

Recommendation:
BUY (Initial Coverage)

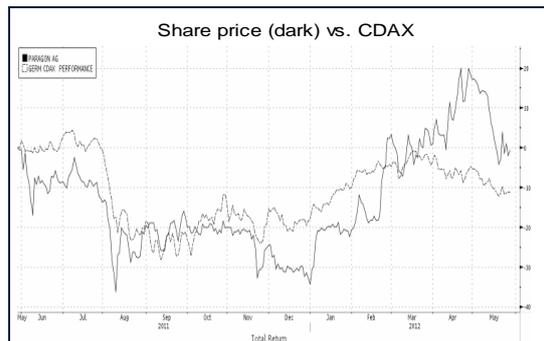
Risk:
HIGH (-)

Price Target:
EUR 18.00 (-)

29 May 2012

Niche player with high growth potential

- paragon AG is one of the leading automotive suppliers of electronic components and sensors, thereby improving the safety and comfort of car drivers and passengers.
- IHS Global Insight and LMC Automotive predict the car industry to grow also in the mid-term. Given paragon's exposure to the OEM sector, the company will benefit from this development. Despite the weakening market conditions in Europe we see in other regions such as North America and the BRIC states growth potential in the current and coming year.
- The company has shown solid sales and earnings growth in the last two years. With an EBIT margin of 13.2% in FY 2011 paragon is significant above the average of other automotive suppliers.
- In the first three months of FY 2012 paragon increased its revenues by 11.8% yoy to EUR 18.9m. EBIT grew to EUR 2.5m (PY: EUR 2.4m), resulting in an EBIT margin of 13.2%. Net income amounted to EUR 1.9m (PY: EUR 1.8m). Furthermore, the balance sheet ratios have improved further due to the positive business development. Equity grew to EUR 11.7m (PY: EUR 6.3m) at the end of March 2012, which resulted in an equity ratio of 27.5% (31 March 2011: 14.0%). We expect due to the given positive outlook a further improvement of the equity ratio.
- For FY 2012E the company expects revenue growth in the single-digit percentage range and an EBIT margin at the same level as in the previous year. For the current fiscal year (31 December 2012) we expect sales of approximately EUR 72.4m (+8.0% yoy) and an EBIT of EUR 9.5m (PY: EUR 8.8m). In our view, paragon will pay a dividend per share of EUR 0.30 for 2012E, which corresponds to a payout ratio of 20%.
- Our valuation models lead to a fair value of EUR 18.11. We start our coverage on paragon with a EUR 18.00 price target and a BUY recommendation. Due to the attractive valuation level (P/E 2012E: 5.8) we see clear upside potential for the paragon stock.



Source: CBS Research AG, Bloomberg, paragon AG

Change	2012E		2013E		2014E	
	new	old	new	old	new	old
Sales	72.4	-	78.3	-	82.5	-
EBIT	9.5	-	10.5	-	11.0	-
EPS	1.49	-	1.63	-	1.72	-

Internet: paragon.ag

WKN: 555869

Reuters: PGNG.DE

Sector: Automotive

ISIN: DE0005558696

Bloomberg: PGN GY

Short company profile:

paragon AG develops, manufactures and sells electronic components and sensors for the automotive industry in Germany and internationally. The portfolio includes products in the field of air quality, power train, acoustics, stepper motors, media interfaces cockpit and electromobility.

Share data:

Share price (EUR, latest closing price):	8.70
Shares outstanding (m):	4.1
Market capitalisation (EUR m):	35.8
Enterprise value (EUR m):	36.4
Ø daily trading volume (3 m., no. of shares):	17,371

Performance data:

High 52 weeks (EUR):	10.77
Low 52 weeks (EUR):	4.90
Absolute performance (12 months):	-0.1%
Relative performance vs. CDAX:	
1 month	-9.9%
3 months	3.4%
6 months	20.9%
12 months	12.0%

Shareholders:

Klaus Dieter Frers (Chairman)	52%
Free float	48%

Financial calendar:

2Q Report	22 August 2012
3Q Report	21 November 2012

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Key data

FY 12/31, EURm	2010	2011	2012E	2013E	2014E
Sales	60.4	67.1	72.4	78.3	82.5
EBIT	5.2	8.8	9.5	10.5	11.0
Net result	3.8	5.3	6.1	6.7	7.1
EPS	0.92	1.30	1.49	1.63	1.72
DPS	0.00	0.25	0.30	0.35	0.40
EBITDA margin	17.0%	19.4%	18.8%	19.0%	19.1%
EBIT margin	8.6%	13.2%	13.2%	13.4%	13.4%
EV/EBITDA	2.3	2.6	2.7	2.4	2.3
EV/EBIT	4.6	3.8	3.8	3.5	3.3
P/E	4.5	6.4	5.8	5.3	5.0

Source: paragon AG; CBS Research AG

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Investment thesis

paragon develops, manufactures and sells electronic components and sensors for the automotive industry in Germany and internationally. The company offers products including air quality sensors and improvers, air quality conditioners for vehicles; all-gear and start-stop sensors to optimize the powertrain's control systems; various microphones; stepper motors and dual stepper motors to support display-instrument applications; interfaces, cradles and consoles as well as cTablet Docking Station. Its products also include individual instruments for supplemental functions, clocks, stopwatches, compasses, and instrument clusters; control units for steering wheels, air conditioners, head units, and other applications; reversing camera systems; range extenders, a modular battery pack with battery management system, charging system, engine controller, DC/DC converter and cockpit system.

The competitive landscape is characterized by small, mid and large global producers. Regarding the market share paragon is in the different product segments one of the market leaders (e.g. air quality, powertrain, etc.) in Europe and global.

paragon's strategy is based on a pioneering spirit. The company strives for constant improvement and for product uniqueness. Thus, it consistently strives to be the first to recognize an opportunity in the market and is working to consolidate its market position. Part of that strategy is to concentrate on niches on which larger suppliers would not focus.

IHS Global Insight forecasts that global light vehicle sales will grow a further 4% in 2012 to nearly 78m units. LMC Automotive believes they will grow 5% this year to just under 79m units.

In the Automotive segment especially USA, China and other Asian emerging and developing countries will be responsible for growth of the automobile sector.

The important customers of paragon are the VW Group, JCI, TRW, Daimler and BMW which have given a positive sales outlook for the current financial year.

In the first quarter of FY 2012 paragon increased its revenues by 11.8% to EUR 18.9m (PY: EUR 16.9m). EBITDA climbed due to improved cost of materials ratio (52.4% (PY: 53.5%)) by 4.1% to EUR 3.7m (PY: EUR 3.5m). EBIT grew by 2.3% to EUR 2.5m (PY: EUR 2.4m), resulting in an EBIT margin of 13.2%. Net income amounted to EUR 1.9m (PY: EUR 1.8m).

For FY 2012E the management has affirmed its forecasted revenue growth in the single-digit percentage range and an EBIT margin at the same level as in the previous year. The total volume of orders is at the moment considerably in excess of EUR 300m.

For the current fiscal year we expect in all regions a sales increase. Sales in Germany should stand at EUR 47.1m (+6.7% yoy), rest of Europe at EUR 20.3m (+6.3% yoy), and other countries should have risen to EUR 5.1m (+30.8% yoy). Summing up, we expect sales of approximately EUR 72.4m (+8.0% yoy).

We applied a valuation based on a peer group and a Discounted Cash Flow (DCF) model. On the basis of both results this approach resulted in a fair value of EUR 18.11 per share. In our view, the expected sales and earnings increases have not yet been sufficiently reflected in the share price. Hence, we initiate our coverage with a BUY recommendation and a EUR 18.00 price target.

Provider of electronic components and sensors for the automotive industry

Market leader in many niches

Pioneer strategy

Further growth in the car industry predicted

Growth driver in 2012: USA and Asian region

Positive outlook from customers

Improved financial figures

Encouraging outlook for FY 2012

Expected sales growth in all regions in FY 2012E

PT EUR 18.00, BUY

SWOT analysis

Strengths

- paragon offers a large product portfolio and is able to specifically adjust the services and products towards customers' needs through its well proven know-how and production capabilities.
- Reputation is underlined through a large customer base (e.g. VW Group) within the automotive industry, especially in the premium car segment.
- After the termination of the insolvency proceedings in 2010 and the initiated restructuring measures the company is able to deliver again a high EBIT margin (2011: 13.2%) compared to other automotive suppliers (average 6-7%), as seen in the last two years.
- Balance sheet is improving further: By the end of March 2012 equity ratio was at 27.5%.
- The company has an industry experienced management.

