paragon®

Report on the First Nine Months

Q3 | 2008

Highlights in the first nine months 2008

- First 9 months confirm forecast for the year
- Sales up 11.0 % compared to 2007
- Strong earnings growth:
  EBITDA up 16.2 %, EBIT up 27.3 %
- Operating cash flow up sharply to € 11.2 million
- Positive outlook for 2009

The first nine months at a glance

in € (000)	Q1 – Q3 2008	Q1 – Q3 2007	Change in %
Sales	90,234	81,293	+ 11.0
EBITDA	16,357	14,074	+ 16.2
EBITDA margin in %	18.1	17.3	–
EBIT	6,921	5,436	+ 27.3
EBIT margin in %	7.7	6.7	–
Net earnings for period*	617	1,647	- 62.5
Earnings per share in €	0.15	0.40	–
Equity-to-assets ratio** in %	29.7	31.0	–
Employees	601	599	+ 0.3

* Increasing effect of tax rate change in 2007
Adjusted net earnings for the period: € 280,000
Adjusted earnings per share: € 0.07

** Shareholders' equity including profit participation rights

General Economic Situation

The global financial crisis had a negative impact on economic sentiment in Germany in the third quarter of the current fiscal year.

Consequently, the third quarter was at best characterized by stagnation and the stock markets were unable to evade this trend. The DAX and also the small and mid cap indices such as the MDAX posted significant losses particularly at the end of the quarter. Moreover, these price reversals and pessimistic prospects for the rest of the fiscal year led to concerns about a possible global recession.

As a consequence of this development, the automotive industry posted reduced sales all over the world in the third quarter. In addition, the poor rating and downgrading of the American automobile manufacturers such as General Motors and Ford burdened the German market.

Business Development of the paragon Group

The paragon Group was able to withstand this negative trend in the third quarter. Group sales in the first nine months of 2008 rose by 11.0 % to € 90.2 million (prior-year period: € 81.3 million).

The growth driver was the Automotive segment which grew even stronger at 15.4 %. The impact of seasonal plant shutdowns of the large automobile manufacturers was less severe in the third quarter than in the previous year. In contrast, the Electronic Solutions segment saw a decline of 6.3 % which affected only the U.S. and was primarily currency related.

Car Media Systems posted the greatest growth in the Automotive segment with a gain of more than 40 %. In addition to the Media Device Interface, the rSAP-Cradle contributed to the growth. The Instrumentation and Control Systems division benefited primarily from growth in stepper motors. Activities in Climate Systems in the third quarter were focused on preparations for the start of series production of a new, high-volume product version of the successful AQS air quality sensor.

paragon intensively continued its market cultivation activities by several presentations at trade shows and roadshows. The novel developments and solutions which were also introduced in the reference project Artega® GT was very well received by visitors to CEBIT 2008 in Hanover and the Car Symposium in Ludwigsburg. The new sales location in Turin also initiated a roadshow at the automobile manufacturer Fiat to which the prominent visitors responded very well.

Financial Performance

In addition to increased volume, the trend to high-value but less wage-intensive products also contributed to the increased sales in the reporting period. This shift in the product mix is also finally reflected in the rise in the cost of materials from € 44.9 million to € 52.4 million. In contrast, personnel expense rose at a significantly lower rate from € 20.3 million to € 21.6 million. Measured against sales and total operating revenue, however, these ratios declined.

This improvement of the ratios and only a slight increase in other operating expenses had a positive impact on the key performance indicators. EBITDA climbed from € 14.1 million to € 16.4 million, this exceptionally strong rise of 16.2% improving the EBITDA margin to 18.1 % (prior-year period: 17.3 %)

The 27.3 % rise in paragon's EBIT from € 5.4 million to € 6.9 million was even more pronounced. The EBIT margin improved from 6.7 % to 7.7 %.

The program adopted in 2007 to exchange high-interest for low-interest participation rights impacted interest earnings of the first nine months of 2008. The additional expenses incurred caused earnings before taxes (EBT) to rise by only 5.9 % to € 946 thousand (prior-year period: € 893 thousand). In the future, paragon will benefit from significantly lower interest payments.

In 2007, the change of the corporate tax rate led to significant tax proceeds for paragon of € 1.4 million. This one-off effect no longer

applies to this reporting period, for which reason the net earnings for the period declined as anticipated to € 617 thousand (prior-year period: € 1,647 thousand). Earnings per share came to € 0.15 (prior-year period: € 0.40); of which € 0.03 was achieved in the third quarter (prior-year period: € 0.23). Adjusted for the above-mentioned tax effect, the prior-year earnings were € 280 thousand or € 0.07 per share.

