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Report on the First Nine Months

Q3 | 2007

Highlights in the First Nine Months 2007

- Robust growth in earnings continues
- EBITDA rises by 7.4 %
- EBIT climbs by 9.0 %
- Net earnings for the period up by 71.0 %

The first nine months at a glance

in € (000)	Q1 – Q3 2007	Q1 – Q3 2006	Change in %
Sales	81,293	78,117	+ 4.1
EBITDA	14,137	13,158	+ 7.4
EBITDA margin in %	17.4	16.8	-
EBIT	5,499	5,043	+ 9.0
EBIT margin in %	6.8	6.5	-
Net earnings for period	1,647	963	+ 71.0
Earnings per share	0.40	0.23	-
Liquidity	2,547	3,973 *	- 35.9
Equity-to-assets ratio** in %	31.0	26.1 ***	-
Employees	599	570	+ 5.1

* Liquidity as of December 31, 2006: 8,758

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

*** Compared to the balance sheet date as of December 31, 2006

General Economic Situation

The positive economic climate continued into the fall of 2007 in all significant industrial nations, although the real estate crisis in the U.S. did increase the economic risks. The automotive sector benefited from the strong economy only to a limited degree. According to the Association des Constructeurs Européens d'Automobiles (ACEA), new passenger car registrations rose by merely 0.8 % in Europe in the third quarter of 2007.

Business Development of the paragon Group

The paragon Group continued the positive development of the first half in the third quarter of 2007. The direct supplier to almost all well-known manufacturers increased its Group sales by 4.1 % to € 81.3 million (2006: € 78.1 million). Currency-adjusted sales growth was 4.7 %. Third quarter revenues totaled € 27.2 million and remained at the same level as the prior year (€ 27.5 million) due to seasonal plant shutdowns at key customers.

Shipments of the major orders for the newest generation of the air quality sensor AQS® which started in May 2007 have significantly increased since September 2007 and are accelerating sales and earnings growth in the second half. In addition, the Company started serial production of the AQS® with twin sensors.

Moreover, paragon has obtained additional orders from Audi for the multimedia interface. Starting in 2008, Audi will equip almost all platforms with the paragon integration solution. The numbers of units requisitioned by Audi are already twice as high as the original inquiry.

Additional new orders for Bluetooth hands-free devices in the commercial vehicles segment, stepper motors, on-board clocks in the full-size segment as well as shifter electronics round out the positive overall picture. paragon is also moving the Electronic Solutions division ahead with the extension of manufacturing depth and the parallel production of lead-free components.

The IAA in Frankfurt was a highlight of the third quarter of 2007. Under the motto "auto. wellness. paragon®" paragon presented itself to the public at two exhibition stands at the same time. This made it possible for the entire industry to get a good idea of the Company's broad portfolio of system solutions.

The orders on hand suggest that paragon has further potential for growth. As of the September 30 reporting date, the company had 26.0 % more scheduled orders in 2007 than in the year before.

Financial Performance

paragon's stated goal in fiscal 2007 is to increase efficiency. Optimization measures continued to be successfully implemented in the third quarter, leading again to earnings growth exceeding sales growth.

In the first nine months of 2007, the paragon Group improved EBITDA by 7.4 % to € 14.1 million, up from € 13.2 million in the same period of the previous year. The EBITDA margin increased from 16.8 % to 17.4 %. The primary factor was a sharp reduction in the ratio of the cost of materials to total output in connection with the measures to improve efficiency. After 61.7 % in the prior-year period, the ratio of the cost of materials to total output was only 57.4 % after the first three quarters of 2007. Consequently, gross income rose by 14.6 %.

Earnings before interest and taxes (EBIT) grew stronger than sales and rose by 9.0 % from € 5.0 million to € 5.5 million. The EBIT margin climbed to 6.8 %, up from 6.5 % in the prior-year period. The Managing Board sees further potential for reducing costs and has initiated relevant projects.

Although substantial financing expenses were incurred in the second quarter in connection with the rescheduling of the profit-sharing rights, paragon improved its net income after the first nine months significantly from € 1.0 million to € 1.7 million, recording a healthy gain of 71.0 %.

In addition to the good business development and the measures to improve efficiency, tax factors also contributed to this increase. The tax gain resulted from the adjustment of the deferred taxes to the reduced tax rate which is now 29 %. Earnings per share amounted to € 0.40 (prior year: € 0.23).