Weaknesses

- The business model highly depends on the automotive sector.
- The automotive sector is determined by fast technology changes and comes with high R&D costs.
- At the moment the company has a low market capitalisation.

Opportunities

- International expansion could generate further sales and profit growth, especially in the Asian region.
- Extension of the value chain from individual components to entire assemblies, and complex components will strengthen paragon's product portfolio.
- More and more innovative solutions of paragon may find its way into the compact and middle class segment.
- Still large growth potential for the company with its electro mobility and car body kinematics solutions.

Threats

- The future success of paragon depends on its ability to develop and bring to the market new and improved products in a timely manner. The automotive market entails technical challenges, consequently, paragon may be unable to adapt innovative products quickly enough and therefore be replaced by other suppliers.
- Global production of vehicles and sales to OEMs are cyclical and depend, among other things, on general economic conditions and consumer spending, which can be affected by a number of factors, including fuel costs and the availability of consumer financing. Future developments in the automobile markets are difficult to predict and there is a risk that the facilities are underutilised or have insufficient capacity to meet customer demand if the markets either decline or grow faster than anticipated.

Valuation

Valuation summary

We applied a multiple valuation and a discounted cash flow (DCF) model to derive the company's fair value. Our peer group comparison indicates a fair value of EUR 12.55 per share. We focused on the earnings multiples for 2012E to 2014E. Our DCF model results in a fair value of EUR 21.81 per share.

Weighting DCF valuation result at 60%, we derive a final fair value of EUR 18.11.

Consolidation of valuation methods

	Weighting factor	Fair value per share (EUR)
Peer group valuation	40.0%	12.55
DCF valuation	60.0%	21.81
Fair value per share (EUR)		18.11

Source: CBS Research AG

Valuation on the basis of a DCF model and a peer group comparison

Fair Value per share is EUR 18.11

Peer group analysis

We have chosen German and international companies which have a similar or partially similar business model: All of them operate in the automotive industry. In line with its peers, paragon would be fairly valued at EUR 12.55.

Peer group multiples lead to EUR 12.55

Peer group

Continental AG: The company provides various products and services primarily for the automotive industry worldwide. Continental operates six business segments, including Chassis & Safety, Powertrain, Interior, Passenger and Light Truck Tires, Commercial Vehicle Tires, as well as ContiTech. The Chassis & Safety segment is focused on the areas of driver assistance, brakes, driving dynamics, passive safety and sensors. The Powertrain segment develops system solutions for vehicle powertrains. The Interior segment combines all activities related to the presentation and management of information in the vehicle. The Passenger and Light Truck Tires segment develops and manufactures tires for passenger cars, SUVs, vans, motorcycles and bicycles. The Commercial Vehicle Tires segment offers truck, bus, industrial and off-road tires. The ContiTech segment develops and produces functional parts, components and systems for the automotive industry, among others.

Continental

ElringKlinger AG: ElringKlinger is a worldwide development partner and original equipment supplier of cylinder-head and specialty gaskets, cover modules and shielding parts for the powertrain and exhaust system. As the only globally-active independent gasket manufacturer, the company supplies nearly all car manufacturers in Europe, North and South America as well as numerous Asian vehicle manufacturers.

ElringKlinger

Grammer AG: As a partner to the vehicle manufacturing industry, Grammer is specialized in innovatively developing and producing driver and passenger seats as well as components and systems for automobile interiors. Its Seating Systems division provides driver seats for trucks and offroad vehicles as well as passenger seats for trains, coaches and buses. Its Automotive division supplies premium head

Grammer

restraints, armrests, center consoles and integrated child booster seats to major motor vehicle manufacturers.

LEONI AG develops and manufactures technically sophisticated products for the motor vehicle industry – ranging from the single-core cable through to the complete wiring system with integrated electronics. The product range also encompasses wires and strands as well as optical fibers; standardised cables; special, hybrid and optical cables as well as completely assembled systems for customers in differing industrial markets.

LEONI

LKQ Corp: The company is in the US, the largest nationwide provider of recycled light vehicle OEM products and related services, and the largest nationwide provider of aftermarket collision replacement products. LKQ also refurbishes and distributes bumpers and wheels. LKQ operates from nearly 300 facilities to provide its customers a broad range of replacement systems, components, and parts to repair light vehicles.

LKQ

NOK Corp: NOK is Japan's first oil seal manufacturer. Its functional parts such as oil seals and O-rings created through an advanced technology in processed synthetic rubbers are used not only in the automotive industry but also in a wide variety of other industries.

NOK

NORMA Group AG: The company is a global market and technology leader with strong growth prospects in attractive niche markets for engineered joining technologies and distribution services. The company manufactures and sells a wide range of high-quality engineered joining technology solutions in three product categories: clamp, connect and fluid. Besides its main revenue source OEM sector (~ 40%) the company generates revenues from other different industries.

NORMA Group

Progress-Werk Oberkirch (PWO) operates as a supplier of metal components and subsystems for the automotive industry. PWO focuses on developing and manufacturing components and subsystems made from steel, stainless steel and aluminum. The company produces high-precision motor housings for ABS and ESP systems, windshield wipers and electric window units as well as housings for electronic control devices and parts for electrical drives. Furthermore PWO produces safety components for airbag and steering systems as well as for seat structures. It also produces vehicle body components, heat shields, cross-members, running gear components and accumulators for air suspension systems.

**Progress-Werk
Oberkirch**

Rheinmetall AG: Rheinmetall AG focuses its business in the markets for automotive components and defence equipment. The Automotive sector, parented by KSPG AG with its divisions KS Kolbenschmidt, Pierburg, KS Aluminium-Technologie, Pierburg Pump Technology, KS Gleitlager, and Motor Service, specializes in modules and systems for every aspect of the engine. The Defence sector with its divisions Land Systems, Weapon and Munitions, Propellants, Air Defence, C4ISTAR, Electro-Optics and Simulation and Training, is one of Europe's leading suppliers and foremost specialist in the market for land forces equipment.

Rheinmetall

Rieter Holding AG is supplier to the textile and automotive industries. Rieter Automotive Systems develops and manufactures components, modules and total systems for acoustic comfort and thermal management in motor vehicles.

Rieter

Tenneco Inc: The company has become one of the world's leading designers, manufacturers and distributors of emission control and ride control products and systems for the automotive original equipment market and the aftermarket.

Tenneco

Valeo SA: Valeo is an independent industrial Group fully focused on the design, production and sale of components, integrated systems and modules for the automotive industry, mainly for CO2 emissions reduction.

Valeo

Peer group: Margins

Company name	EBITDA margin			EBIT margin			Net margin		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
CONTINENTAL AG	14.2%	14.7%	15.1%	9.4%	9.9%	10.3%	5.3%	5.8%	6.2%
ELRINGKLINGER AG	22.3%	22.8%	23.6%	13.6%	14.5%	15.6%	8.7%	9.4%	10.4%
GRAMMER AG	7.2%	7.7%	7.8%	4.6%	5.1%	5.0%	2.4%	2.8%	3.0%
LEONI AG	10.1%	9.7%	9.9%	7.1%	6.8%	7.1%	4.6%	4.4%	4.6%
LKQ CORP	13.1%	13.6%	14.3%	11.6%	12.2%	12.8%	6.8%	7.3%	8.3%
NOK CORP	13.7%	13.8%	14.0%	8.1%	8.4%	n.a.	4.8%	5.0%	4.8%
NORMA GROUP	20.0%	20.5%	20.8%	16.2%	16.7%	15.9%	9.6%	10.4%	10.7%
PROGRESS-WERK OBERKIRCH AG	12.4%	12.9%	n.a.	7.1%	7.5%	n.a.	3.7%	4.2%	4.7%
RHEINMETALL AG	11.1%	11.3%	11.6%	7.1%	7.4%	7.8%	4.2%	4.4%	4.5%
RIETER HOLDING AG-REG	10.3%	11.5%	14.1%	6.5%	7.5%	10.3%	3.8%	5.2%	7.2%
TENNECO INC	8.2%	8.4%	8.7%	5.7%	6.0%	6.2%	2.6%	2.9%	3.2%
VALEO SA	10.9%	11.2%	11.2%	6.0%	6.2%	6.5%	3.7%	3.9%	4.2%
Average	12.8%	13.2%	13.7%	8.6%	9.0%	9.7%	5.0%	5.5%	6.0%
Median	11.7%	12.2%	14.0%	7.1%	7.5%	9.1%	4.4%	4.7%	4.8%