Financial Position and Cash Flow

Despite the strong growth in sales, total assets of € 137.7 million as of September 30, 2008 were only 1.1 % higher than the December 31, 2007 figure of € 136.1 million.

While non-current assets declined by 3.0 % to € 92.4 million due to scheduled depreciation and amortization, current assets rose by € 4.4 million. The increase related primarily to trade receivables (€ 9.0 million) and inventories (€ 20.6 million). In comparison to the preceding quarter ended on June 30, 2008, however, both items have declined as anticipated. The early repayment of the shareholder loan by Artega® Automobil GmbH & Co. KG reduced other assets to € 9.0 million. Artega® has thus liquidated all its loan obligations to paragon AG.

Non-current liabilities were reduced by 13.2 % to € 63.8 million by scheduled repayments and the above-mentioned buyback of profit participation rights. Current liabilities, on the other hand, rose to € 55.6 million, a significant portion of this being accounted for by trade liabilities which rose in line with inventories, reaching € 17.5 million. The increase in other current liabilities is attributable to balance sheet date-related obligations in connection with the sale of receivables.

Cash flow from operating activities developed extremely positively, with paragon posting cash inflows of € 11.2 million in the period under review. Of that amount, the third quarter of 2008 accounted for € 9.0 million.

Segment Report

The core Automotive segment developed significantly above the industry average in the third quarter and increased its sales revenues by 15.4 % to € 74.9 million (prior-year period: € 65.0 million). Its percentage of total sales thus amounted to 83.1 % (prior-year period: 79.9 %).

The EBIT margin was maintained at a high level of 7.9 %. The Automotive segment contributed an absolute value of € 5.9 million (85.2 %) to total group EBIT.

The economic development in the U.S. and in particular the trend of the US dollar (change of the average price from 1.34692 to 1.52471) led to a decline in the Electronic Solutions segment. Sales in the segment decreased from € 16.3 million to € 15.3 million. Sales in Germany, however, increased by 10 %.

Despite the decline in sales, earnings improved significantly. The positive earnings growth of paragon firstronic GmbH in Germany, in particular, contributed to this situation. With a margin of 6.7 %, EBIT in this segment came to € 1.0 million (prior-year period: € 0.6 million).

Research & Development

Research and development is more than ever of central importance for the success of paragon AG. Accordingly, the R&D expenditures of € 8.2 million in the period under review were at roughly the same level as in the prior year (€ 8.3 million). This reflects a ratio of approximately 9.0 % of sales. The work was focused primarily on the further development of instrumentation systems and the MirrorPilot® navigation mirror. Furthermore, the development engineers focused on preparatory basis work for new development projects.

Employees

As of September 30, 2008, the paragon Group employed 601 individuals, nearly the same number as on September 30, 2007 (599) on a year-on-year comparison. Specifically, 91 employees were engaged in the company's headquarters at Delbrück, 307 at the production site of Suhl and 66 at sites abroad.

Additionally the company engaged 91 temporary employees.

Investor Relations

The financial crisis broadened dramatically in the third quarter and had a considerable impact on some of the European and international stock markets. Severe price reactions and negative developments have been seen all around the globe in recent months.

paragon stock was unable to escape the impacts of the financial crisis and nascent fears of a recession. Accordingly, the stock showed great volatility and after a peak of € 7.20 in the third quarter, it again dropped below the five euro threshold for the first time (all figures based on XETRA closing prices).

We continued our dialog with investors and analysts in the third quarter. Among other things, Finance Director Volker Brinkmann reported at the DVFA Small Cap Conference in Frankfurt to numerous investors and analysts on the course of business and the Group's strategy and opportunities.

Securities Identification No.:	555 869
ISIN:	DE 000 555 869 6
Ticker symbol:	PGN
Trading segment:	Prime Standard
Sector:	Technology

Risk Report

The Managing Board intensively monitors the current development in the automotive market and publications related to it and is in close contact with customers and suppliers. Existing action plans for responding to possible declines in sales are updated as necessary.

It is the company's view that no additional specific risks currently exist for paragon. The company commented in detail in the 2007 Annual Reporton general opportunities and risks, all measures to combat these risks and the risk management system that has been implemented.

Outlook

The International Monetary Fund (IMF) predicts a stagnation for Europe in the coming year. According to information in the semi-annual World Economic Outlook, the German economy can expect to see no growth in 2009. For 2008, the experts predict that Germany will still see positive growth of 1.8 %. However, an extremely sharp downturn can be expected in Europe and the U.S. in the coming year. In the worst case, Germany could expect an economic decline of 0.8 %.

