



Interim report
01/01 to 09/30/2011

Highlights of the first nine months of 2011

- Stable business growth
- Sales increased 12 %
- Earnings rose stronger than revenue
- 2011 forecast to be comfortably achieved

The first nine months of 2011 at a glance

in EUR thousands	01/01/2011 – 09/30/2011	01/01/2010 – 09/30/2010*	Changes in %
Sales	50,954	45,463	+ 12 %
EBITDA	10,621	8,859	+ 20 %
EBIT	7,462	5,158	+ 45 %
Net earnings for period	4,639	4,243	+ 9 %
Earnings per share in €	1.13	1.03	+ 9 %
Liquidity	18,571	14,486	+ 28 %
Employees**	343	308	+ 11 %

* Information from the prior year period adjusted for extraordinary effects for the purpose of better comparison. Partial fiscal years January 1 to May 31, 2010 and June 1 to December 31, 2010 were published.

** Employees with fixed contracts, excluding contract workers

Overall Economic Conditions

The pace of global economic expansion slowed down during the course of 2011. Increased uncertainty, ongoing consolidation processes in the private sector and the by now limited policy options for stimulating the economy became apparent in advanced economies. In the euro zone, the persistent sovereign debt crisis had an adverse impact on the economy. The economic weakness in the countries of our trading partners abroad and lower corporate investment undermined Germany's economic dynamism, while private consumption provided support.

Global automobile demand evidenced robust health during the course of the International Motor Show (IAA) in mid-September in Frankfurt am Main. The VDA (German Automotive Industry Association) presented new record highs in production and export at the leading trade fair of the industry. Manufacturers and suppliers premiered over 180 new products. High order levels and continued strong export demand had a positive impact on domestic production. Continuing demand for new cars produced by German manufacturers also resulted in higher employment levels in the automobile industry.

Business Developments at paragon AG

paragon's sales rose by 12% to € 51.0 million (prior year: € 45.5 million) in the first nine months of 2011. This positive development is reflected in the earnings indicators. EBITDA rose by 20% to € 10.6 million (prior year: € 8.9 million), EBIT surged by 45% to € 7.5 million (prior year: € 5.2 million). paragon also achieved a pleasant operating margin (EBIT in relation to sales revenues) of 14.6%. Earnings for the period rose to € 4.6 million, a 9% increase over the previous year (€ 4.2 million).

paragon made a successful appearance at the IAA in September of 2011. During the course of the largest global

platform of the automotive industry, the Company presented appealing innovations in the field of the man-machine interface (e.g. the cTablet Docking Station for integrating a tablet computer in the vehicle), as well as, for the first time, the overall electro-mobility system.

Financial Position and Net Assets

As of September 30, 2011, paragon's total assets declined to € 44.5 million (prior year: € 47.2 million).

Non-current assets decreased to € 16.6 million (prior year: € 19.3 million) due to customary wear and tear. Current assets remained unchanged at € 27.9 million. Inventories rose to € 7.6 million (prior year: € 6.8 million) in response to dynamic sales growth and the associated production capacities. Good payment practices on the part of the customers, as well as factoring, allowed trade receivables to drop significantly to € 0.6 million (prior year: € 5.9 million). This contributed to the rise in cash and cash equivalents to € 18.6 million (prior year: € 14.5 million); freely available funds increased from € 4.3 million to € 12.0 million.

Non-current provisions and liabilities dropped significantly to € 17.7 million (prior year: € 26.4 million), due in particular to the decline in long-term loans by € 8.3 million. Current provisions and liabilities on the other hand grew by € 1.8 million to € 17.7 million (prior year: € 15.9 million).

The sound operating developments in the Company are evident from cash flow from operating activities, which rose to € 6.1 million in the first nine months (prior year: € 1.9 million). Cash flow from financing activities resulted in a net cash outflow of € 4.6 million, due to special repayments. This will lead to lower interest payments in future, signifying additional financial resources for the Company.

Results of Operations

paragon continued its stable trend of a disproportionate increase in earnings indicators during the third quarter of 2011. Earnings for all of 2011 will grow in line with the positive business developments.

Cost of materials increased to € 25.2 million (prior year: € 23.8 million), but at a lower rate than sales. Accordingly, the cost of materials to sales ratio improved to 49.5% (prior year: from 52.4%). Personnel expenses rose to € 12.7 million (prior year: € 9.8 million), resulting in a ratio of personnel costs to sales of 24.9% (prior year: 21.5%). Additional employees are creating the foundation for continued growth in the Company.

