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Report on the First Quarter

Q1 | 2008

Highlights in the First Quarter of 2008

- Automotive sales up 20.6 %
- Car Media drives growth with a 40.4 % increase
- At 8.0 %, the EBIT margin has already exceeded the figure for 2007 as a whole
- Operating cash flow up sharply to € 2.4 million

The first three months at a glance

in € (000)	Q1 2008	Q1 2007	Change in %
Sales	29,403	25,592	14.9
EBITDA	5,552	4,885	13.7
EBIT	2,337	2,163	8.0
Net earnings for period	241	565	- 57.3
Earnings per share	0.06	0.14	—
Equity-to-assets ratio* in %	29.6	35.5	—
Liquidity	2,882	3,906	- 26.2
Employees	599	559	7.2

* Equity-to-assets ratio including profit-sharing capital

Business Development

The paragon Group made an entirely positive start into fiscal year 2008. The Company increased its sales by approximately 15 % to € 29.4 million within the first three months, and operating earnings also rose significantly by 8.0 % to € 2.3 million.

Sales were especially pleasing in the Automotive segment. While paragon generated growth in all three Automotive divisions, the very successful Car Media Systems division was the principal growth driver with a sales increase of 40.4 %. Sales in the second segment, Electronic Solutions, declined primarily as a result of currency translation.

A major order was the key factor in the positive development in the Car Media Systems division. A German automobile manufacturer is equipping additional vehicles and accordingly almost its entire model range with the Media Device Interface (MDI) from paragon. The Company thus more than tripled its order volume for this product year-on-year. The secured order volume for the MDI in the next three years amounts to more than € 25 million.

Furthermore, paragon anticipates additional orders to arise from its presence at the CeBIT 2008 trade fair in Hanover. The new developments presented there were well received by visitors. paragon presented itself as a competence leader for Car Media Systems and demonstrated future-oriented integration solutions for handsfree communication, navigation and multimedia.

Moreover, as previously announced, paragon opened a sales office in Italy during the period under review, thus systematically continuing its internationalization strategy. The new location in Turin will enable the Company to more intensively take advantage of the growth opportunities in the Italian market.

Financial Performance

The strong sales growth in the first quarter and a change in the product mix caused cost of materials to rise from € 14.4 million to € 17.6 million. This already reflected initial, clear results from the change of direction to higher-quality but less labor-intensive products. Personnel expenses increased year-on-year from € 6.1 million to € 7.1 million. As a ratio to sales and total output, however, material costs and personnel expenses were almost unchanged.

paragon AG significantly improved its operating earnings in the period under review. While earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 13.7 % from € 4.9 million to € 5.6 million, EBIT increased by 8.0 % to € 2.4 million. At 8.0 % of sales, the EBIT margin had already surpassed the figure for 2007 as a whole (6.2 %) in the first three months.

As announced in connection with the program adopted in 2007 to exchange high-interest profit sharing rights for those having a lower interest rate, paragon repurchased securities valued at € 3 million. As expected, the Q1 2008 net income of € 241 thousand was lower

than in Q1 2007 (€ 565 thousand); the costs incurred for the refinancing impacted the interest result for the year as budgeted. Earnings per share amounted to € 0.06 (Q1 2007: € 0.14). In the future, the Company will benefit from significantly lower interest payments.

Net Assets and Financial Position

As of March 31, 2008, total assets of € 137.4 million and a growth of 0.9% were at the level of the previous year. On the assets side, the trade receivables increased significantly by 60.3 % to € 10.0 million partly due to the high growth in sales but primarily relating to the year-end closing date, while cash on hand declined according to plan to € 2.8 million (December 31, 2007: € 6.4 million) due to the aforementioned repurchase of profit-sharing rights. The further refinancing of the profit-sharing rights was also evident on the liabilities side. Non-current liabilities were reduced by 4.0 % to € 70.6 million. The increase in other current liabilities is due to closing date-related obligations in connection with the sale of receivables. The equity-to-assets ratio including profit-sharing rights was 29.6% as of March 31, 2008.

Development of the operating cash flow was very positive. paragon generated a cash flow of € 2.4 million in the quarter under review.

Segment Reporting

Sales in the core Automotive segment rose by 20.6% from € 20.2 million to € 24.3 million in the first three months of 2008, reflecting approximately 83 % of total sales of paragon AG in the first quarter of 2008. The increasing sales volume of the Media Device Interface (MDI) was especially reflected in this exceptional growth, although the other product areas also generated pleasing growth rates. At € 2.1 million or 8.7 % of sales, the Automotive segment again recorded a sound EBIT (Q1 2007: € 1.9 million).

A slight decline in sales was seen in the Electronic Solutions segment, which was primarily impacted by currency translation due to the weakness of the dollar. Overall, sales in the segment declined from € 5.4 million to € 5.0 million. EBIT was held at a nearly stable level of € 222 thousand after € 268 thousand in Q1 2007 due primarily to the positive earnings trend at paragon firstronic in Germany.

