



Report on the First Half

Q2 | 2007

Highlights in the First Half

- Positive business development
- Sales up + 6.8 %
- EBIT up + 10.7 %
- Earning power significantly improved
- Projections for the fiscal year confirmed
- Decision made to concentrate on core Automotive business segment

The first six months at a glance

in T €	First Half of 2007	First Half of 2006	Change in %
Sales in millions of €	54,061	50,641	6.8
EBITDA	9,547	8,873	7.6
EBITDA margin in %	17.7	17.5	—
EBIT	3,993	3,606	10.7
EBIT margin in %	7.4	6.2	—
Net earnings for period	697	796	- 12.4
Earnings per share	0.17	0.19	—
Liquidity	2,984	2,414 *	23.6
Equity-to-assets ratio** in %	31.1	29.6 ***	
Employees	562	553	1.6

* 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



Jukka Järvelin, CEO

The development of the paragon Group is proceeding entirely according to plan following the first half of 2007. We have made further progress toward our goal of significantly increasing our earning power. In the first six months, while sales were up by 6.8 %, EBIT rose by 10.7 %. On the one hand, this was due to the continued increase in sales; however, the extremely fast growth of the last few years has brought numerous synergy potentials that we take advantage of. They enabled us to reduce the ratio of cost of materials and personnel expenses. We will systematically continue this in the coming months and further improve profitability at all levels.

In the future, paragon will concentrate entirely on the development of innovative automotive electronic systems. In recent years, we have proven that a medium-sized company is fully capable of achieving above-average margins in a market with high competitive intensity. We accomplish this by concentrating in niches where our innovative products make us one of the market leaders. We have gradually grown from being a supplier of components and modules to a provider of complex systems and have thus broadened our value-added chain. As a direct supplier to automobile manufacturers, we have an important competitive advantage in launching new products. Our close collaboration with

the manufacturers enables us to open up new areas of application and ordering potentials early. By fully concentrating on the Automotive business segment, we are strengthening our human and financial resources to advance this successful strategy.

The second important strategic event was the world premier of the Artega® GT sports car at the Geneva Auto Show. Artega® GT is an outstanding reference project for paragon and will be manufactured in low volumes (up to 500 units per year) starting in late 2008. As the first supplier ever to do this, we will deliver all vehicle control and instrumentation systems for this vehicle from a single source. These systems include innovative sensor switch panels, a unique dual-pointer instrument for speed and revolutions per minute, a headunit for control of all on-board systems, navigation in the rear-view mirror and numerous other features. Of course, we offer all of these solutions to other manufacturers and the first promising talks have already taken place.

paragon's future accordingly looks very promising. For the fiscal year, we are standing by our target of increasing sales by 5 % to 10 % and improving earnings at a significantly higher rate. Our prospects for continuing our profitable growth in future years are very good.

A handwritten signature in blue ink, reading "Klaus D. Frers". The signature is stylized and cursive, with a prominent loop at the end of the last name.

Klaus Dieter Frers
Chief Executive Officer



Economic Situation

The global economy continued to grow in the second quarter, albeit at a more restrained rate than in the first three months. The upturn persisted in Germany as well. Exports and corporate investments were the most significant growth stimuli while private consumption failed to meet expectations due to the hike in the value added tax in Germany. Experts predict that the positive trend in the labor market and rising wages will again stimulate private demand in the second half. Economic growth as a whole will also continue in the second half. The upward trend of the

crude oil price in particular as well as rising interest rates will have a damping effect and the appreciation of the euro in relation to the dollar will slow down exports. The Institut für Makroökonomie und Konjunkturforschung (Macroeconomic Policy Institute) in Düsseldorf expects gross domestic product to grow by 2.6% for all of 2007.

During the period under review, new passenger car registrations in the entire world were higher than in the first half of 2006. The European market also gained as a whole; however, new registrations in Germany were lower.

Business Development of the paragon Group

The paragon Group continued the positive development of the first three months in the second quarter of 2007. Both business divisions contributed to the positive development.

Overall, Group sales rose by 6.8 % to € 54.1 million in the first six months. Second quarter sales were € 28.5 million, exceeding sales in the second quarter of 2006 by 7.5 %.