During the period under review, EBIT rose by € 2.3 million to € 7.5 million (prior year, adjusted: € 5.2 million), an improvement of 45%. Similarly, EBITDA reached € 10.6 million (prior year: € 8.9 million) reflecting growth of 20%.

As of September 30, 2011, paragon posted net income for the year in accordance with IFRS of € 4.6 million (prior year, adjusted: € 4.2 million). Earnings per share rose by 9% to € 1.13 (prior year, adjusted: € 1.03).

Research & Development

paragon continued its research and development activities with great commitment in the third quarter of 2011. Preparations for the IAA in September of 2011, at which the Company presented new solutions in the fields of networking and electromobility, were the focus. In this connection paragon developed a solution for the mechanical and electronic integration of a tablet computer into the vehicle in the form of the cTablet Docking Station at the Nuremberg site. In addition to the functions of media playback, vehicle steering, navigation, Internet, telephony and Rear Seat Entertainment, a prototype for gesture recognition was also included. At the

Delbrück location developers worked primarily on a model kit for electro-mobility. This involved individual components (Energy Storage, Range Extender, Onboard Charger, DC/DC Converter, Motor Controller), as well as a holistic system with company-specific design. Further research and development topics in the third quarter included signal processing for the belt microphone, belt-mic, as well as a draft concept for capacitive operating elements. Total research and development costs amounted to € 3.9 million (prior year: € 2.7 million) in the period between January 1 to September 30, 2011.

Employees

As at September 30, 2011, paragon AG employed 343 of its own workers and 57 temporary workers, all of whom were active in Germany alone. This implies a slight increase in the number of employees vis-à-vis the previous year (September 30, 2010: 308 workers and 32 temporary workers). This increase can be traced to the Company's positive developments in conjunction with the robust economy in the automotive industry. A measured and selective expansion in the personnel structure can be seen in comparison to the previous quarter (June 30, 2011: 333 workers and 58 temporary staff). As at September 30, 2011, the following employee numbers apply to the individual sites (employees/temporary workers): Delbrück (57/0), Suhl (199/46), Nuremberg (27/4) and St. Georgen (60/4).

Investor Relations

The DAX (German stock exchange index) saw a significant decline in the third quarter of 2011 against the backdrop of subdued development in the global economy and turbulence associated with government debt in Europe. The index started at 7,419 points on July 1 and fell to 5,072 points as at September 12. The DAX recovered slightly by September 30, but closed considerably lower at 5,502 at the end of the period under review than at the beginning.

The value of the paragon share sank from € 7.93 on July 1 to the lowest point in the quarter (€ 5.60) on August 9. Values rebounded to over € 7 in September once again. The share was quoted at € 7.00 on the last trading day of the quarter.

The Managing Board is astonished that the stock market response is subdued to constant, despite favorable the business trend. The Managing Board finds the course of the price of the share disappointing on the whole.

paragon took advantage of the 2011 IAA to introduce the Company's new products and its expanded strategic direction to numerous investors. The Chairman of the Board, Klaus Dieter Frers, explained the Company's current situation and future prospects to representatives of banks and investment firms during an IR lunch on the first trade visitor day during this leading international trade fair.

Securities Identification Number:	555 869
ISIN:	DE 000 555 8696
Ticker symbol:	PGN
Trading segment:	Prime Standard
Sector:	Technology

Risk report

paragon AG's Managing Board assesses risks in close coordination with the Supervisory Board. The Company perceives very good opportunities for continued positive development due to the sustained robust state of the automotive industry. Promising new developments and low financial burdens contribute to this assessment. At the time of publication of this report, no additional risks have been identified that might jeopardize the Company's continued existence.

Outlook

Leading economic research experts foresee only feeble growth for Germany in 2012. The RWI, Essen, the ifo institute, Munich, the ifw, Kiel, and the IWH, Halle revised their forecasts for the increase in gross domestic product downwards from 2.0 percent (spring forecast) to 0.8 percent. Despite the risk of government bankruptcies in Europe, a deep recession is not anticipated. If the debt and banking crisis would become less acute, economic growth could even pick up its pace in the coming year. The aforementioned institutes are optimistic with regard to employment; the number of unemployed could drop significantly to under three million in 2012.