Financial Position

Total assets of the paragon Group at € 137.7 million as of September 30, 2007 were nearly unchanged from € 137.8 million as of December 31, 2006. Non-current assets rose modestly to € 92.1 million (2006: € 90.2 million). Current assets declined by € 2.0 million to € 45.7 million (2006: € 47.6 million). Significant increases were in other assets and inventories. Cash and cash equivalents fell from € 8.8 million to € 2.6 million due to the repayment of liabilities and income taxes paid in the amount of € 0.6 million.

As of September 30, 2007, equity was nearly unchanged at € 17.5 million (December 31, 2006: € 17.6 million). A first tranche of high-interest profit-sharing rights had already been exchanged for profit-sharing rights having a lower interest rate as of June 30, 2007. It is planned to repay additional profit-sharing rights in the near future. By this means, paragon will be able to reduce its interest load significantly in the coming years.

Non-current liabilities were at € 75.3 million and accordingly at the level of the balance sheet date of December 31, 2007 (€ 76.3 million). Current liabilities increased by € 1.0 million to € 44.9 million.

The equity-to-assets ratio, including profit-sharing rights, rose significantly from 26.1 % to 31.0 % and confirms paragon's solid financial position.

Since June 30, 2007 the negative cash flow from operating activities has declined significantly from a net outflow of € 8.2 million to a net outflow of € 5.9 million. Provisions in the amount of € 4.0 million had been released already in the first quarter of 2007 with no impact on earnings. As of the reporting date, cash and cash equivalents came to € 2.6 million (prior year: € 4.0 million).

Segment Reporting

Development in the core Automotive business segment with its three divisions Climate Systems, Car Media Systems and Instrumentation and Control Systems was again very positive in the third quarter of 2007. The Automotive segment increased sales by 3.2 % to € 65.0 million, up from € 63.0 million in Q3 2006. This segment recorded 79.9% of total sales. Automotive earnings increased stronger than sales, with EBIT rising by 5.2 % to € 4.9 million.

The economic recovery also contributed to growth in sales for the Electronic Solutions segment including Building Technology. In the first nine months, sales increased to € 16.3 million (Q1 – Q3 2006: € 15.2 million). EBIT was € 0.6 million (Q1 – Q3 2006: € 0.3 million).

Capital Expenditure | Research & Development

paragon's research and development competence is the engine for corporate growth in an increasingly sophisticated automotive industry. paragon has proven this innovative strength once again in the third quarter of 2007. For example, the digital/analog instrument, in which an analog instrument is positioned in a digital display, was presented as a global innovation. The high research & development expenses (including own work capitalized) of € 8.3 million in the first nine months of this year clearly demonstrate the significance of R&D for paragon.

Employees

As of the reporting date (September 30, 2007), the number of employees in the paragon Group increased by 29 to 599 from a year earlier. Of that number, 99 persons were employed in Delbrück, while 285 persons were employed in production at Suhl. The foreign locations employed 72 persons. A portion of the increased number of employees provided reinforcement for important research & development activities. In addition, previously temporary employees in the Suhl plant were placed on permanent status to save costs. Similar measures are planned for the Cadolzburg location in the fourth quarter.

Managing Board Expansion

By appointing Golo Alexander Wahl as Director of Marketing and Sales as of October 1, paragon has meaningfully expanded its Managing Board. Furthermore, Volker Brinkmann will join the Managing Board as Chief Financial Officer on November 15 under the leadership of the Company founder and Chairman of the Managing Board, Klaus Dieter Frers. In this way, paragon is meeting the higher challenges with regard to increased internationalization.

Investor Relations

In the third quarter of 2007, the development in the European and international stock markets was very uneven. The upward trend continuing from the first half led to a new record high for the DAX in mid-July, followed by a slump in prices as the U.S. subprime crisis made itself felt. Since then, the German stock indices have shown a recovery.

The paragon stock also proved to be very volatile in the third quarter. After an opening price of € 12.50 on July 2, 2007, the stock rose in the interim to € 13.81 and closed at € 12.09 on September 28, 2007. Thus the price of the paragon share rose 9 % in the first nine months of 2007 (all figures are XETRA closing prices).