Source: CBS Research AG, Bloomberg

The next table shows current multiples:

Peer Group: Multiples

Company name	EV / EBITDA			EV / EBIT			P / E		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
CONTINENTAL AG	4.4	4.0	3.7	6.7	6.0	5.4	7.5	6.5	5.7
ELRINGKLINGER AG	6.1	5.6	5.0	10.0	8.8	7.6	12.9	11.1	9.4
GRAMMER AG	3.4	3.0	2.8	5.2	4.5	4.4	6.0	4.7	4.4
LEONI AG	3.4	3.3	3.1	4.8	4.7	4.4	6.2	5.9	5.3
LKQ CORP	11.4	9.9	8.8	12.9	11.1	9.9	19.3	16.4	13.7
NOK CORP	4.2	3.9	3.8	7.2	6.5	n.a.	10.2	n.a.	8.7
NORMA GROUP	6.2	5.7	5.2	7.6	6.9	6.8	10.0	8.7	7.8
PROGRESS-WERK OBERKIRCH AG	4.9	4.4	n.a.	8.5	7.5	n.a.	6.8	5.6	4.7
RHEINMETALL AG	3.5	3.3	3.1	5.5	5.0	4.6	6.5	5.9	5.6
RIETER HOLDING AG-REG	5.0	4.2	3.2	7.9	6.3	4.4	15.9	13.4	8.3
TENNECO INC	4.5	3.8	3.3	6.4	5.4	4.7	8.5	6.6	5.5
VALEO SA	2.7	2.5	2.3	5.0	4.5	4.0	6.1	5.4	4.7
Average	5.0	4.5	4.0	7.3	6.4	5.6	9.6	8.2	7.0
Median	4.5	4.0	3.3	6.9	6.2	4.7	8.0	6.5	5.6

Source: CBS Research AG, Bloomberg

We applied these multiples from the peer group to our financial forecasts for paragon. We deducted the company's net financial debt and pension provisions from the derived enterprise values in order to get the fair value of equity. With the P/E, EV/EBIT and EV/EBITDA multiples for 2012E to 2014E, we calculated the fair value of equity. The peer group approach indicates a fair value of EUR 12.55.

EURm, except EPS (EUR)	EBITDA			EBIT			EPS		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
paragon AG: Financial estimates CBS Research	13.6	14.9	15.7	9.5	10.5	11.0	1.49	1.63	1.72
Applied multiples: Peer group median	4.5	4.0	3.3	6.9	6.2	4.7	8.0	6.5	5.6
Enterprise value (derived)	60.8	59.4	52.2	66.2	64.6	51.4	-	-	-
+ Excess cash	15.9								
- Financial debt	-16.5								
Market capitalization (derived)	60.3	58.8	51.6	65.7	64.0	50.8	48.9	43.9	40.1
Median	51.6								
Premium (discount) vs. Peer Group	0%								
Fair market capitalization (after discount)	51.6								
Number of shares (m)	4.1								
Fair value per share (EUR)	12.55								

Source: CBS Research AG, Bloomberg

DCF model

Our DCF model indicates a fair value of EUR 21.81 for paragon. Our assumptions are as follows:

Phase 1 (2012-14E): We estimated the free cash flows (FCF) of phase 1 according to our detailed financial forecasts for this period stated in the financials section.

Phase 2 (2015-21E): For Phase 2, we started off, using more general assumptions. We assumed a sales growth of 3% annually. In the midterm we forecast constant EBIT margins, but at the end of Phase 2 we expect that the company will face higher costs and thus experience a negative impact on EBIT-margin development.

Phase 3: For the calculation of the terminal value, we applied a long-term FCF growth rate of 2.0% which equals the estimated long-term inflation rate.

Based on these assumptions, we calculated a fair value of the operating business of EUR 90.3m. We deducted paragon's net debt (cash minus financial debt) and current pension provisions. The resulting fair value of equity is EUR 89.7m. The fair value per share amounts to EUR 21.81 according to our DCF model.

DCF model leads to a fair value of EUR 21.81

Phase 1 according to detailed estimates

Phase 2 characterised by 3% sales growth per year

Phase 3: Terminal value growth at 2%

Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2							PHASE 3
	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	∞
Sales	72.4	78.3	82.5	84.9	87.5	90.1	92.8	95.6	98.4	101.4	
YoY growth	8.0%	8.1%	5.3%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
EBIT	9.5	10.5	11.0	11.5	11.8	12.2	12.5	12.9	12.8	12.2	
EBIT margin	13.2%	13.4%	13.4%	13.5%	13.5%	13.5%	13.5%	13.5%	13.0%	12.0%	
Income tax on EBIT (cash tax rate)	-2.8	-3.0	-3.2	-3.3	-3.4	-3.5	-3.6	-3.7	-3.7	-3.5	
Depreciation and amortisation	4.1	4.4	4.7	4.8	5.0	5.1	5.3	5.4	5.6	5.8	
Change in long-term provisions	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	
Change in net working capital	-1.2	-2.0	-2.3	-2.2	-2.2	-2.3	-2.4	-2.6	-2.7	-2.9	
Net capital expenditure	-4.1	-4.7	-4.9	-4.8	-5.0	-5.1	-5.3	-5.4	-5.6	-5.8	
Free cash flow	5.8	5.5	5.6	6.4	6.6	6.8	6.9	7.1	6.9	6.3	
Present values	5.6	4.8	4.6	4.8	4.6	4.3	4.0	3.8	3.4	2.9	47.6
Present value Phase 1	15.0										
Present value Phase 2	27.7										
Present value Phase 3	47.6										
Total present value	90.3										
+ Excess cash	15.9										
- Financial debt	-16.5										
Fair value of equity	89.7										
Number of shares (m)	4.1										
Fair value per share (EUR)	21.81										

Risk free rate	3.50%	Target equity ratio	35.0%
Equity risk premium	6.00%	Beta (fundamental)	1.79
Debt risk premium	3.50%	WACC	8.16%
Tax shield	30.0%	Terminal growth	2.0%

Sensitivity analysis						
Terminal growth (Phase 3)						
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.2%	23.34	24.53	25.94	27.65	29.78
	7.7%	21.60	22.56	23.69	25.05	26.69
	8.2%	20.10	20.89	21.81	22.89	24.19
	8.7%	18.79	19.45	20.20	21.09	22.12
	9.2%	17.63	18.19	18.82	19.55	20.39

Source: CBS Research AG, Bloomberg

Company profile

Business overview

paragon AG was founded in 1988 and is headquartered in Delbruck, Germany, and employs currently over 400 people in four production sites across Germany.

Company sites

Delbruck:

- Air quality
- Power train
- Acoustic
- New: Electro mobility

Suhl:

- Sensors
- Electronics
- Electro mechanics

St. Georgen:

- Stepper motors

Nuremberg:

- Media-interfaces
- Cockpit
- New: Car body kinematics



Source: paragon AG, CBS Research AG

The company is a direct major supplier of automotive electronic solutions to the automotive industry, focusing on the German premium automobile brands. The company sells its products to a wide range of different car markers.

paragon's customers



Source: paragon AG, CBS Research AG

paragon products are divided into seven product groups: air quality, powertrain, acoustics, stepper motors, media interfaces, cockpits and electro mobility.

Products

Air quality				
Powertrain				
Acoustics				
Stepper motors				
Media Interfaces				
Cockpit				
Electro mobility				
Carbody kinematics (prospective business segment)				

Source: paragon AG, CBS Research AG

Air quality

The air quality segment of paragon is concerned with the health and wellbeing of automobile occupants. On these grounds the main tasks of paragon's developed products is to prevent noxious fumes from entering the car interior, identify factors that can negatively influence air quality or even actively eliminate. An especially noteworthy product is the AQS air-quality sensor, which detects noxious gases such as diesel and gasoline vapours and actively prevents them from entering the vehicle's interior through its ventilation system. The AQS air-quality sensor is the undisputed leader in its field and underlines paragon's market leading position for several years. Furthermore two other products are available in the air quality product group. The AQI® Air Quality Improver which as its name indicates improves the air quality within the equipped vehicles. The system is based on physical air treatment. Fine particles, gases, and odours are bound with the aid of oxygen ions. At the same time, the system purifies the air, which reduces the number of germs in the interior drastically. Additionally the negatively charged oxygen ions, moreover, promote the alertness of the occupants. The third is the AQC® air quality conditioner which is in charge of preventing a common problem in an innovative way. Since the operation of a vehicle's air conditioner results in fluctuations of temperature and humidity on the condenser, this provides an ideal environment for bacteria and other germs drawn in from the outside to proliferate. The AQC® counters this problem through micro oxidation. The disinfection process eliminates bacteria and germs on the condenser, preventing unpleasant odors from arising.