The automotive industry assumes that, due to its excellent order levels, a temporary slowdown in the economy would be scarcely noticeable. The VDA (German Automotive Industry Association) anticipates a new production volume record for 2011 of in excess of 5.9 million passenger vehicles, as well as another record in export volume, which should reach over 4.5 million passenger vehicles. Industry experts are counting on stimuli for further growth based on the numerous innovations that manufacturers and suppliers presented at the International Motor Show and on demand from Asia. It is anticipated that in China in 2011 for the first time more new German models will be registered than in Germany itself.

According to the Managing Board, paragon will be able to ensure that its gratifying performance is reflected for 2011 on the whole. The forecast sales volume of € 65 million will certainly be attained. Despite considerable investment in personnel and technology, earnings figures for the course of business over the entire year will develop correspondingly.

In addition to the man-machine interface, which – with six product groups and approximately 150 products – will remain the focus of our business activities in the near future, paragon is gradually erecting a second pillar in the Company.

Business Development in the Third Quarter of 2011

Activities in the field of electro-mobility, which have received a huge response, are the first step in the corporate division 'Efficiency', in which paragon plans to consolidate new topical areas. During the course of 2012, the Company will announce further details regarding this field, which will provide significant sales and earnings contributions in the medium term.

Paragon is ahead of plan in the repayment of bank debt, which stood at EUR 16.3 million as of September 30, 2011 and is to be reduced to EUR 15 million by December 31, 2011. At the same time, the Managing Board is confirming the objective for an increase in free cash flow, which should grow to € 8 million by the end of the year.

Balance Sheet of paragon AG, Delbrück, as at September 30, 2011

in EUR thousands	09/30/2011	09/30/2010
Assets		
Non-current assets		
Intangible assets	3,079	3,554
Property, plant and equipment	12,839	14,927
Financial assets	0	180
Other assets	152	0
Deferred taxes	533	630
Total non-current assets	16,603	19,291
Current assets		
Inventories	7,578	6,752
Trade receivables	580	5,853
Income tax assets	247	0
Other assets	916	773
Cash and cash equivalents	18,571	14,485
Total current assets	27,892	27,863
Total assets	44,495	47,154

in EUR thousands	09/30/2011	09/30/2010
Equity and liabilities		
Equity		
Subscribed capital	4,115	4,115
Capital reserve	7,753	7,753
Loss carried forward	- 7,405	- 110,828
Net income/comprehensive income	4,639	103,774
Total equity	9,102	4,814
Non-current provisions and liabilities		
Non-current finance lease obligation	100	484
Non-current borrowings	12,655	20,990
Special item for investment grants	2,891	3,783
Deferred taxes	0	69
Pension provisions	2,041	1,115
Total non-current provisions and liabilities	17,687	26,441
Current provisions and liabilities		
Current portion of finance lease obligations	280	255
Current borrowings and current portion of non-current borrowings	3,612	824
Trade payables	5,194	6,219
Other provisions	1,926	1,769
Income tax liabilities	1,268	0
Other current liabilities	5,426	6,832
Total current provisions and liabilities	17,706	15,899
Total equity and liabilities	44,495	47,154

**Income Statement of paragon AG, Delbrück,
for the Period from January 1 to September 30, 2011**

in EUR thousands			Q3 2011	
	01/01 - 09/30/2011	01/01 - 09/30/2010	07/01 - 09/30/2011	07/01 - 09/30/2010
Sales revenue	50,954	45,463	17,595	15,039
Other operating income	1,396	104,232	122	2,113
Increase or decrease in finished goods and work in process	512	242	- 196	158
Other own work capitalized	831	167	341	17
Total operating performance	53,693	150,104	17,862	17,327
Cost of materials	- 25,217	- 23,822	- 7,773	- 7,567
Gross profit	28,476	126,282	10,089	9,760
Staff costs	- 12,686	- 9,773	- 4,272	- 3,307
Depreciation and amortization of property, plant, equipment and intangible assets	- 3,114	- 3,701	- 994	- 1,276
Impairment of property, plant and equipment and intangible assets	- 45	0	- 40	0
Other operating expenses	- 5,169	- 8,677	- 2,206	- 2,251
Earnings before interest and taxes (EBIT)	7,462	104,131	2,577	2,926
Financial income	22	166	7	59
Finance costs	- 974	- 562	- 319	- 380
Net financing costs	- 952	- 396	- 312	- 321
Earnings before taxes	6,510	103,735	2,265	2,605
Income taxes	- 1,871	39	- 1,209	4
Net income	4,639	103,774	1,056	2,609
Earnings per share (basic)	1.13	25.22	0.26	0.63
Earnings per share (diluted)	1.13	25.22	0.26	0.63
Average number of shares outstanding (basic)	4,114,788	4,114,788	4,114,788	4,114,788
Average number of shares outstanding (diluted)	4,114,788	4,114,788	4,114,788	4,114,788