The dialogue with investors and analysts was fostered further in the third quarter. At the DVFA Small Cap Conference, CEO Klaus Dieter Frers reported to numerous investors and analysts concerning paragon's course of business as well as the Company's strategy and opportunities for the future. paragon also welcomed many investors and analysts at the IAA. In addition to an extensive look at the paragon product world, the investors and analysts experienced the paragon cockpit concept in the Artega® GT.

WKN:	555 869
ISIN:	DE0005558696
Ticker symbol:	PGN
Trading segment:	Prime Standard
Sector:	Technology

Risk Report

In connection with an audit performed under the orders of the paragon Managing Board in the third quarter, the Managing Board obtained evidence that irregularities had arisen in one subsidiary in connection with a trading goods transaction from 2006. paragon is entitled to a purchase-money claim in the amount of € 2.25 million from this transaction. The Managing Board presently assumes that a pecuniary loss for the Group can be avoided. paragon is supporting the investigations of the Public Prosecutor's Office which extend to some of the company's own employees.

In light of these events, paragon is also reviewing how possible negative consequences from another still pending trading goods transaction in 2007 can be avoided or minimized. In this case too, the Managing Board is confident that the Company will not incur a loss. Nonetheless, the Managing Board has decided to no longer focus on the trading goods business in the foreseeable future in order to avoid transactions possibly entailing heavy losses.

Beyond that, the company does not believe that any specific risks exist for paragon in addition to the opportunities and risks already depicted in the 2006 Annual Report.

Outlook

The paragon Managing Board sees the course of business to date as confirmation of its strategy of profitable growth. While the third quarter was still influenced by the seasonal plant shutdowns of paragon customers, the Managing Board expects that the fourth quarter will be the strongest quarter of the year as has been the case in previous years.

The projected growth in sales for 2007 of 5 to 10 % compared to the year before includes revenue targets for the Company's own products (€ 110 million to 112 million, up from € 106.6 million in 2006) and for trading goods (€ 7 million to € 10 million, up from € 4.2 million in 2006). The Managing Board is considering canceling most of the trading goods business originally planned for the holiday shopping season for the purpose of risk avoidance. It will be possible to realize sales of the

Company's own products in line with the projection. The disproportionate growth in earnings excceding sales growth should continue in the same range as in the first three quarters in the fourth quarter of 2007.

The principal focus in fiscal 2008 will be on the automotive business. The deliberations as reported in an ad hoc announcement on May 21, 2007 concerning the possible sale or partial sale of the Electronic Solutions division have proceeded further. The Managing Board believes that such a step could take place as early as the first quarter of 2008. There are already several serious potential buyers who would like to acquire all or a portion of this division. The Managing Board believes that the proceeds from the sale should be used for repayment of debt in order to significantly lower the gearing ratio.

The Company is already developing its strategy for the period after the focus on Automotive. In order to catapult paragon to the ranks of recognized tier 1 suppliers of state-of-the-art interior systems, the Company is looking at potential opportunities for additional acquisitions. The last large company purchase was completed in August 2005, making the paragon well prepared for another growth spurt. But even if an acquisition should be made, the gearing ratio should not increase again so that the focus is on forms of financing that will limit borrowing.

Consolidated Balance Sheet

as at September 30, 2007

in € (000)	09/30/2007	12/31/2006
Assets		
Non-current assets		
Intangible assets	31,066	30,527
Goodwill	27,506	27,664
Property, plant and equipment	33,207	31,406
Financial assets	266	200
Deferred tax assets	0	392
Total non-current assets	**92,045**	**90,189**
Current assets		
Inventories	19,227	17,340
Trade receivables	18,753	19,880
Income tax claims	533	0
Other assets	4,619	1,649
Cash and cash equivalents	2,547	8,758
Total current assets	**45,679**	**47,627**
Total assets	**137,724**	**137,816**
Liabilities and equity		
Equity		
Subscribed capital	4,114	4,113
Capital reserves	7,750	7,748
Net income	1,647	2,206
Retained earnings	5,642	4,670
Reserve for currency translation differences	- 1,672	- 1,166
Equity	**17,481**	**17,571**
Non-current liabilities		
Long-term financial lease liabilities	308	595
Long-term loans	33,029	32,329
Profit sharing capital	25,148	23,277
Investment grants	9,777	10,012
Deferred tax liabilities	4,009	5,229
Provisions for pensions	1,145	1,049
Other non-current liabilities	1,895	3,795
Total non-current liabilities	**75,311**	**76,286**
Current liabilities		
Current portion of financial lease liabilities	666	919
Short-time loans and current portion of long-term loans	21,583	13,238
Trade liabilities	13,039	14,344
Other provisions	3,054	6,851
Income tax liabilities	3,109	3,413
Liabilities to minority shareholders	0	0
Other current liabilities	3,481	5,194
Total current liabilities	**44,932**	**43,959**
Total equity and liabilities	**137,724**	**137,816**