Powertrain

The Powertrain segment is composed by six product categories. The first sub segment is Shift-by-wire. The products within this sub segment are sensors which are applicable for gear boxes. These sensors recognize their precise position and

transmit this data via so called Hall sensors to the transmission control unit. Another product sub segment is the path sensor segment. The path sensors offer a direct and precise distance measurement between switching points. Even under toughest circumstances e.g. strong temperature variations, the sensors offer a high reliability. Noteworthy is as well that the path sensors do not influence any other vehicle operations while they are operating. The areas of application for the path sensors are vast, e.g. detection of clutch travel, engine start release, release of parking brakes as well as the speed control. Positioning sensors represent the third sub segment. Contact free and without abrasion are the main characteristics of paragon's positioning sensors. Additionally the sensors continuously recognize the terrain three-dimensional, using a high frequency, which makes them very reliable. The positioning sensor also finds use in shift by wire systems. The Sensor Switch sub segment represents the fourth category. paragon offers sensor switches which are very ergonomically and therefore offer a high degree of operating convenience at all times. The actual sensor is based behind a sealed surface which protects him from moisture, dirty and other external influences which could irritate the sensor's function. Noteworthy is the offered creative freedom in design and illumination which can easily be applied. Wheel and slide functions can also be realised with these sensors. In addition, paragon has two new product sub segments. One of them is the so called All-Gear Sensor. This product senses the gear selection in manual transmissions. It is based on an innovative sensor technique that accurately detects rotation and longitudinal motion in shafts and axles. Furthermore the sensor is able to determine every shift position in a manual transmission, displaying it exactly. The other product within paragon's drive train product segment is the new start-stop sensors which features a combination of inductive distance measurement with a patented ball-bearing locking nut or screw. The sensor dispenses with the need to integrate magnets, as in the case of classic Hall sensors. Besides clearly recognizing the gear position, the start-stop sensor possesses additional features such as control signals for a back-up camera or an acoustical back-up signal. paragon's sensor solutions optimise the powertrain's control systems in a great variety of applications by means of ultra precise distance measurement, thus making it possible to substitute modern electronic solutions for hydraulic and pneumatic regulatory systems.

Acoustics

paragon's product group acoustics represent acoustic solutions which ensure that voice and data are transmitted from their source to their destination without the slightest loss in quality. paragon's products comprise a variety of microphones which guarantee optimum audio quality. paragon's product uni-mic® stands for a universal hands-free solution which distinguishes itself by a high degree of directionality and extremely good EMC (electromagnetic compatibility) insulation. The reason for the good sound quality is attributable to a high-quality microphone capsule which enables good directional characteristics and good impact sound dynamics (Back Electret Technology). Furthermore its modular construction confers a high degree of reliability on the uni-mic. Therefore paragon is able to guarantee an MTBF of more than 1,000,000 hours in conjunction with its sophisticated method of manufacturing. Nevertheless the greatest advantage of the uni-mic lies in its miniaturization according to paragon. The extremely small microphone can be positioned in a vehicle's interior without causing any design problems. Another paragon product is the flex-mic® gooseneck microphone which possesses a very high degree of directionality and extremely good EMC insulation. A high-quality microphone capsule makes for good directional characteristics and very good impact-sound dynamics (Back Electret Technology). Additionally the microphone wire is flame resistant and the flex-mic's metal housing confers a high degree of reliability and excellent EMC behavior. The last product offered by paragon in the segment acoustic is the Seatbelt Microphone belt mic® and is one of a kind worldwide. The mic is positioned so as to

keep the microphone at a constant distance of between 10 and 15 centimeters, improving intelligibility of speech. The quality is so good that not even an open window or an open convertible can disturb the communication. Furthermore the considerable improvement in transmission quality also renders voice-recognition systems much more reliable.

Stepper Motors

Aside from the above mentioned product groups, paragon also offers high end stepper and dual stepper motors. The normal stepper motor represents a solution for the individual demands posed by display instruments in a vehicle's interior. They fulfill all the requirements for precision placed on high-value components such as automobile clocks. The dual stepper motors in comparison permit analogue display of two parameters by two independent hands arranged concentrically. Furthermore the new design for the drives, permits individual illumination of the hands in accordance with the parameter indicated. This technology forms the basis for advanced two-handed instruments.

Media Interfaces

A further pillar of paragon's product portfolio is the product group media interfaces. The company's aim is to supply customers with everything they need for automotive communication from a single source. The array of products available ranges from cradles for mobile telephones to Internet radio and WiFi hotspots. Interfaces play a major role in the automotive communication and interconnectivity of mobile end devices with a vehicle's electronic system has become one of the core tasks for designers of automotive interiors. Therefore paragon offers interfaces which make it possible to connect mobile audio devices such as the Apple iPod or other MP3 players to the vehicle's entertainment system via iPod connector or USB. A good example is paragon's Media Extender. A special feature of the Media extender permits convenient display of playlists on the head unit. The Bluetooth interface, moreover, permits easy integration of mobile telephones. Securely installed in the vehicle's glove compartment or in the console, mobile devices may be operated easily via the head unit. Additional functions such as Internet radio, WiFi, email and so forth are also possible and available. Additionally the company offers innovative solutions for seamlessly connecting mobile end devices such as cell phones and smartphones. Whether they are designed specifically for cell phones or for general use with the Universal Phone Tray, paragon is able to meet customers' demands. These trays permit drivers to use telephones safely and easily while underway, enhancing occupant safety. On top, connecting a mobile phone to a cradle charges the phone and also connects it to the vehicle's antenna, which greatly lowers electromagnetic radiation within the interior and enhancing the quality of the connection at the same time. The most innovative product paragon offers within the product group Media interfaces is the novel cTablet Docking Station, which makes it possible to optimally integrate an individually configurable tablet computer into a compact car. As an example, paragon has demonstrated this connecting a Samsung Galaxy Tab with the cockpit of a VW Polo at IAA 2011. The company introduced this product as a response to the growing demand for the networking of mobile devices within vehicles. Noteworthy is that the product has been developed in cooperation with the iconmobile group and is able to support all current tablets using interchangeable inserts. paragon announced that it will be available as standard equipment and as an upgrade/retrofit sometime in 2012.

Cockpit

Another product group offered by paragon is the product group cockpit. Display instruments and cockpit controls are at the focal point of this product group and represent a major business activity of paragon at the present and in the time to come.

The product portfolio comprises individual instruments for supplemental functions, clocks, stopwatches, compasses and entire instrument clusters for niche applications. All of the offered instruments are equipped with illuminated hands and backgrounds as well as luxurious metal faces with fluorescent numbers. Instrument clusters are available in a classic round design, or in a TFT display, or in a combination of TFT display and round design. Therefore the products are available in a large range of physical and functional appearances, meeting customers' demands. Another product category within the cockpit product group is the category controls. paragon's aim is to integrate these controls as central as possible and at the same time ensure an intuitive and convenient operation. Innovative sensor buttons unite convenience and individual design. The sensors are located underneath a one-piece, enclosed surface. This design offers several advantages. On the one hand, it provides effective protection against mechanical influences, dirt and moisture; on the other hand, it allows creativity in design and illumination. Wheel and slider functions are available in addition to the switch function. These are then integrated into complete control units for steering wheels, air conditioners, head units and other applications. These control units are found steering wheels, air conditioners, head units and other applications. Additionally paragon offers a reversing camera system which allows you to look ahead even when you're backing up. The camera assists drivers the moment they begin to park. Putting the vehicle into reverse automatically activates the reversing camera. The integrated microphone provides an extra measure of safety because drivers can hear what is going on behind the vehicle, enabling them to recognize dangerous situations more quickly. The monitor is mounted in the console tray and can be swiveled and rotated at will to permit optimum adjustment.

