



Report

on the First Quarter of 2006

paragon AG

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Report

This quarterly report has been prepared in accordance with the same accounting principles of the International Financial Reporting Standards (IFRS), which were applied to the 2005 annual report. The standards of the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid on the balance sheet date have been applied. In form and content, this interim report complies with the reporting obligations of the German Stock Exchange. The quarterly report represents an update of the annual report. Its focus is on the current reporting period and should be read in connection with the annual report and the additional information on the Company contained therein.

The first three months at a glance

in € (000)	2006 as of Mar. 30	2005 as of Mar. 30	Change in %
Sales	24,160	16,550	46.0%
EBITDA	4,387	2,967	47.9%
EBIT	1,792	1,413	26.8%
Net earnings for period	448	459	- 2.4%
Liquidity*	3,782	4,832	- 21.7%
Equity ratio**	37.0%	35.4%	-
Employees	544	419	29.8%

* Compared to the balance sheet date as of December 31, 2005

** Shareholders' equity including profit-sharing rights, silent equity holding excluding minority interests

Securities Identification No.:	555 869
ISIN:	DE0005558696
Ticker symbol:	PGN
Trading segment:	Prime Standard
Sector:	Technology

Highlights of the first Quarter of 2006 (compared to the first quarter of 2005)

- Sales: up 46.0% to € 24.2 million
- EBITDA: 47.9% growth to € 4.4 million
- Revenue target: € 110 to 115 million for 2006

Sales

In the first three months of 2006, paragon Group sales totaled € 24.2 million (previous year: € 16.6 million), reflecting a robust 46.0% increase compared to 2005.

The Automotive division increased its sales by 68.0% to € 19.7 million in the period under review (previous year: € 11.7 million). Its share of total sales thus increased once again to 81.5% (previous year: 70.8%). The sales in the USA attributed to this division came to € 1.6 million.

The sales of customized, integrated comprehensive solutions for industrial electronics in the Electronic Solutions division in the first quarter of 2006 came to € 4.3 million (previous year: € 4.7 million), representing a 16.7% share (previous year: 28.7%) of total sales. The contribution of the location in the USA to this result was € 1.2 million.

In the Building Technology division, paragon generated sales of € 213 thousand (previous year: € 84 thousand), representing 0.8% of total sales (previous year: 0.5%).

Earnings

Operating income, i.e., earnings before interest, taxes, depreciation, and amortization (EBITDA) improved by 47.9% to € 4.4 million (previous year: € 3.0 million). Adjusted earnings before interest and taxes (EBIT) increased by 50.5% to € 2.1 million in the three months of fiscal 2006 (previous year: € 1.4 million). Recognition of the write-downs of intangible assets brought the increase to 26.8% or € 1.8 million.

Quarterly net income was € 448 thousand in the period under review (previous year: € 459 thousand), reflecting diluted and undiluted earnings per share of € 0.11 (previous year: € 0.11).

The ratio of cost of materials to total output in the reporting period was 53.1% (previous year: 50.1%).

At the end of the first quarter of 2006, the number of employees in the paragon Group rose by 29.8% to a total of 544 (previous year: 419). Of that number, 114 were employed at the Delbrück location, 233 in Suhl, 69 in Cadolzburg, 59 in St. Georgen, 4 in Heidenheim, 2 in Paris and 63 in the United States. The ratio of the personnel expenses to aggregate operating performance was 21.1% in the reporting period (previous year: 21.8%).

Financial Position

The Group's cash and cash equivalents rose to a total of € 3.8 million at the end of the reporting period, (Dec. 31, 2005: € 4.8 million). As of March 31, 2006, equity totaled € 20.5 million (Dec. 31, 2005: € 20.0 million). In the first three months of 2006, paragon invested a total of € 1.9 million in property, plant and equipment and intangible assets, with an emphasis on the expansion of technical plant and machinery. Net assets increased to € 116.2 million (Dec. 31, 2005: € 113.0 million). Equity (excluding minority interests) of € 16.6 million as well as the profit sharing capital and the silent equity holding totaling € 26.4 million together accounted for 37.0% of net equity as of March 31, 2006.

Research & Development

In the Automotive division, R&D activities in the first quarter of 2006 were focused on the continued development of air quality sensors and several prototypes of the AQC air quality conditioning system for various customers. In addition, paragon concentrated on the development of components for commercial vehicles; the focus in this area was on centralized operating and control devices as well as backup camera systems. The focus in Car Media Systems was the development of a universal multimedia interface with MOST technology and navigation solutions in the inside rearview mirror of vehicles.

