 382	311	- 364	62
Other own work capitalized	925	1,022	443	522
Total operating performance	**36,728**	**39,904**	19,510	19,553
Cost of materials	- 17,914	- 19,394	- 9,245	- 9,477
Gross profit	**18,814**	**20,510**	**10,265**	**10,076**
Staff costs	- 9,578	- 9,594	- 5,039	- 4,735
Depreciation and amortization of property, plant, equipment and intangible assets	- 2,054	- 1,869	- 1,030	- 1,011
Impairment of property, plant and equipment and intangible assets	- 87	- 421	- 26	- 113
Other operating expenses	- 4,151	- 3,674	- 2,121	- 1,767
Earnings before interest and taxes (EBIT)	**2,944**	**4,952**	**2,049**	**2,450**
Financial income	24	19	23	10
Finance costs	- 499	- 527	- 253	- 261
Net financing costs	**- 475**	**- 508**	**- 230**	**- 251**
Earnings before taxes (EBT)	**2,469**	**4,444**	**1,819**	**2,199**
Income taxes	- 714	- 803	- 522	- 466
Net income	**1,755**	**3,641**	**1,297**	**1,733**
Earnings per share (basic)	0.43	0.88	0.32	0.42
Earnings per share (diluted)	0.43	0.88	0.32	0.42
Average number of shares outstanding (basic)	4,114,788	4,114,788	4,114,788	4,114,788
Average number of shares outstanding (diluted)	4,114,788	4,114,788	4,114,788	4,114,788

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

in EUR thousands	Jan. 1 to June 30, 2013		Jan. 1 to June 30, 2012	
Earnings before income taxes	2,469		4,444	
Depreciation/amortization of non-current assets	2,054		1,869	
Net financing costs	475		508	
Gain (-), loss (+) from disposal of items of property, plant and equipment and non-current financial assets	2		- 4	
Increase (+), decrease (-) in other provisions and pension provisions	8		- 529	
Income from the reversal of the special item for investment grants	- 298		- 320	
Other non-cash expenses and income	0		2	
Increase (-), decrease (+) in trade receivables, other receivables and other assets	- 2,683		-1,841	
Impairment of intangible assets	87		421	
Increase (-), decrease (+) in inventories	21		- 230	
Increase (+), decrease (-) in trade payables and other liabilities	- 689		1,141	
Interest paid	- 500		- 527	
Income taxes paid	- 1,367		- 867	
Cash flow from operating activities		**- 421**		**4,067**
Proceeds from disposal of property, plant and equipment	0		30	
Cash payments to acquire property, plant and equipment	- 899		- 1,432	
Cash payments to acquire intangible assets	- 1,558		- 1,079	
Payments for investments in financial assets	0		- 200	
Interest received	24		17	
Cash flow from investing activities		**- 2,433**		**- 2,664**
Distribution to owners	- 1,440		0	
Cash repayments of borrowings	- 1,067		- 1,743	
Amounts paid on insolvency ratio	- 900		0	
Cash proceeds from issuing loans	973		0	
Cash repayments for liabilities from finance leases	- 159		- 109	
Cash flow from financing activities		**- 2,593**		**- 1,852**
Cash-effective change in liquidity	- 5,447		- 449	
Cash and cash equivalents at beginning of period	14,083		15,330	
Cash and cash equivalents at end of period	8,636		14,881	

Statement of Changes in Equity of paragon AG, Delbrück

in EUR thousands	Subscribed capital	Capital reserve	Revaluation deficit	Accumulated profit: Profit carried forward	Accumulated profit: Net income	Total
January 1, 2012	**4,115**	**3,478**	**- 426**	**2,631**	**0**	**9,798**
Net income	0	0	0	0	3,641	3,641
Actuarial gains and losses	0	0	0	0	0	0
Other comprehensive income	0	0	0	0	0	0
Comprehensive income	0	0	0	0	3,641	3,641
Dividend payout	0	0	0	0	0	0
June 30, 2012	**4,115**	**3,478**	**- 426**	**2,631**	**3,641**	**13,439**

in EUR thousands	Subscribed capital	Capital reserve	Revaluation deficit	Accumulated profit: Profit carried forward	Accumulated profit: Net income	Total
January 1, 2013	**4,115**	**2,450**	**- 803**	**7,266**	**0**	**13,028**
Net income	0	0	0	0	1,755	1,755
Other comprehensive income	0	0	0	0	0	0
Comprehensive income	0	0	0	0	1,755	1,755
Dividend payout	0	0	0	- 1,440	0	- 1,440
June 30, 2013	**4,115**	**2,450**	**- 803**	**5,826**	**1,755**	**13,343**

Basis of Presentation

The interim financial statements of paragon AG as of June 30, 2013, have been prepared according to the uniform accounting principles of the International Financial Reporting Standards (IFRS). Furthermore, the standards of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) apply. The provisions of IAS 34 Interim Financial Reporting were also taken into account.

The form and content of the report on the first half of the year comply with the reporting requirements of the German stock exchange. The report, taking into consideration the reporting period, represents an update of the annual report of the fiscal year from January 1 to December 31, 2012, which should be referenced for explanation and additional information while reading this report. The aforementioned Annual Report may be found in the Internet at www.paragon.ag.

Income Statement, Balance Sheet, Cash Flow Statement

The sections on financial position and net assets as well as results of operations provide a detailed overview and specific explanations regarding paragon AG's income statement, balance sheet and cash flow statement.

Events after the reporting period

On July 29, 2013, paragon exercised the call option to acquire KarTec GmbH. The purchase price is equal to the amount of paragon's loan to KarTec GmbH (EUR 1.0 million).

There were no additional events that occurred after the balance sheet date of June 30, 2013, that would have an influence on the statements regarding the first half of 2013.

Notes on the Preparation of the Half-year Report

An audit or audit review of the interim financial statements was not performed.

Future-oriented statements entail risks. The present report on the first half of the year contains statements that relate to paragon AG's future development. These statements are based on assumptions and estimates. While the Managing Board is convinced that statements regarding the future are realistic, there can be no guarantees in this respect. The assumptions harbor risks and uncertainties that may result in actual events diverging from expected events.

Responsibility Statement

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

Delbrück, August 21, 2013

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