Consolidated Income Statement

for the period from January 1 to September 30, 2007

in € (000)	Q-3 2007 07/01/07 – 09/30/07	Q-3 2006 07/01/07 – 09/30/07	first 9 months 07 01/01/07 – 09/30/07	first 9 months 06 01/01/06 – 09/30/06
Revenue	**27,232**	**27,476**	**81,293**	**78,117**
Other operating income	397	1,552	2,727	2,955
Changes in inventory of finished goods and work in progress	215	- 683	59	2,778
Other own work capitalized	1,585	1,351	4,466	3,208
Total operating revenue	**29,429**	**29,696**	**88,545**	**87,058**
Cost of materials	- 15,337	- 17,400	- 46,654	- 48,231
Gross income	**14,092**	**12,296**	**41,891**	**38,827**
Personnel expense	- 6,441	- 4,203	- 18,549	- 16,164
Depreciation/amortization/impairment of property plant and equipment and intangible assets	- 3,084	- 2,848	- 8,638	- 8,115
Other operating expenses	- 3,061	- 3,808	- 9,205	- 9,505
Earnings before interest and taxes (EBIT)	**1,506**	**1,437**	**5,499**	**5,043**
Financial income	90	24	296	38
Financing expenses	-1,636	- 990	- 4,839	- 3,080
Financial result	**- 1,546**	**- 966**	**- 4,543**	**- 3,042**
Income before taxes	**- 40**	**471**	**956**	**2,001**
Income taxes	1,013	- 280	754	- 970
Other taxes	- 23	- 24	- 63	- 68
Net income	**950**	**167**	**1,647**	**963**
Minority interests	0	0	0	0
Net income attributable to equity holders of the parent	**950**	**167**	**1,647**	**963**
Earnings per share (basic)	0.23	0.04	0.40	0.23
Earnings per share (diluted)	0.23	0.04	0.40	0.23
Average number of shares outstanding (basic)	4,113,526	4,099,620	4,113,526	4,099,952
Average number of sharesf outstanding (diluted)	4,128,956	4,131,159	4,128,956	4,131,159

Segment Report

in € (000)	Exterior sales		Earnings before interest and taxes (EBIT)	
	9 months 07 01/01/07 – 09/30/07	9 months 06 01/01/06 – 09/30/06	9 months 07 01/01/07 – 09/30/07	9 months 06 01/01/06 – 09/30/06
Automotive	64,961	62,919	4,942	4,700
Electronic Solutions	15,897	14,352	581	353
Building Technology	435	846	- 24	- 10
Total	**81,293**	**78,117**	**5,499**	**5,043**

Consolidated Cash Flow Statement

(IFRS)