Cash Flow Statement of paragon AG, Delbrück, in accordance with IFRS

in EUR thousands	01/01 - 09/30/2011		01/01 - 09/30/2010	
Cash flow from operating activities				
Earnings before income taxes	6,510		103,735	
Depreciation and amortization of non-current assets	3,114		3,701	
Net financing costs	952		396	
Gains (-) or losses (+) from the disposal of items of property, plant and equipment and financial assets	1		53	
Increase (+), decrease (-) in other provisions and pension provisions	- 684		- 4,105	
Income from the release of the special item for investment grants	- 576		- 948	
Other non-cash income and expenses	- 113		0	
Increase (-), decrease (+) in trade receivables, other receivables, and other assets	- 1,712		- 1,862	
Impairment of intangible assets	45		0	
Increase (-), decrease (+) in inventories	- 1,105		- 2,325	
Decrease (+), Increase (-) in trade payables and other liabilities	1,480		- 93,958	
Interest paid	- 974		- 562	
Income taxes paid	- 824		-2,201	
Net cash provided by/used in operating activities	6,114		1,924	
Cash flow from investing activities				
Payments for investments of property, plant and equipment	- 926		- 2,756	
Payments for investments in intangible assets	- 823		- 19	
Interest received	22		166	
Net cash provided by/used in investing activities	- 1,727		- 2,609	
Cash flow from financing activities				
Cash repayments of borrowings	- 4,882		- 810	
Amounts paid insolvency rate	- 42		- 7,563	
Cash proceeds from issuing borrowings	644		14,578	
Repayment of liabilities under finance lease	- 331		- 394	
Net cash provided by/used in financing activities	- 4,611		5,811	
Cash-effective change in liquidity	- 224		5,126	
Cash and cash equivalents at beginning of period	13,790		8,268	
Cash and cash equivalents at end of period	13,566		13,394	

Statement of Changes in Equity of paragon AG, Delbrück

in EUR thousands	Subscribed capital	Capital reserve	Profit- / loss carried forward	Net income/ comprehensive income	Total
Balance as of 01/01/2010	4,115	7,753	- 110,828	0	- 98,960
Net income				103,774	103,774
Comprehensive income	0	0	0	103,774	103,774
Balance as of 09/30/2010	4,115	7,753	- 110,828	103,774	4,814

in EUR thousands	Subscribed capital	Capital reserve	Profit- / loss carried forward	Net income/ comprehensive income	Total
Balance as of 01/01/2011	4,115	7,753	- 7,405	0	4,463
Net income				4,639	4,639
Comprehensive income	0	0	0	4,639	4,639
Balance as of 09/30/2011	4,115	7,753	- 7,405	4,639	9,102

Shares held by members of the Managing and Supervisory Boards as at Sept. 30, 2011

Capital stock: 4,114,788 shares

	Shares 09/30/2011
Managing Board, total	2,111,730
Supervisory Board, total	2,000
Boards, total	2,113,730
as % of share capital	51.37

Additional comments

The nine-month report has been prepared using the uniform accounting principles of the International Financial Reporting Standards (IFRS), which were also used for the partial fiscal year from June 1, 2010, to December 31, 2010. The standards of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) apply. The form and content of the interim report comply with the reporting requirements of the German stock exchange. The nine-month report represents an update of the annual report. Its

emphasis is on the current reporting period and it should be read in conjunction with the annual report and the additional information contained therein.

The risk situation of paragon AG was covered in detail in the report on risks and opportunities in the annual report for the partial fiscal year from June 1, 2010, to December 31, 2010. The statements made in that report with respect to overall risk continue to be valid without exception.



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