Among other things, business development in the second quarter was concentrated on preparations for the initial shipments of the major orders for the newest generation of the air quality sensor AQS®. These orders received in 2006 alone will significantly accelerate sales and earnings growth in the second half.

In its core Automotive business segment, paragon has outstanding potential for growth and very high margins, for which reason the Executive Board and Supervisory Board adopted on May 21, 2007 to concentrate on automotive engineering in the future. To support and accelerate this process, the Executive Board is currently reviewing all strategic options for the Electronic Solutions business segment as well as Building Technology (including their sale).

In April 2007, paragon participated in the fair Auto Mobil International (AMI) in Leipzig, Germany for the first time. paragon's presentation focused on customized integration solutions for the car interior. The teamwork between the Car Media Systems and Instrumentation and Control Systems divisions made an exceedingly positive impression. The focus was on complex solutions such as the Headunit integra control system, the new instrument and navigation in the rear-view mirror.



The roadshows presented to the automobile manufacturers BMW and Opel in June 2007 were very well received. Numerous high level staff members of customers from the areas of development, engineering and purchasing obtained information on the spot concerning paragon's latest innovations. Several follow-up meetings have already grown out of this as well as requests for regular presentations at the manufacturers' locations.

Financial Performance

paragon's goal in fiscal 2007 is to significantly improve efficiency and thus increase profit at an even higher rate. As they did already in the first three months, these measures have also had a positive impact on operating income in the second quarter.

In the first half, earnings before interest, taxes and depreciation and amortization (EBITDA) rose to € 9.5 million after € 8.9 million in the first half of 2006. This reflects a 7.6% increase and EBITDA margin of 17.7 % (H1 2006: 17.5 %). This development is primarily attributable to the improved ratios of cost of materials and personnel expenses, which were reduced to 57.9 % (H1 2006: 60.9%) and 22.4 % (H1 2006: 23.6 %), respectively.

In the first six months, earnings before interest and taxes (EBIT) increased by 10.7 % from € 3.6 million to € 4.0 million. The EBIT margin improved from 6.2 % to 7.4 %.

Despite special factors arising from financing rearrangements in the second quarter, the net earnings for the period were roughly at the 2006 level. Net income for the first six months of 2007 was € 0.7 million (H1 2006: € 0.8 million). Earnings per share amounted to € 0.17.

Financial Position

The financial position of the paragon Group continues to be very solid. Total assets as of June 30, 2007 at € 135.0 million were nearly unchanged from € 137.8 million as of December 31, 2006.

After the first six months of 2007, non-current assets rose modestly from € 90.2 million to € 90.5 million. There were no significant changes in non-current assets. As of June 30, 2007, current assets were € 44.5 million (12/31/2006: € 47.6 million). Other assets and inventories were higher. The repayment of liabilities reduced cash and cash equivalents to € 3.0 million (12/31/2006: € 8.8 million).

As of June 30, 2007, equity totaled € 16.9 million (12/31/2006: € 17.6 million). As of June 30, 2007, high-interest profit-sharing rights at a volume of € 5.0 million were replaced by profit-sharing rights having a substantially lower interest rate. Firm agreements exist that an additional € 3.0 million in profit-sharing capital will be repatriated as of October 1, 2007. At that time, the entire institutional tranche of the profit-sharing capital from 2004 will be repatriated or refinanced at more favorable conditions. By this means, the Company expects to be able to reduce its interest load in the coming years.

The equity ratio, including profit-sharing rights, amounted to 31.1% (12/31/2006: 29.6%). While non-current liabilities were nearly unchanged, current liabilities were reduced by € 2.2 million to € 41.7 million.

The negative cash flow from operating activities in the amount of € -8.2 million is primarily due to the change of trade liabilities and other liabilities of € - 6.3 million. Moreover, other provisions in the amount of € 4.0 million had been released already in the first quarter. As of June 30, 2007, cash and cash equivalents of approximately € 3.0 million were available.

Segment Reporting

Sales in the core Automotive business segment were € 43.2 million in the first half, reflecting a 5.6 % increase over the first half of 2006. As of June 30, 2007, Automotive's percentage of total sales was 80.0 %. The efficiency enhancements were clearly discernable on the earnings side. At € 3.7 million, EBIT was 13.5 % higher than in the first six months of 2006. Accordingly, the Automotive business segment generated an EBIT margin of 8.6 %.