Electro mobility

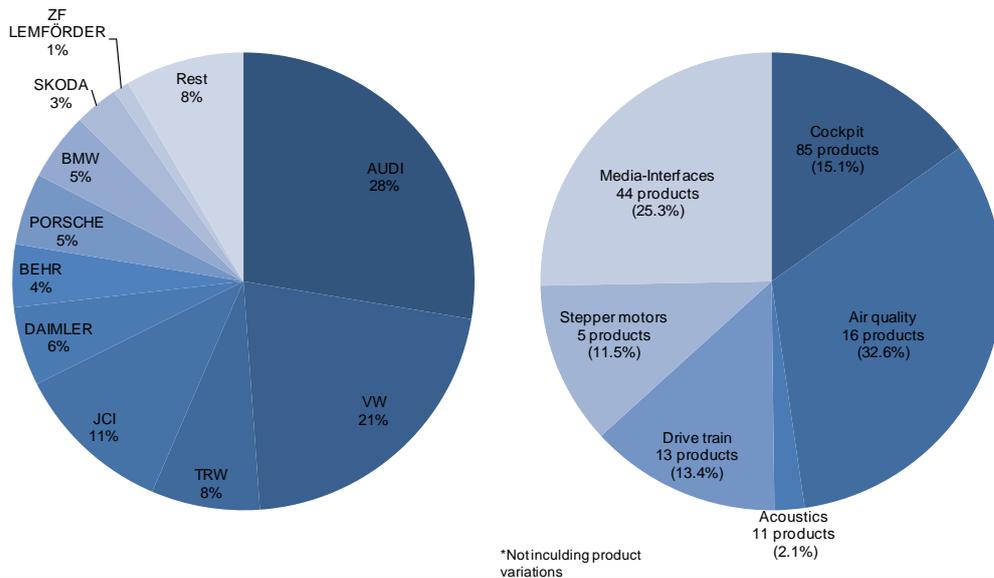
The last product group paragon offers is electro mobility. This product group represents a complete system for electro mobility for the use in passenger cars and commercial vehicles. Furthermore this segment also includes a novel range extender, which is a leader with respect to complexity and breadth of application. Apart from the range extender, the comprehensive approach includes a modular battery pack with battery management system, the charging system, engine controller and DC/DC converter as well as the cockpit system. The modular program can be individually adapted to the particular application. A noteworthy product that paragon has to offer is the "ExtRa15" range extender. This product contains a low-vibration and quiet single-rotor Wankel engine as its primary drive. The extremely compact design facilitates optimal integration in the vehicle. Also new is the integration of this range extender in the climate control system so that it no longer limits the range of electric vehicles and solves a known problem in an intelligent manner.

Car body kinematics

The prospective business segment of paragon will be focusing on two sub segments: Aerodynamics and convertible hood systems. The aerodynamic segment will concentrate on car spoiler systems. The goal of these systems will be to develop more efficient aerodynamic car spoilers' aspects, which are supposed to also be able to smoothly adjust themselves in accordance to their respective duties. Furthermore paragon is planning to develop selectable active and passive flaps for convertible hood systems which are supposed to meet individual customer's needs. Additionally paragon is developing diversified periphery-systems for convertible hoods. The business segment is to be implemented into paragon's business strategy during the year 2012.

The important customers of paragon are the VW Group, JCI, TRW, Daimler and BMW.

Sales by customers and segments in 2011 in %



Source: paragon AG, CBS Research AG

Company history

Year	Milestones
1988	▪ Founded as an electronics manufacturer in Delbruck
1991	▪ Plant for electronic services in Zella-Mehlis
1993	▪ Development and production of sensors begins
1995	▪ paragon's first air-quality sensor in cars
1998	▪ Production of components for operating controls
2000	▪ paragon AG listed in the Prime Standard of the stock exchange in Frankfurt am Main
2003	▪ paragon takes over the air-quality sensor division from Bosch
2004	▪ Start of display-instrument business
2005	▪ Entry into the market for car media systems
2007	▪ Artega® spin-off initiated
2009	▪ Comprehensive corporate-wide restructuring
2010	▪ Full focus on the automobile industry ▪ paragon opens insolvency proceedings on 1 January ▪ Termination of insolvency proceedings on 1 June
2012	▪ Order of AQS® air quality sensors from BMW with a corresponding volume of approx. EUR 24m ▪ paragon establishes local presence in Shanghai

Source: paragon AG, CBS Research AG

Management team

Management board

Klaus Dieter Frers, Chief Executive Officer

Klaus Dieter Frers, born 25 February 1953 in Hamm (Germany), founded paragon in 1988. Previously he graduated from the University of Stuttgart with a degree in mechanical engineering and worked for AEG Telefunken and Nixdorf Computer AG in leading positions before founding paragon. Mr. Frers has 34 years of work experience in leading functions within the automotive and electronic industry. Furthermore his work has been awarded through the so called "Oskar des Mittelstandes" granted through the German states Thuringia and Hesse.

Reiner Witzemberger, Chief Operational Officer

Reiner Witzemberger, born in 1958, joined paragon in 2005 and was appointed COO in October 2011. He is responsible for the operation of the company sites. Mr. Witzemberger holds a title as Dipl. Kfm..

Oliver Munz, Finance Manager

Mr. Munz joined paragon in 2007 and holds a title as Dipl. Kfm.. He has over 10 years of work experience within the field of Finance and Tax.

Burkhard Krüger, Marketing/Sales Manager

Mr. Krüger joined paragon in 2010. He holds a title as Dipl.-Wirtsch.-Ing. (FH) and as Dipl. Ing. Electronics. Furthermore he holds an Executive MBA from ESCP Europe Business School. Before joining paragon he worked for VW Group as a development engineer, as senior consultant Automotive at Roland Berger Consulting and at Electricfil Automotive S.A.S. as a sales and business development manager.

Dr. Gerhard Wessels, Head of Research & Development Nuremberg

Dr. Wessels also joined paragon in 2010. Before joining the company he was Head of System development and telematics at Continental and Team leader for Algorithm and system development at Delphi. Dr. Wessels holds a degree in physics from the TU Munich and PhD in the field of semiconductors. Dr. Wessels is in charge of the development of media interfaces and cockpit instruments and controls at the production site in Nurnberg.

Ralf Mönkemöller, Head of Development Delbruck

Mr. Mönkemöller joined paragon in 1990. In 1995 Mr. Mönkemöller was appointed Head of R&D in Delbruck. He is responsible for the segments air quality, power train and acoustic. His know how contributed major to paragon's product development. Furthermore Mr. Mönkemöller holds a degree in Dipl. Ing. Electrical engineering (FH).

Norbert Nadrowski, Head of Materials Management

Mr. Nadrowski, born in 1962, joined paragon in 2008 as Head of Purchasing and was appointed Head of Materials Management in 2010. He is responsible for the purchasing and logistic of the company sites. Mr. Nadrowski holds a title as Dipl. Betriebswirt.

Supervisory Board

The paragon Supervisory Board consists of three members:

Hans J. Zimmermann, Chairman of the board

Mr. Zimmermann is Managing Director of HSBC Trinkhaus Private Wealth GmbH and HSBC Trinkhaus Consult GmbH. Furthermore he is member of the Supervisory board of Schaltbau AG, Munich; Merkur Bank KgaA, Munich; GARANT Schuh + Mode AG, Dusseldorf. Additionally Mr. Zimmermann board memberships at ante-holz GmbH, Bromskirchen-Somplar, and at Rheinzink GmbH & Co. KG, Datteln

Other Supervisory Board members:

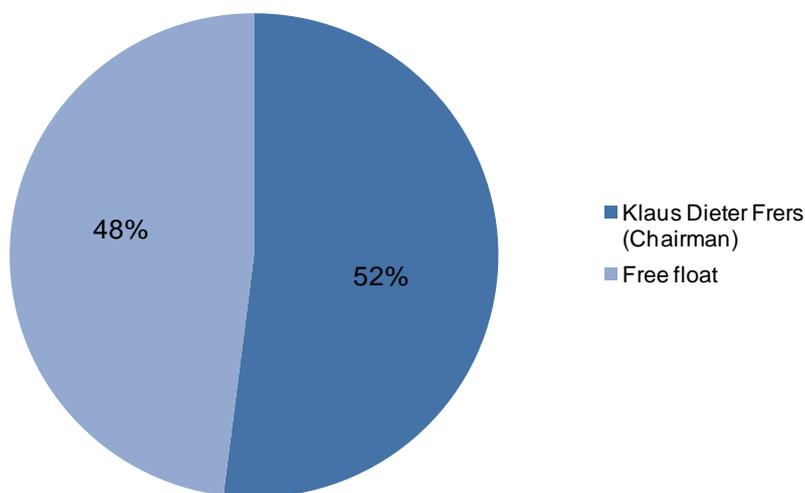
Hermann Börnemeier

Mr. Börnemeier is specialist in Tax Law and Tax Adviser and Managing Director of Treu-Union Treuhandgesellschaft mbH.

Walter Schäfers

Mr. Schäfers is Attorney and Partner at the Societät Schäfers Rechtsanwälte und Notare.