In the Building Technology division, paragon focused on the further development of electronic ballasts.

Stock Performance

The paragon share closed the first quarter of 2006 at a price of € 17.44 (XETRA), which was near the high for the quarter. The more than 20.0% increase compared to the price at the start of the quarter demonstrates positive performance.

Within the reporting period, the share showed high volatility and ranged between € 13.28 and € 17.85. In the first three months of 2006, the total volume of paragon shares traded came to more than € 13.5 million, an average of about 13,500 paragon shares being traded daily.

Significant events in the first quarter were the publication and presentation of the 2005 financial statements in the financial statements press conference and a DVFA analysts event in Frankfurt. In addition, the first investors' conference generated a great deal of interest among bank representatives.

The dividend to be adopted in the Annual General Meeting on May 17, 2006, which is to be doubled to € 0.20 per share based on the proposal by the Managing Board, is a further sign of the positive business development of paragon AG.

Outlook

In view of the key figures for the 1st quarter of 2006, the Managing Board of paragon AG stands by its forecast of Group-wide revenue growth to approximately € 110 to 115 million for fiscal 2006.

The supplier industry will continue to benefit in the future from the increasing use of electronics in automotive engineering. Consequently, the Automotive division will become even more significant. Important growth engines will be climate controls and car media systems.

Our presentation at CeBIT in Hanover in March 2006 will bring additional positive effects. At CeBIT, the paragon Group presented its innovative portfolio for car media systems for the first time in a separate exhibition stand.

The Electronic Solutions division will continue to be of great significance as a basic technology in the future. In this area, paragon will participate in the increasing trend toward contract manufacturing of high-end electronics.

paragon sees itself as well positioned for 2006 and will continue to grow. The Company's core goal continues to be solid and sustained growth. In the future as well, the Company will continue to take advantage of opportunities to strengthen and expand its market position through acquisitions.

Consolidated Income Statement for the period from January 1 to March 31, 2006

in € (000)	Q-1 01/01/06 - 03/31/06	Q-1 01/01/05 - 03/31/05
Revenue	24,160	16,550
Other operating income	727	496
Changes in inventory of finished goods and work in progress	1,337	798
Other own work capitalized	800	200
Total operating revenue	27,024	18,044
Cost of materials	- 14,340	- 9,032
Gross income	12,684	9,012
Personnel expense	- 5,692	- 3,928
Depreciation/amortization/impairment of property, plant and equipment and intangible assets	- 2,595	- 1,554
Other operating expenses	- 2,605	- 2,117
Earnings before interest and taxes (EBIT)	1,792	1,413
Financial income	6	40
Financing expenses	- 1,065	- 640
Financial result	- 1,059	- 600
Income before taxes	733	813
Income taxes	- 277	- 346
Other taxes	- 8	- 8
Net income	448	459
Minority interests	142	0
Net income attributable to equity holders of the parent	306	459
Earnings per share (basic)	0.11	0.11
Earnings per share (diluted)	0.11	0.11
Average number of shares outstanding (basic)	4,086,106	4,037,252
Average number of shares outstanding (diluted)	4,125,020	4,115,046

Segment Report

in € (000)	Exterior sales		Earnings before interest and taxes (EBIT)	
	Q-1 2006 01/01/06 - 03/31/06	Q-1 2005 01/01/05 - 03/31/05	Q-1 2006 01/01/06 - 03/31/06	Q-1 2005 01/01/05 - 03/31/05
Automotive	19,691	11,721	1,582	1,251
Electronic Solutions	4,256	4,746	232	158
Building Technology	213	84	- 22	4
Total	24,160	16,550	1,792	1,413