The development in the Electronic Solutions (including Building Technology) segment was pleasing. On the sales side, the increased demand in Germany had a positive impact. Overall, segment income in the first half at € 10.8 million exceeded the projected amount (H1 2006: € 9.7 million). EBIT was unchanged from the first half of 2006 at € 0.3 million.

Capital Expenditure | Research und Development

After the expansion of production capacity and the complete takeover of paragon fidelity, paragon now has adequate resources to be able to manage the planned growth. paragon increased capital expenditure in the first half from € 4.4 million (2006) to € 5.8 million.

Research and development continues to be of strategic significance for the Company. The development of higher quality, more profitable products has put paragon in a strong position toward becoming the recognized manufacturer of systems. The best example of this is the cockpit concept for the Artega® GT.

In the first half of 2007, paragon has accordingly kept the level of investment in the development of new innovations at a level similar to that of 2006 at € 4.4 million.

Employees

As of the reporting date (June 30, 2007), the number of employees in the paragon Group was 562 (H1 2006: 553). 92 persons were employed at corporate headquarters in Delbrück and the number of employees at the production location in Suhl rose from 245 to 269. The foreign locations employed a total of 66 employees. The ratio of personnel costs to total operating revenue declined slightly to 20.5 % (H1 2006: 20.7 %).

Investor Relations

In response to the robust economic development, the national and international stock markets continued their upward trend. In the first half of 2007, the DAX rose by approximately 21 % and closed at 8,077 at the end of June.

The paragon stock also performed positively in the first half. Price performance in the second quarter was positive but it was characterized by high volatility. After an opening price of € 11.80 on April 2, the stock rose in the following weeks to € 12.77 and closed at € 12.62 at the end of June. The rise in value in the first six months of 2007 was 13.8 % (all figures are XETRA closing prices).

220 shareholders and numerous guests were welcomed to the 7th Annual General Meeting of paragon AG in Delbrück on May 22. All agenda items required to be voted on were adopted with a large majority. A highlight was the Artega® GT. The shareholders in attendance had the opportunity to see for themselves the qualities and innovations of the new sports car. On the day after the Annual General Meeting, a dividend of € 0.30 per share was paid to the shareholders.

In the coming months, paragon will participate in various investor conferences. Among other things, the

Executive Board will report concerning the current business and the opportunities for the future at the DVFA Small Cap Conference and the German Equity Capital Forum in Frankfurt.

Risk Report

The comprehensive risk report of paragon AG is printed in the 2006 Annual Report and contains a detailed explanation of business and market risks, risk reduction measures and a description of the risk management system that has been introduced in the Company. The Company does not believe that any further specific risks exist for the second half.





Outlook

The Executive Board stands by the sales and earnings forecast for the year as a whole. The goal for fiscal 2007 continues to be to increase sales by 5 % to 10 % with significantly higher growth in earnings.

paragon AG traditionally has its strongest growth in the second half. Therefore, both income and earnings growth will gain in momentum in the next few months. In particular, the initial shipments of the major orders for the AQS® will have a positive impact. The IAA in Frankfurt will be another industry highlight from which new stimuli can be expected.

paragon will also systematically continue the efficiency improvement program for the rest of the year. The

extremely fast growth, the expansion of production capacities and the acquisitions have made it possible to identify numerous synergy potentials that are gradually being implemented.

The total concentration on the core Automotive business segment makes the sale of the Electronic Solutions business segment a possible option. If the possibility for a sale at a reasonable price should arise, the equity ratio would rise to at least 45 % by taking the profit-sharing capital into account. The possibly reduced borrowing would then also lead to a significant reduction of the interest burden.