Shareholder structure

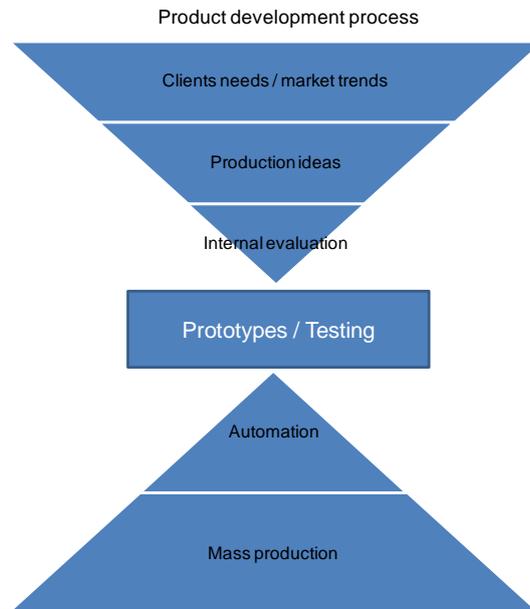


Source: paragon AG, CBS Research AG

Strategy

paragon's strategy is based on a pioneering spirit. The company strives for constant improvement and for product uniqueness. Thus, it consistently strives to be the first to recognize an opportunity in the market and is working to consolidate its market position. Part of that strategy is to concentrate on niches on which larger suppliers would not focus.

Innovation process



Source: paragon AG, CBS Research AG

Furthermore, paragon keeps three aspects in mind: comfort, safety and wellbeing. Today driving is not any more than just getting from Point A to Point B. The car manufacturers are concentrating more and more on the comfort of drivers and passengers. Thanks in part to paragon products, traveling in comfort is no longer a luxury. Many innovative solutions have found its way into the compact and middle class. Furthermore, active and passive safety is playing an ever greater role in automotive design, too. The automobiles today feature functions whose primary purpose is to protect their occupants. After all, millions of people daily rely on these safety features to protect them on the road. Solutions by paragon help make driving more carefree. Another important point is air quality (wellbeing). Alertness and quick reactions are paramount when driving. paragon supplies new ideas to improve both the air and the sense of wellbeing in the vehicle's interior.

The solutions the company proposes feature crystal-clear unique selling propositions, which nevertheless are suitable for serial production. paragon is thus able to engage in high-margin fields and still enjoy the benefits of largely automated manufacturing. In contrast to other suppliers, paragon's point of view corresponds to that of a vehicle's occupants, and paragon engineers face new tasks and questions from that perspective. Focusing on buyers and users reap benefits that manufacturers can share by working together with paragon. In the course of FY 2011, the company took the opportunity to enhance the range of products and services. The man-machine interface focus covers over 170 established products excluding product variations in six product groups. paragon is also increasingly concentrating on expanding its activities in an area the company refers to as efficiency. This focus will steadily gain importance, not least as a consequence of the growing relevance of energy efficiency in the automobile industry. The company will adhere to its strategy for electric vehicles as well.

Competitive Landscape

The competitive landscape is characterized by small, mid to large global producers. Regarding the market share paragon is in the different product segments one of the market leaders (e.g. air quality, powertrain, etc.) in Europe and global.

Short overview of major competitors of paragon in the Air quality segment

AppliedSensor GmbH (Reutlingen Germany), is a subsidiary of AppliedSensor Inc. (USA) and is specialised in chemical sensor research and development since the early 1980s. The company offers Metal Oxide Semiconductor (MOS), Field-Effect (FE) and Quartz Microbalance (QMB) sensor technology. Customers include institutions such as the Chicago Museum of Science and Industry, major automakers like BMW and some of the best-known sensor and HVAC (Heating, Ventilation and Air Conditioning) companies.

e2v microsensors SA is a subsidiary of e2v technologies plc based in Corcelles, Switzerland. It specialises in the R&D of air Quality Sensors, enabling the climate control system of a car to measure pollution levels external to a vehicle. When the vehicle travels through a polluted area it triggers closure of the air inlet, moving the system into recirculation mode. Furthermore e2v offers a wide variety of AQS solutions, each of which integrates two dedicated gas sensing chips, one for reducing gases (CO/HC) and one for oxidizing gases (NOx). These modules measure a broad range of reducing gases that are commonly found in traffic pollution, including CO, hydrocarbons and NOx. The parent company was founded in 1944.

Samsung Electronics Co. Ltd. engages in the manufacture and sale of semiconductors, LCDs, telecommunication products, and digital media products. Semiconductor products include DRAM, flash SSD, fusion memory, SRAM, foundry, display driver IC, media and storage products, smart cards, microcontrollers, imaging solutions; LCD products that comprise panels for TVs, notebook PCs, digital information displays, monitors and mobile displays. The company also offers telecommunication products consisting of telecomm systems comprising mobile WiMAX, WCDMA, CDMA, IMS, Femto cell, and wire line systems; enterprise systems, which include IP telephony, converged gateway, and digital key phones; and cable and IP set-top boxes, IAD, and IP phones. In addition, it provides digital video recorders, as well as satellite, terrestrial, and cable receivers; reciprocating and rotary compressors; optical discs; optical fibers, fiber optic cables, and interconnection products; and enterprise mobility solutions. Furthermore, the company offers consumer products, including mobile phones, televisions, blu-rays, DVD players, home theaters, multimedia players, and digital cameras and camcorders; home appliances, such as refrigerators, air conditioners, washing machines, and ovens; PC/peripherals/printers, including notebooks, monitors, and laser printers; and memory cards.

Short overview of major competitors of paragon in the Powertrain segment

Hartmann-exact GmbH is a German based company with focus on sensors and mechatronics for the automotive industry. The company was founded in 1936 by Eduard Hartmann in Niederramstadt near Darmstadt, Germany. Since 1966 Hartmann is active as an automotive supplier. The customer base comprises nearly all major German car manufactures. The company's products include sensors for the following automotive product groups: convertible roofs, belt buckles, seats, chassis, Safety Technology and Micro switches.

AB Elektronik, based in Werne (Germany) is a strategic subsidiary of TT electronics Group. Since 30 years the company offers sensor solutions to the automotive sector, as well as the rail, industrial, agricultural, aerospace and medical sectors. The products offered consist of: pressure sensors, temperature sensors, rotary speed sensors, position sensors, proximity sensors, halo sensors, pedals and potentiometers.

Short overview of major competitors of paragon in the Acoustics segment

AKG Acoustics GmbH is a in audio solutions specialised company based in Vienna (Austria). It offers a wide range of acoustic solutions, especially in the microphone segment. The company was founded in Vienna, Austria, by Dr. Görike and Ing. Ernst Pless. The company was originally set up to manufacture products for the cinema industry.

peiker acustic GmbH & Co. KG, founded in 1946, in a small workshop in Bad Homburg (Germany), today peiker acustic GmbH & Co. KG, based in the city of Friedrichsdorf, Germany, is a mid-sized company with international operations and affiliates in Berlin/Teltow, France, the United States, and Mexico, supplying its solutions to the automotive industry. The company offers a wide range of innovative voice and data applications (especially interface solutions) for use in vehicles.

Short overview of major competitors of paragon in the Stepper motors segment

Juken Swiss Technology AG: The company started its activity as Microcomponents AG within the Swatch Group during early 1990's and set the standard in the automotive instrument cluster motors. The activity became part of the Juken Group in April 2010. Juken offers products for the automotive industry. The products comprise analogue clock modules, stepper motors and IC drivers. The company is based in Grenchen – Switzerland where all research & development is carried out. All products of Juken are tested in their own approved test facilities. The production facility is situated in Zhuhai – China since 11 years. The company's automotive era of stepper motors started with the series 300 which 14 years and three generations of products later has evolved into today's X2x motor family. The activities were further enhanced by the development of new products such as Driver IC's and Analogue Car Clocks.

Sonceboz SA: The company, based in Sonceboz, Switzerland, manufactures mechatronic drive systems and electric motors designed to operate in harsh environments. Products include custom motion systems, mechatronic drive systems, torque motors, linear actuators, electronic drivers and DC motors. The main customers of Sonceboz are found within the automotive industry. Additionally the company also supplies the agricultural and medical industrial sector.

Short overview of major competitors of paragon in the Media Interfaces segment

Funkwerk AG, based in Köllda, Germany, is a leading provider of professional communication, information and security systems with core engineering competency in radio-frequency technology. The company operates through four business lines, namely Traffic and Control Communication (TCC), Automotive Communication (AC), Enterprise Communication (EC) and Security Communication (SC). Funkwerk AG is the holding company of 12 main operating subsidiaries with global development and sales organization.