Research & Development

Expenses for research & development in Q1 2008 of € 2.5 million nearly equaled those of Q1 2007 (€ 2.6 million). Research in the Automotive segment focused on the continued development of display instruments and new versions of the MirrorPilot® navigator. This navigation device is increasingly developing into a multifunction device. In addition to navigation with voice output, MirrorPilot® navigator will in the future make it possible to speak handsfree while using a mobile telephone. The ratio of R&D expenses to sales was 8.6 %.

Employees

As of March 31, 2008, paragon AG had a total of 599 employees and 97 temporary employees (March 31, 2007: 559 and 71). Of these, 96 persons were employed at corporate headquarters in Delbrück and 296 at the production location in Suhl. paragon employed 68 persons abroad.

paragon Stock

From mid-January, paragon shares stood up well against the general market weakness of mid- and small-cap stocks. In the second half of the quarter, however, the continuing financial crisis and fears of an impact on the real economy exerted downward pressure on paragon stock. The Managing Board counteracted the general mood of restraint through positive operating earnings and intense investor relations activities. In addition to diverse individual contacts and telephone calls, the Managing Board presented paragon AG to the financial community at the DVFA analysts' conference in Frankfurt on April 2. Participation in another analysts' conference is planned for May.

In April, paragon welcomed a new solid and robust major shareholder with trust in the Company's strategy, production capacity and future prospects. The Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, a retirement fund for doctors, dentists and veterinarians, increased its share in paragon to 9.86 % of all voting rights. It is now the second largest shareholder after paragon founder and CEO Klaus Dieter Frers, who continues to hold approximately 52 %. The investor acquired the shares in a private transaction from Absolute Capital. The fund, previously managed by Florian Homm, had held the shares since May 2007.

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ISIN:	DE 000 555 869 6
Ticker symbol:	PGN
Level of transparency:	Prime Standard
Sector:	Technology

Outlook

Its innovative product portfolio puts paragon AG's Automotive segment in a very promising position in vigorously growing niche markets, with three business divisions focusing on Climate Systems, Car Media Systems and Instrumentation and Control Systems. In the future, these three divisions will be combined into the divisions Cockpit Systems and Sensors/Actuators in order to appropriately bundle resources. paragon will combine the development capacities of the competence centers from the three automotive divisions and align them with the two growth markets of Cockpit Systems and Sensors/Actuators. The formation of joint teams will provide even greater support for innovation. paragon expects that this measure will enable it to benefit even more from the trend to higher quality systems.

In the current year, paragon's positioning as an innovative system supplier will be strongly supported by the implementation of the Artega® project. This project will make it possible for paragon to obtain new orders, expand existing contracts and specifically expand the product range in the growth market of cockpit systems. At the same time, paragon has consistently restructured its sales through a newly introduced key account structure with clear responsibilities. The new structure improves close customer relations and increases customer satisfaction.

The successful start into 2008 confirms the Managing Board's forecast predicting sales growth of between 5 and 10 %. On an extrapolated basis, the Managing Board expects earnings for the current year to increase stronger than sales on all earnings levels (excluding tax effect). The first quarter of 2007 is not representative due to charges relating to other periods.

Due to the fact that the EBIT margin in the first quarter already exceeded the EBIT margin for all of 2007 and in view of the more than 10 % rise in the order level since December 31, 2007, the Managing Board sees the strategic and operating development of the Company as very positive. Compared to the March 31, 2007, the order level rose by more than 55 % as of March 31, 2008.

Consolidated Balance Sheet

as at March 31, 2008

in € (000)	03/31/2008	03/31/2007
Assets		
Non-current assets		
Intangible assets	31,700	31,530
Goodwill	27,291	27,430
Property, plant and equipment	31,846	32,130
Financial assets	266	266
Deferred tax assets	3,690	3,901
Total non-current assets	**94,793**	**95,257**
Current assets		
Inventories	18,704	17,709
Trade receivables	10,031	6,259
Income tax claims	867	867
Other assets	10,087	9,606
Cash and cash equivalents	2,882	6,443
Total current assets	**42,571**	**40,884**
Total assets	**137,364**	**136,141**
Liabilities and equity		
Equity		
Subscribed capital	4,115	4,115
Capital reserves	7,753	7,753
Distributable profit	241	2,464
Retained earnings	8,107	5,642
Reserve for currency translation differences	- 2,035	- 1,824
Equity (since December 31, 2006 before minority interests)	**18,181**	**18,150**
Non-current liabilities		
Long-term financial lease liabilities	169	225
Long-term loans	29,647	29,111
Profit sharing capital	22,523	25,494
Siltent equity holding	8,626	9,147
Investment grants	6,784	6,691
Provisions for pensions	933	959
Other non-current liabilities	1,898	1,898
Total non-current liabilities	**70,580**	**73,525**
Current liabilities		
Current portion of financial lease liabilities	394	521
Short-time loans and current portion of long-term loans	20,479	20,109
Trade liabilities	13,961	13,753
Other provisions	969	1,012
Income tax liabilities	2,746	2,929
Other current liabilities	10,054	6,142
Total current liabilities	**48,603**	**44,466**
Total equity and liabilities	**137,364**	**136,141**