In general, the experts expect that the growth of the global economy will cool down significantly in the coming year. Instead of the expected 3.9 %, the IMF now expects growth of only 3.0 % with the losses affecting primarily the traditional industrial countries. The United States, where the global financial crisis started in summer 2007, can only expect meager growth of 0.1% in 2009.

The automotive industry is currently seeing some sales declines; individual manufacturers are reacting by adjusting capacity. It is presently not possible to foresee how long this slowdown in the automotive market will last and commentators assess it differently.

The Managing Board expects a less severe impact for paragon from this change in the general conditions. The company's broad positioning with respect to customers and its orientation to centrally important trends such as safety, health and comfort will have a cushioning effect. It is also favorable for paragon to be prominently represented among automobile manufacturers that stand out from the difficult market environment and continue to report rising unit sales.

By expanding its product range, paragon is increasingly developing into a system provider and will thus be able to put "more paragon into every car." Series production is now starting for products for which paragon is represented for the first time. The Managing Board is convinced that, despite the worsening general economic environment, it will be possible to meet the forecast of 5 – 10 % growth in sales for 2008 as a whole, with earnings growing at a faster rate than sales. The positive tax effect of the previous year will not be repeated. From the present perspective, the Managing Board also assumes that the above-mentioned influences in the automotive market will have less impact on paragon and therefore anticipates that the company will continue to see positive development.

Consolidated Balance Sheet

as of September 30, 2008

in € (000)	09/30/2008	12/31/2007
Assets		
Non-current assets		
Intangible assets	30,680	31,530
Goodwill	27,483	27,430
Property, plant and equipment	30,279	32,130
Financial assets	266	266
Deferred tax assets	3,666	3,901
Total non-current assets	**92,374**	**95,257**
Current assets		
Inventories	20,578	17,709
Trade receivables	9,034	6,259
Income tax claims	569	867
Other assets	8,991	9,606
Cash and cash equivalents	6,141	6,443
Total current assets	**45,313**	**40,884**
Total assets	**137,687**	**136,141**
Liabilities and equity		
Equity		
Subscribed capital	4,115	4,115
Capital reserves	7,753	7,753
Retained earnings	7,695	5,642
Net income	617	2,464
Reserve for currency translation differences	- 1,915	- 1,824
Equity	**18,265**	**18,150**
Non-current liabilities		
Long-term financial lease liabilities	579	225
Long-term loans	25,546	29,111
Profit participation rights	22,572	25,494
Investment grants	7,598	9,147
Deferred tax liabilities	6,645	6,691
Provisions for pensions	882	959
Other non-current liabilities	0	1,898
Total non-current liabilities	**63,822**	**73,525**
Current liabilities		
Current portion of financial lease liabilities	493	521
Short-time loans and current portion of long-term loans	24,774	20,109
Trade liabilities	17,528	13,753
Other provisions	882	1,012
Income tax liabilities	2,166	2,929
Other current liabilities	9,757	6,142
Total current liabilities	**55,600**	**44,466**
Total equity and liabilities	**137,687**	**136,141**

Consolidated Income Statement

for the period from January 1 to September 30, 2008

in € (000)	Q-3 2008 07/01/08 – 09/30/08	Q-3 2007 07/01/07 – 09/30/07	first 9 months 08 01/01/08 – 09/30/08	first 9 months 07 01/01/07 – 09/30/07
Revenue	**29,774**	**27,232**	**90,234**	**81,293**
Other operating income	1,106	397	3,253	2,727
Changes in inventory of finished goods and work in progress	241	215	2,773	59
Other own work capitalized	1,074	1,585	4,012	4,466
Total operating revenue	**32,195**	**29,429**	**100,272**	**88,545**
Cost of materials	- 17,060	- 14,629	- 52,435	- 44,863
Gross income	**15,135**	**14,800**	**47,837**	**43,682**
Personnel expense	- 7,098	- 7,149	- 21,627	- 20,340
Depreciation/amortization/impairment of property plant and equipment and intangible assets	- 3,129	- 3,084	- 9,436	- 8,638
Other operating expenses	- 2,837	- 3,084	- 9,853	- 9,268
Earnings before interest and taxes (EBIT)	**2,071**	**1,483**	**6,921**	**5,436**
Financial income	67	90	188	296
Financing expenses	- 2,116	- 1,636	- 6,163	- 4,839
Financial result	**- 2,049**	**- 1,546**	**- 5,975**	**- 4,543**
Earnings before taxes (EBT)	**22**	**- 63**	**946**	**893**
Income taxes	113	1,013	- 329	754
Net income	**135**	**950**	**617**	**1,647**
Earnings per share (basic)	0.03	0.23	0.15	0.40
Earnings per share (diluted)	0.03	0.23	0.15	0.40
Average number of shares outstanding (basic)	4,114,788	4,113,526	4,114,788	4,113,526
Average number of shares outstanding (diluted)	4,124,983	4,128,956	4,124,983	4,128,956