Consolidated Financial Statements

Consolidated Income Statement for the period from January 1 to June 30, 2007 (paragon AG, Delbrück)

in € (000)	Q-2 2007 04/01 – 06/30	Q-2 2006 04/01 – 06/30	First Half of 2007 01/01 – 06/30	First Half of 2006 01/01 – 06/30
Revenue	28,469	26,481	54,061	50,641
Other operating income	1,321	676	2,330	1,403
Changes in inventory of finished goods and work in progress	- 385	2,124	- 156	3,461
Other own work capitalized	1,574	1,057	2,881	1,857
Total operating revenue	30,979	30,338	59,116	57,362
Cost of materials	- 16,460	- 16,491	- 31,317	- 30,831
Gross income	14,519	13,847	27,799	26,531
Personnel expense	- 6,566	- 6,269	- 12,108	- 11,961
Depreciation/amortization/impairment of property, plant and equipment and intangible assets	- 2,832	- 2,672	- 5,554	- 5,267
Other operating expenses	- 3,314	- 3,092	- 6,144	- 5,697
Earnings before interest and taxes (EBIT)	1,807	1,814	3,993	3,606
Financial income	198	9	206	14
Financing expenses	- 2,011	- 1,025	- 3,203	- 2,090
Financial result	- 1,813	- 1,016	- 2,997	- 2,076
Income before taxes	- 6	798	996	1,530
Income taxes	155	- 413	- 259	- 690
Other taxes	- 17	- 36	- 40	- 44
Net income	132	349	697	796
Minority interests	0	0	0	0
Net income attributable to equity holders of the parent	132	349	697	796
Earnings per share (basic)	0.03	0.08	0.17	0.19
Earnings per share (diluted)	0.03	0.08	0.17	0.19
Average number of shares outstanding (basic)	4,113,411	4,109,375	4,113,411	4,109,375
Average number of shares outstanding (diluted)	4,128,458	4,130,041	4,128,458	4,130,041

Segment Report (paragon AG, Delbrück)

in € (000)	Exterior sales		Earnings before interest and taxes (EBIT)	
	First Half of 2007 01/01 – 06/30	First Half of 2006 01/01 – 06/30	First Half of 2007 01/01 – 06/30	First Half of 2006 01/01 – 06/30
Automotive	43,231	40,927	3,732	3,287
Electronic Solutions	10,572	9,117	287	347
Building Technology	258	597	- 26	- 28
Total	54,061	50,641	3,993	3,606

Consolidated Balance Sheet as of June 30, 2007 (paragon AG, Delbrück)

in € (000)	06/30/2007	12/31/2006
Assets		
Non-current assets		
Intangible assets	31,029	30,527
Goodwill	27,612	27,664
Property, plant and equipment	31,103	31,406
Financial assets	266	200
Deferred tax assets	491	392
Total non-current assets	90,501	90,189
Current assets		
Inventories	17,869	17,340
Trade receivables	19,474	19,880
Income tax claims	0	0
Other assets	4,154	1,649
Cash and cash equivalents	2,984	8,758
Total current assets	44,481	47,627
Total assets	134,982	137,816

in € (000)	06/30/2007	12/31/2006
Liabilities and equity		
Equity		
Subscribed capital	4,114	4,113
Capital reserves	7,750	7,748
Net income attributable to equity holders of the parent	697	2,206
Retained earnings	5,642	4,670
Reserve for currency translation differences	- 1,312	- 1,166
Total equity	16,891	17,571
Non-current liabilities		
Long-term financial lease liabilities	412	595
Long-term loans	30,549	32,329
Profit sharing capital	25,108	23,277
Investment grants	9,669	10,012
Deferred tax liabilities	5,728	5,229
Provisions for pensions	1,107	1,049
Other non-current liabilities	3,795	3,795
Total non-current liabilities	76,368	76,286
Current liabilities		
Current portion of financial lease liabilities	793	919
Short-time loans and current portion of long-term loan	21,789	13,238
Trade liabilities	11,751	14,344
Other provisions	2,818	6,851
Income tax liabilities	2,774	3,413
Liabilities to minority shareholders	0	0
Other current liabilities	1,798	5,194
Total current liabilities	41,723	43,959
Total equity and liabilities	134,982	137,816