Consolidated Balance Sheet

as at March 31, 2006

in € (000)	03/31/2006	12/31/2005
Assets		
Non-current assets		
Intangible assets	23,224	23,542
Goodwill	17,931	17,981
Property, plant and equipment	28,312	27,940
Financial assets	200	200
Deferred tax assets	2,634	2,111
Total non-current assets	72,301	71,774
Current assets		
Inventories	15,796	13,981
Trade receivables	12,357	9,704
Income tax claims	0	363
Other assets	11,917	12,371
Cash and cash equivalents	3,782	4,832
Total current assets	43,852	41,251
Total assets	116,153	113,025
Liabilities and equity		
Equity		
Subscribed capital	4,086	4,086
Capital reserves	7,581	7,565
Net income attributable to equity holders of the parent	306	1,264
Retained earnings	5,487	4,224
Reserve for currency translation differences	- 817	- 790
Equity before minority interests	16,643	16,349
Minority interests	3,837	3,695
Equity after minority interests	20,480	20,044
Non-current liabilities		
Long-term financial lease liabilities	1,205	1,459
Long-term loans	9,408	10,118
Profit sharing capital	17,510	17,483
Silent equity holding	8,856	8,754
Investment grants	10,415	10,062
Deferred tax liabilities	4,914	5,048
Provisions for pensions	940	853
Total non-current liabilities	53,248	53,777
Current liabilities		
Current portion of financial lease liabilities	1,023	1,019
Short-time loans and current portion of long-term loans	18,419	13,899
Trade liabilities	11,137	12,398
Other provisions	5,489	5,149
Income tax liabilities	1,916	1,783
Liabilities to minority shareholders	1,098	1,081
Other current liabilities	3,343	3,875
Total current liabilities	42,425	39,204
Total equity and liabilities	116,153	113,025

Shares held by members of the Executive and Supervisory Board as at March 31, 2006

Share capital: 4.086.106	Shares 03/31/2006	Options 03/31/2006
Executive Board, total	2,105,730	58,694
Supervisory Board, total	6,000	
Boards, total	2,111,730	58,694
as % of share capital	51.68%	

Consolidated Statement of Changes in Equity

in € (000)	Sub- scribed Capital	Exchange rate differen- ces	Capital reserves	Profit/ loss carried forward	Net income	Minority interests	Total
January 1, 2005	4,037	- 987	7,318	1,765	2,863	0	14,996
Income after taxes					459		459
Accumulated profits/losses				2,863	- 2,863		0
Dividend distribution							0
Capital increase (exercise of stock options)	1		31				32
Addition due to stock option valuation							0
Minority interests							0
Currency translation changes		114					114
March 31, 2005	4,038	- 873	7,349	4,628	459	0	15,601
January 1, 2006	4,086	- 790	7,565	4,224	1,264	3,695	20,044
Income after taxes					306	142	448
Accumulated profits/losses				1,263	- 1,264		- 1
Dividend distribution							0
Capital increase (exercise of stock options)							0
Addition due to stock option valuation			16				16
Minority interests							0
Currency translation changes		- 27					- 27
March 31, 2006	4,086	- 817	7,581	5,487	306	3,837	20,480

Consolidated Cash Flow Statement (IFRS)

in € (000)

	01/01 - 03/31/2006		01/01 - 03/31/2005	
Cash flow from operating activities				
Income before taxes and deferred taxes	733		804	
Adjustment for:				
impairment losses	2,595		1,554	
Financial result	1,059		600	
Gains/losses from the disposal of non-current assets	0		0	
Change of the other provisions and provisions for pensions	428		- 257	
Income from reversal of special account for grants	- 482		- 447	
Other non-cash income and expense	- 41		0	
Change in trade receivables, other receivables and other asset	- 2,358		- 2,967	
Change in inventory level	- 1,816		- 1,824	
Change in trade payables and other liabilities	- 1,781		167	
Interest paid	- 1,065		- 640	
Income taxes	- 189		- 483	
Net cash from operating activities		- 2,917		- 3,493
Cash flow from investing activities				
Payments for investment minus residual carrying amount of asset disposals	- 1,862		- 1,431	
Payments for the purchase of subsidiaries	0		- 100	
Additions of cash and cash equivalents from the acquisition of subsidiaries	0		0	
Funds from investment grants	830		2,436	
Interest received	6		40	
Net cash from investing activities		- 1,026		945
Cash flow from financing activities				
Dividend distribution to shareholders	0		0	
Repayment of (financial) credits	- 1,814		- 2,274	
Proceeds from (financial) credits taken	4,708		3,244	
Proceeds from equity additions	0		32	
Net cash from the issuance of profit-sharing capital	0		785	
Net cash from financing activities		2,894		1,787
Exchange rate changes		- 1		2
Change in cash and cash equivalents		- 1,050		- 759
Cash and cash equivalents at the beginning of the period		4,832		5,432
Cash and cash equivalents at the end of the period		3,782		4,673