Continental AG is an international automotive components supplier. The Company focuses its activities on the development, production and distribution of products that improve driving safety, driving dynamics and ride comfort. It operates in four main business divisions: the Automotive Systems division, Passenger and Light Truck Tires, Commercial Vehicle Tires Brands and ContiTech. The Company's brands include Continental, Uniroyal, Semperit, Barum, General Tire, Euzkadi and Viking. Continental AG is headquartered in Hanover, Germany. The Automotive division is divided into three subdivisions: Chassis & Safety division, Interior Division and Powertrain division. For our purposes most important are the Interior and Powertrain divisions. The interior's division comprises the following products: Instrumentation & Driver HMI, Infotainment & Connectivity, Body & Security and Commercial Vehicles & Aftermarket. The Powertrain division is composed of the following product categories: Engine Systems, Transmissions, Hybrid Electric Vehicle, Sensors & Actuators and Fuel Supply.

Short overview of major competitors of paragon in the Cockpit segment

Marquardt GmbH was founded in 1925 and is headquartered in Rietheim-Weilheim (Germany). The company is specialised in assembly parts, e.g. plastic and punched parts, printed circuit boards, etc. Marquardt especially develops and produces automotive systems and applications, e.g. steering wheel control panels, drive authorization systems, control panels & switches and control devices. Additionally it develops of sensors and switches for household appliances, cleaning & drive technology, HVAC as well as other applications.

Johnson Controls, Inc. engages in building efficiency, automotive experience, and power solutions businesses worldwide. Its building efficiency business designs, produces, markets, and installs integrated heating, ventilating, and air conditioning systems, as well as building management systems, controls, and security and mechanical equipment. This business also provides technical services, energy management consulting, and operations of real estate portfolios for the non-residential buildings market. In addition, this business offers residential air conditioning and heating systems, and industrial refrigeration products. The company's automotive experience business designs and manufactures interior products and systems for passenger cars and light trucks, including vans, pick-up trucks, and sport/crossover utility vehicles serving original equipment manufacturers. It offers seating systems and components; cockpit systems comprising instrument panels and clusters, information displays, and body controllers; overhead systems, such as headliners and electronic convenience features; floor consoles; and door systems. The company's power solutions business produces lead-acid automotive batteries, as well as offers absorbent glass mat and lithium-ion battery technologies to power hybrid and electric vehicles. It serves automotive original equipment manufacturers and the general vehicle battery aftermarket.

The Bosch Group, consisting of Robert Bosch GmbH and its consolidated subsidiaries (the "Bosch Group"), is a leading global supplier of technology and services in the areas of automotive, industrial technology as well as consumer goods and building technology. As a multi-industry leader, Bosch operates via 300 subsidiaries in 60 countries; its core lines include automotive systems, from diesel/hybrid drive to steering, starter motors and generators, electronics, and brakes. Subsidiary Bosch Rexroth makes electric, hydraulic, and pneumatic machinery for industrial use. Bosch Security makes various protection systems. Bosch also makes photovoltaic and wind-turbine components, heat pumps for buildings, and home appliances, through Bosch-Siemens Hausgeräte.

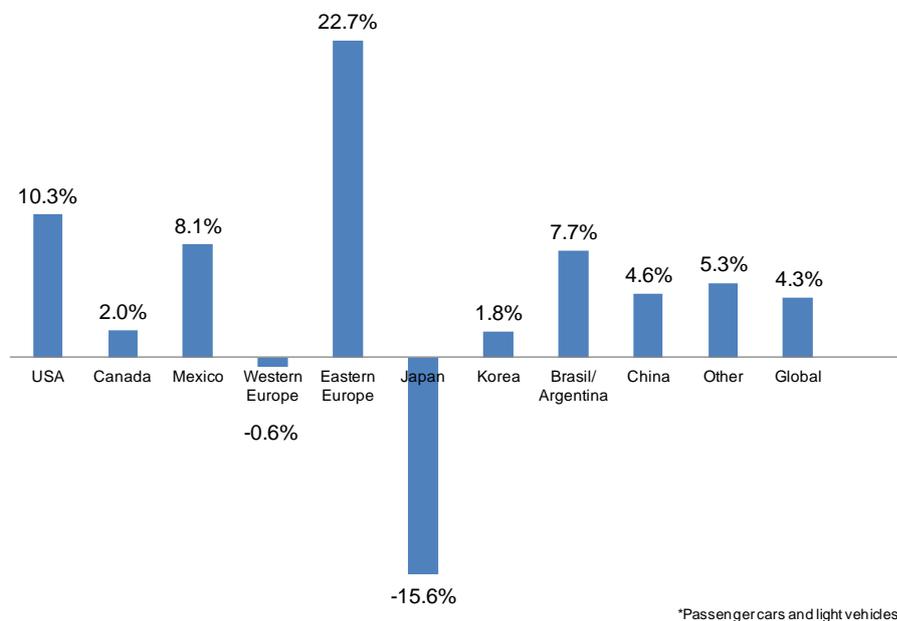
Market environment

The sales trend on the automotive market

After the worldwide car sales (passenger cars and other light vehicles) had increased by 13.3% in 2010 (2009: -3.0% y/y) there was an increase of 4.3% to 75.46m units in 2011 according to LMC Automotive (formerly JD Power). This development is especially owed to China, the world's largest car market (share of 24%) that generated a sales increase of 4.6% to 18.00m units. In the US (share of 17%), 12.75m units were sold and, thus, 10.3% more cars, 1.19m units respectively, than in 2010. Comparatively, the Western European market (share of 19%) developed clearly weaker (-0.6% to 14.34m units) due to fiscal measures in some countries (for example, VAT increase in Great Britain). However, the development was quite differentiated in the Western European countries (Great Britain: -4.4%; Spain: -17.7%; Italy: -11.0%; France: -2.1%; Germany: +8.8%).

Global car sales up by 4.3% in 2011

Worldwide automobile market trend* in 2011 (change yoy in %)



Source: LMC Automotive 2012, CBS Research AG

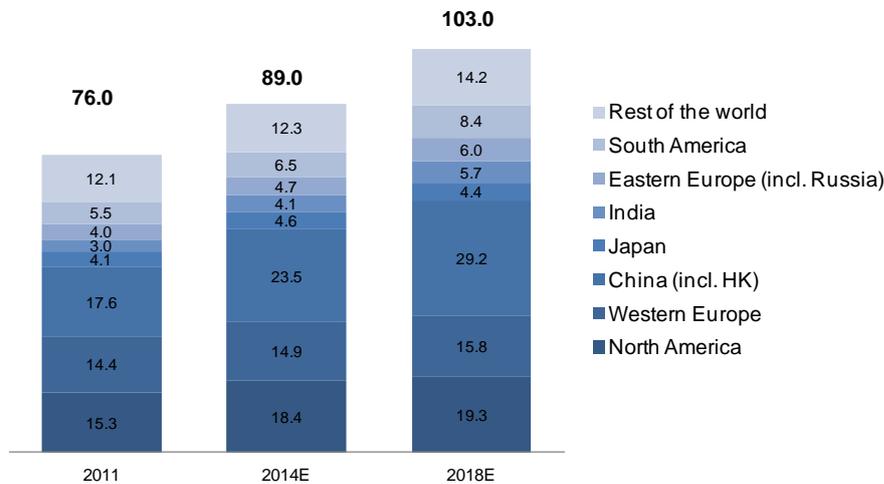
In the first four months of 2012 worldwide car sales increased by 4.1% to 26.43m (PY: 25.40m) units. This development is especially owed to USA (+10.3% to 4.64m units), Japan (+53.8% to 2.02m units), Eastern Europe (+7.2% to 1.48m units) and other regions (+5.0% to 5.03m units). On the other hand Western Europe sales development (-7.8% to 4.72m units) was very weak.

Sales increase of 4.1% in the first four months 2012

IHS Global Insight forecasts that global light vehicle sales will grow a further 4% in 2012 to nearly 78m units. LMC Automotive believes global sales will grow by 5% this year to just under 79m units. With the economic outlook for 2012 looking ever gloomier, LMC Automotive has downgraded again its forecast for Western Europe for this year to a drop of around 6.1% to 12.03m units on an already weak 2011 result. This market forecast takes into account a mild economic recession this year. Approximately 14.3 million vehicles will be sold in the US in 2012.