Consolidated Income Statement

for the period from January 1 to March 31, 2008

in € (000)	Q-1 01/01/08 – 03/31/08	Q-1 01/01/07 – 03/31/07
Revenue	**29,403**	**25,592**
Other operating income	889	1,009
Changes in inventory of finished goods and work in progress	1,288	229
Other own work capitalized	1,861	1,307
Total operating revenue	**33,441**	**28,137**
Cost of materials	- 17,565	- 14,352
Gross income	**15,876**	**13,785**
Personnel expense	- 7,100	- 6,047
Depreciation/amortization/impairment of property, plant and equipment and intangible assets	- 3,215	- 2,722
Other operating expenses	- 3,224	- 2,853
Earnings before interest and taxes (EBIT)	**2,337**	**2,163**
Financial income	70	8
Financing expenses	- 1,894	- 1,192
Financial result	- 1,824	- 1,184
Income before taxes	**513**	**979**
Income taxes	- 272	- 414
Net income	**241**	**565**
Earnings per share (basic)	0.06	0.14
Earnings per share (diluted)	0.06	0.14
Average number of shares outstanding (basic)	4,114,788	4,113,063
Average number of shares outstanding (diluted)	4,125,220	4,128,298

Segment Report

in € (000)	Exterior sales		Earnings before interest and taxes (EBIT)	
	Q-1 2008 01/01/08 – 03/31/08	Q-1 2007 01/01/07 – 03/31/07	**Q-1 2008** 01/01/08 – 03/31/08	Q-1 2007 01/01/07 – 03/31/07
Automotive	24,345	20,188	2,115	1,895
Electronic Solutions	5,058	5,404	222	268
Total	**29,403**	**25,592**	**2,337**	**2,163**

Consolidated Cash Flow Statement

(IFRS)

in € (000)	01/01 – 03/31/2008		01/01 – 03/31/2007	
Cash flow from operating activities				
Income before taxes and deferred taxes	**513**		**979**	
Adjustment for:				
Impairment losses	3,215		2,722	
Financial result	1,824		1,184	
Losses from the disposal of non-current assets	14		9	
Change of the other provisions and provisions for pensions	- 76		- 3,828	
Income from reversal of special account for grants	- 522		- 529	
Other non-cash income and expense	0		0	
Change in trade receivables, other receivables and other asset	- 4,173		- 1,791	
Change in inventory level	- 996		- 864	
Change in trade payables and other liabilities	4,660		- 3,095	
Interest paid	- 1,894		- 1,192	
Income taxes	- 150		- 416	
Net cash from operating activities		**2,416**		**- 6,821**
Cash flow from investing activities				
Payments for investment	- 2,835		- 2,150	
Payments for investments in long-therm financial assets	0		65	
Additions of cash and cash equivalents from the acquisition of subsidiaries	20		17	
Funds from investment grants	0		183	
Interest received	70		8	
Net cash from investing activities		**- 2,745**		**- 1,877**
Cash flow from financing activities				
Dividend distribution to shareholders	0		0	
Repayment of (financial) credits	- 1,274		- 5,404	
Proceeds from (financial) credits taken	1,253		2,613	
Proceeds from equity additions	0		0	
Net cash outflow from redemption of silent equity holding	0		0	
Net cash inflow from the issuance of profit-sharing capital	0		6,750	
Net cash inflow from redemption of profit-sharing capital	- 3,000		0	
Net cash from financing activities		**- 3,021**		**3,959**
Exchange rate changes		- 211		- 113
Change in cash and cash equivalents		**- 3,561**		**- 4,852**
Cash and cash equivalents at the beginning of the period		**6,443**		**8,758**
Cash and cash equivalents at the end of the period		**2,882**		**3,906**

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, 2007	**4,113**	**- 1,166**	**7,748**	**4,670**	**2,206**	**0**	**17,571**
Net income					565		565
Profit carried forward				2,206	- 2,206		0
Dividend distribution							0
Capital increase (exercise of stock options)							0
Addition due to stock option valuation							0
Change due to acquisition of shares from other shareholders							0
Currency translation changes		- 113					- 113
March 31, 2007	**4,113**	**- 1,279**	**7,748**	**6,876**	**565**	**0**	**18,023**
January 1, 2008	**4,115**	**- 1,824**	**7,753**	**5,642**	**2,464**	**0**	**18,150**
Net income					241		241
Profit carried forward				2,465	- 2,465		0
Dividend distribution							0
Capital increase (exercise of stock options)							0
Currency translation changes		- 211					- 211
March 31, 2008	**4,115**	**- 2,035**	**7,753**	**8,107**	**241**	**0**	**18,181**

Shares held by members of the Executive and Supervisory Board as at March 31, 2008

Capital stock: 4,114,788 shares	Shares 03/31/2008
Executive Board, total	2,111,730
Supervisory Board, total	6,000
Boards, total	2,117,730
as % of share capital	51.47 %

Additional Disclosures

The quarterly 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 quarterly report correspond to the reporting obligations of the German Stock Exchange. The quarterly 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 quarter of 2008.