in € (000)	01/01 – 09/30/2007		01/01 – 09/30/2006	
Cash flow from operating activities				
Income before taxes and deferred taxes	**893**		**2,001**	
Adjustment for:				
impairment losses	8,638		8,115	
Financial result	4,543		3,042	
Gains/losses from the disposal of non-current assets	58		- 3	
Change of the other provisions and provisions for pensions	- 3,700		- 1,517	
Income from reversal of special account for grants	- 1,591		- 1,573	
Other non-cash income and expense	0		- 41	
Change in trade receivables,				
other receivables and other asset	- 1,984		248	
Change in inventory level	- 1,887		- 4,618	
Change in trade payables				
and other liabilities	- 5,461		- 2,908	
Interest paid	- 4,839		- 3,080	
Income taxes	- 600		- 559	
Net cash from operating activities		**- 5,930**		**- 893**
Cash flow from investing activities				
Payments for investment minus residual carrying amount of asset disposals	- 11,345		- 15,497	
Payments for the purchase of subsidiaries	- 65		- 7,305	
Additions of cash and cash equivalents from the acquisition of subsidiaries	498		41	
Funds from investment grants	1,275		1,642	
Interest received	296		38	
Net cash from investing activities		**- 9,341**		**- 21,081**
Cash flow from financing activities				
Dividend distribution to shareholders	- 1,234		- 817	
Repayment of (financial) credits	- 3,468		- 9,470	
Proceeds from (financial) credits taken	12,514		31,335	
Proceeds from equity additions	3		109	
Net cash inflow from the issuance of profit-sharing capital	6,750		0	
Net cash outflow due to repayment of profit-sharing capital	- 5,000		0	
Net cash from financing activities		**9,565**		**21,157**
Exchange rate changes		- 505		- 42
Change in cash and cash equivalents		**- 6,211**		**- 859**
Cash and cash equivalents at the beginning of the period		**8,758**		**4,832**
Cash and cash equivalents at the end of the period		**2,547**		**3,973**

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, 2006	**4,086**	**- 790**	**7,565**	**4,224**	**1,264**	**3,695**	**20,044**
Income after taxes					963		963
Accumulated profits/losses				1,263	- 1,264		- 1
Dividend distribution				- 817			- 817
Capital increase (exercise of stock options)	26		83				109
Addition due to stock option valuation			49				49
Currency translation changes						- 3,695	- 3,695
Currency translation changes		- 154					- 154
September 30, 2006	**4,112**	**- 944**	**7,697**	**4,670**	**963**	**0**	**16,498**
January 1, 2007	**4,113**	**- 1,166**	**7,748**	**4,670**	**2,206**	**0**	**17,571**
Income after taxes					1,647		1,647
Accumulated profits/losses				2,206	- 2,206		0
Dividend distribution				- 1,234	0		- 1,234
Capital increase (exercise of stock options)	1		2				3
Addition due to stock option valuation							0
Change due to purches of minority interest							0
Currency translation changes		- 506					- 506
September 30, 2007	**4,114**	**- 1,672**	**7,750**	**5,642**	**1,647**	**0**	**17,481**

Shares held by members of the Executive and Supervisory Board as at September 30, 2007

Capital stock: 4,113,758 shares	Shares 09/30/2007	Options 09/30/2007
Executive Board, total	**2,111,730**	**20,000**
Supervisory Board, total	**6,000**	
Boards, total	**2,117,730**	**20,000**
as % of share capital	**51.48 %**	

Basis of Presentation

The interim consolidated financial statements of paragon AG as of September 30, 2007 were prepared with continued application of the International Financial Reporting Standards (IFRS) valid as of December 31, 2006 and in conformity with the IFRS and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC) valid on the reporting date.
In doing so, the provisions of IAS 34 "Interim Financial Reporting" were also taken into account.

The accounting principles and consolidation methods used in fiscal year 2006 remained unchanged. Please refer to the consolidated financial statements as of December 31, 2006 for further details. They may be downloaded from www.paragon-online.de.

The interim consolidated financial statements have not been reviewed by an auditor.

Scope of Consolidation

In addition to paragon AG, Delbrück, nine subsidiaries were fully consolidated as of September 30, 2007.
The changes in the scope of consolidation were already explained in the Report on the First Half of June 30, 2007.

Income Statement, Balance Sheet, Cash Flow Statement, Segment Report

Please refer to the section "Financial Position" for detailed explanations of the income statement, the cash flow statement, the segment report and the balance sheet.

Related Parties

The transactions with related parties as disclosed in the Report on the First Half as of June 30, 2007 and in the 2006 Annual Report were continued in the same manner and in the same scope during the reporting period.

Miscellaneous

According to IAS 12.47, deferred tax assets and liabilities should be measured at the tax rate that is expected to apply at the time the asset is realized or the liability is settled. Since a future development cannot be predicted exactly, tax rate changes enacted in Germany with the consent of the Upper House of Parliament (Bundesrat) should be considered in the measurement. On July 6, 2007 the Bundesrat consented to the Business Tax Reform Act of 2008. This results in a change of the tax rate for the paragon Group in Germany from approximately 38 % to approximately 29 %. All deferred taxes set up until that time must be adjusted to the then valid tax rate.