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

in € (000)	01/01 - 06/30/2007		01/01 - 06/30/2006	
Cash flow from operating activities				
Income before taxes and deferred taxes	956		1,530	
Adjustment for:				
Impairment losses	5,554		5,267	
Financial result	2,998		2,076	
Gains/losses from the disposal of non-current assets	9		- 3	
Change of the other provisions and provisions for pensions	- 3,975		- 1,001	
Income from reversal of special account for grants	- 1,044		- 981	
Other non-cash income and expense	0		- 41	
Change in trade receivables, other receivables and other asset	- 2,199		- 3,503	
Change in inventory level	- 529		- 6,653	
Change in trade payables and other liabilities	- 6,301		1,337	
Interest paid	- 3,186		- 2,090	
Income taxes	- 461		- 293	
Net cash from operating activities		- 8,178		- 4,355
Cash flow from investing activities				
Payments for investment minus residual carrying amount of asset disposals	- 5,816		- 4,393	
Payments for the purchase of subsidiaries	- 65		0	
Additions of cash and cash equivalents from the acquisition of subsidiaries	17		41	
Funds from investment grants	867		1,642	
Interest received	188		14	
Net cash from investing activities		- 4,809		- 2,696
Cash flow from financing activities				
Dividend distribution to shareholders	- 1,234		- 817	
Repayment of (financial) credits	- 2,610		- 2,131	
Proceeds from (financial) credits taken	9,540		7,491	
Proceeds from equity additions	3		92	
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			
Net cash from financing activities		7,359		4,635
Exchange rate changes	- 146		- 2	
Change in cash and cash equivalents		- 5,774		- 2,418
Cash and cash equivalents at the beginning of the period		8,758		4,832
Cash and cash equivalents at the end of the period		2,984		2,414

Consolidated Financial Statements

Consolidated Statement of Changes in Equity (paragon AG, Delbrück)

in € (000)	Subscribed capital	Exchange rate difference	Capital reserves	Profit/loss carried forward	Net income	Minority interests	Total
Balance 01/01/2006	4,086	- 790	7,565	4,224	1,264	3,695	20,044
Net income					796		796
Profits/loss carried forward				1,263	- 1,264		- 1
Dividend distribution				- 817			- 817
Capital increase (exercise of stock options)	23		69				92
Addition due to stock option valuation			33				33
Minority interests							0
Currency translation changes		- 186					- 186
Balance 06/30/2006	4,109	- 976	7,667	4,670	796	3,695	19,961
Balance 01/01/2007	4,113	- 1,166	7,748	4,670	2,206	0	17,571
Net income					697		697
Profits/loss carried forward				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
Minority interests							0
Currency translation changes		- 146					- 146
Balance 06/30/2007	4,114	- 1,312	7,750	5,642	789	0	16,891

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

Capital stock: 4,113,758	Shares	Options
Executive Board, total	2,115,730	30,000
Supervisory Board, total	6,000	
Boards, total	2,121,730	30,000
as % of share capital	51.58 %	

Basis of Presentation

The interim consolidated financial statements of paragon AG as of June 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 the consolidation methods used in fiscal year 2006 were retained. Please refer to the consolidated financial statements as of December 31, 2006 for further details. They may be downloaded from www.paragon-online.de.

A review of the interim consolidated financial statements was not performed.

Scope of Consolidation

In addition to paragon AG, Delbrück, nine subsidiaries were fully consolidated as of June 30, 2007.

Under the terms of a notarial agreement dated May 23, 2007, paragon finesse GmbH, Delbrück, was merged with paragon forstep GmbH, St. Georgen. Following the merger, paragon forstep GmbH, St. Georgen, renamed as paragon finesse GmbH, Delbrück, with a branch in St. Georgen, thus combining the previously separate units "Instrumentation Systems" and "Control Systems."

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

Two new lease agreements were concluded with the Frers family in the first half of 2007 for a parking lot site and a company apartment. Rental payments of EUR 31 thousand are being paid in 2007 as a whole based on these agreements.

The lease with Mr. Klaus Dieter Frers concerning the building at Schwalbenweg, 29, 33129 Delbrück lapsed due to the acquisition of the property by paragon AG. This will result in the elimination of rental payments by paragon AG in the amount of EUR 75 thousand in the second half.

Please refer to "Events after the Half-Year Reporting Date" regarding this point.

Events after the Half-Year Reporting Date

Under the terms of a notarial purchase agreement dated July 2, 2007, paragon AG acquired the land and company building at Schwalbenweg 29, and accordingly the corporate headquarters, from Mr. Klaus Dieter Frers. The purchase price determined according to the income approach was EUR 2,000,000.

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 fiscal year.

Delbrück, August 9, 2007



Klaus Dieter Frers
Executive Board



Hans-Jürgen John
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