Segment Report

in € (000)	Sales		Earnings before interest and taxes (EBIT)	
	9 months 08 01/01/08 – 09/30/08	9 months 07 01/01/07 – 09/30/07	9 months 08 01/01/08 – 09/30/08	9 months 07 01/01/07 – 09/30/07
Automotive	74,936	64,961	5,897	4,942
Electronic Solutions	15,298	16,332	1,024	557
Total	**90,234**	**81,293**	**6,921**	**5,499**

Consolidated Cash Flow Statement

(IFRS)

in € (000)	01/01 – 09/30/2008		01/01 – 09/30/2007	
Cash flow from operating activities				
Earnings before taxes and deferred taxes	**946**		**893**	
Adjustment for:				
Depreciation, amortization and impairment losses	9,436		8,638	
Financial result	5,975		4,543	
Gains/losses from the disposal of non-current assets	- 93		58	
Changes in other provisions and provisions for pensions	- 207		- 3,700	
Income from reversal of special account for investment grants	- 1,550		- 1,591	
Change in trade receivables,				
other receivables and other assets	- 2,160		- 1,984	
Change in inventories	- 2,869		- 1,887	
Changes in trade payables				
and other liabilities	8,448		- 5,461	
Interest paid	- 6,163		- 4,839	
Income taxes paid	- 605		- 600	
Net cash from operating activities		**11,158**		**- 5,930**
Cash flow from investing activities				
Capital expenditures for property, plant and equipment and intangible assets	- 6,791		- 11,345	
Capital expenditures for financial assests (prior year: for the purchase of subsidiaries)	- 1,900		- 65	
Proceeds from the disposal of property, plant and equipment and intangible assets	336		498	
Funds from investment grants	0		1,275	
Interest received	188		296	
Net cash from investing activities		**- 8,167**		**- 9,341**
Cash flow from financing activities				
Dividend distribution to shareholders	- 411		- 1,234	
Repayment of (financial) credits	- 4,482		- 3,468	
Proceeds from (financial) credits taken	4,691		12,514	
Proceeds from equity additions	0		3	
Net cash inflow from capital increases	0		6,750	
Net cash outflow due to repayment of profit-participation rights	- 3,000		- 5,000	
Net cash from financing activities		**- 3,202**		**9,565**
Changes in cash due to foreign exchange rates		- 91		- 505
Changes in cash and cash equivalents		**- 302**		**- 6,211**
Cash and cash equivalents at the beginning of the period		**6,443**		**8,758**
Cash and cash equivalents at the end of the period		**6,141**		**2,547**

Consolidated Statement of Changes in Equity

in € (000)	Sub-scribed Capital	Exchange-rate differences	Capital reserves	Retained earnings	Net income	Total
Balance 01/01/2007	**4,113**	**- 1,166**	**7,748**	**4,670**	**2,206**	**17,571**
Net income					1,647	1,647
Profit / loss carried forward				2,206	- 2,206	0
Dividend distribution				- 1,234		- 1,234
Capital increase (exercise of stock options)	1		2			3
Currency translation changes		- 506				- 506
Balance 09/30/2007	**4,114**	**- 1,672**	**7,750**	**5,642**	**1,647**	**17,481**
Balance 01/01/2008	**4,115**	**- 1,824**	**7,753**	**5,642**	**2,464**	**18,150**
Net income					617	617
Profit / loss carried forward				2,464	- 2,464	0
Dividend distribution				- 411		- 411
Capital increase (exercise of stock options)						0
Currency translation changes		- 91				- 91
Balance 09/30/2008	**4,115**	**- 1,915**	**7,753**	**7,695**	**617**	**18,265**

Additional Disclosures

The nine months report was prepared in accordance with the uniform accounting principles of the International Financial Reporting Standards (IFRS) which were also used in the 2007 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. The form and content of the nine months report correspond to the reporting obligations of the German Stock Exchange. The nine months report represents an update of the annual report. Its focus is on the reporting period and it should be read in connection with the annual report and the additional information on the Company contained therein.

There were no changes to the scope of consolidation as compared to the 2007 financial statements.

The risk report of the 2007 annual report contains an in-depth report concerning the individual risk situation of paragon AG. There were no significant changes in this regard in the first nine months of 2008.

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