FY 2012E: global sales growth of 4% - 5%

Overview and forecast of worldwide car sales by core markets (in m units)



Source: IHS Global Insight 2012, CBS Research AG

IHS Global Insight expects that sales will rise to 103.0m units in 2018. This corresponds to a compound annual growth rate of 4.4% (CAGR: period 2011 - 2018). In the long term, China will remain the automotive industry's most important single market. Global Insight forecasts that 29.2m cars (2011: 17.6m) will be sold in China in 2018. Next to China, the expected global growth is mainly realized by North America, Asia (including India) and Russia.

Growth will come from BRIC states – especially China with a high potential

In 2010, light-vehicle sales in emerging markets comprised 51% of global sales. According to LMC Automotive the share of emerging markets is expected to increase steadily to 60% in 2015. Sales in China in 2015 are projected to total 29.0m units, with the US following with just 16.5m units. By 2020, global sales are projected to total 125.0m units. Of this total, the BRIC countries are expected to account for 57.7m light vehicle sales (46% of the global total). Moreover, each of these countries has high potential for exports, so their combined production should account for an even greater percentage of global output in 2020.

According to a report by PricewaterhouseCoopers (PwC), the automotive industry will have continuing strong growth perspectives in the future, especially in China. Even though the economic development in China should slow down, the demand for individual mobility, and thus, for cars, should further increase. In 2017, about 28m vehicles shall be sold in China. Unlike the car markets in Western Europe or the US, China is far from having a saturated demand for cars for the time being. A calculation example displays how large the sales potential in China still is: the car density in Germany is about 500 cars per 1,000 people. To reach these figures, China's streets would have to accommodate about 700m units - instead of currently 59m.

Emerging markets will grow further

China market is not saturated

Financials

12M (1 January 2011 – 31 December 2011) results

paragon AG reported in FY 2011 a revenue increase of 11.1% to EUR 67.1m (PY: EUR 60.4m). Cost of materials was up EUR 1.3m to EUR 33.7m. In relation to revenues, the cost of materials ratio improved by 3.5% to 50.2% (PY: 53.7%) due to improved purchasing terms. Personnel costs were higher by EUR 2.9m, due to new hires and the takeover of employees of the former paragon finesse GmbH as of September 1, 2010. EBIT climbed because of the higher revenues and improved cost of materials ratio by 69.6% from EUR 5.2m to EUR 8.8m in FY 2011. The EBIT margin improved from 8.6% to 13.2%. Financial result amounted to EUR -1.3m (PY: -0.8m). Income taxes increased during FY 2011 to EUR 2.2m due to positive operating results. Net income amounted to EUR 5.3m (prior year, adjusted for extraordinary effects: EUR 3.8m). Consequently, EPS amounted to EUR 1.30 with 4.115m shares outstanding (prior year, adjusted for extraordinary effects: EUR 0.92).

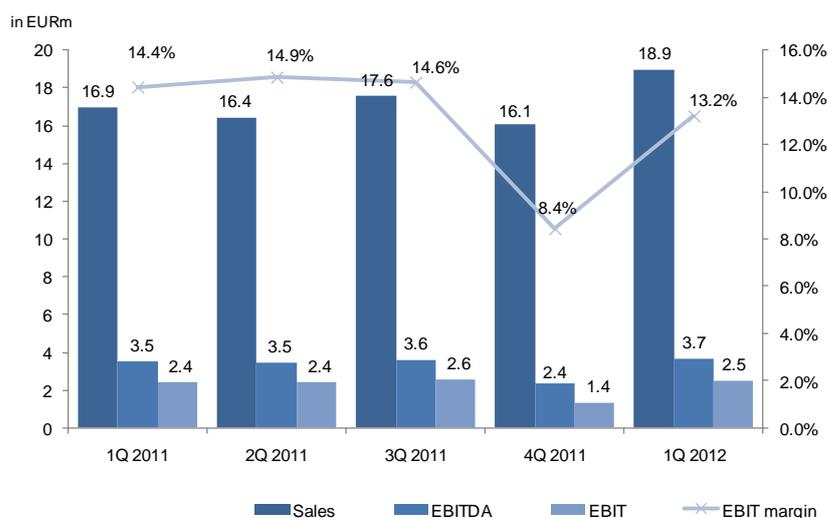
Improved financial figures in FY 2011

Due to the positive business development the balance sheet figures improved notably. As at 31 December 2011 the equity ratio was 23.7% (31 December 2010: 10.3%). Free cash flow amounted to EUR 5.3m in FY 2011.

Historical financial development of the last quarters

Over the period 1Q 2011-1Q 2012 the company increased top line growth on year-over-year basis and managed to improve EBITDA and EBIT figures. The 4Q 2011 EBIT development was mainly influenced by changes in inventories. Furthermore it was influenced by seasonal effects, increase in personnel costs and closing entry effects.

Development of important key figures on group level from 1Q 2011 to 1Q 2012



Source: paragon AG, CBS Research AG

1Q 2012 results

In the first quarter of FY 2012 paragon increased its revenues by 11.8% to EUR 18.9m (PY: EUR 16.9m). EBITDA climbed due to improved cost of materials ratio (52.4% (PY: 53.5%)) by 4.1% to EUR 3.7m (PY: EUR 3.5m), which led to an EBITDA margin of 19.4% (PY: 20.8%). EBIT grew by 2.3% to EUR 2.5m (PY: EUR 2.4m), resulting in an EBIT margin of 13.2% (PY: 14.4%). Net income amounted to EUR 1.9m (PY: EUR 1.8m).

paragon increased operating cash flows by 52.4% to EUR 1.9m (PY: EUR 1.3m). The company reduced interest-bearing liabilities by 28.6% to EUR 14.6m (PY: EUR 20.5m), and net debt by 35.6% to EUR 6.7m (PY: EUR 10.4m). Equity grew to EUR 11.7m (PY: EUR 6.3m), which resulted in an equity ratio of 27.5% (31 March 2011: 14.0%).

For FY 2012E the management has affirmed its forecasted revenue growth in the single-digit percentage range and an EBIT margin at the same level as in the previous year.

Financial forecast

Sales in fiscal year 2012E

For the current fiscal year (31 December 2012) we expect in all regions a sales increase. Sales in Germany should stand at EUR 47.1m (+6.7% yoy), rest of Europe at EUR 20.3m (+6.3% yoy), and other countries should have risen to EUR 5.1m (+30.8% yoy). Summing up, we expect sales of approximately EUR 72.4m (+8.0% yoy).

**Sales forecast 2012E:
EUR 72.4m**

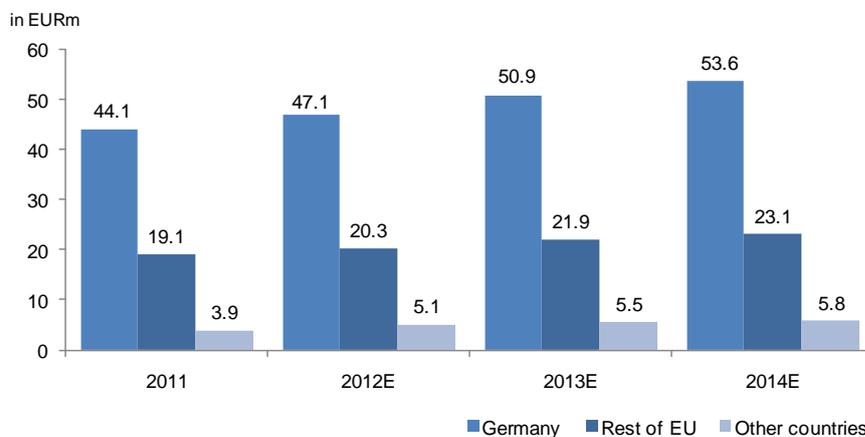
Sales in fiscal year 2013E

The difficult economic environment in Europe should be compensated by sustained growth in North America and Asia. For 2013E we expect a sales increase of about 8.1% to EUR 78.3m.

Sales in fiscal year 2014E

For fiscal year 2014E we estimate an increase in sales of approximately 5.3% to EUR 82.5m because of improving market conditions in Europe and the continuing economic growth in the BRIC countries and North America.

Sales by region from 2011 to 2014E



Source: paragon AG, CBS Research AG

Development of EBIT-margins, net income and dividend payout

Owing to the positive sales development we believe EBIT-margin to be at 13.2% (2011: 13.2%) for fiscal year 2012E. For fiscal year 2013E and 2014E, we anticipate EBIT margins of 13.4%.

Assuming a tax rate of 29%, net income is expected to be at EUR 6.1m in fiscal year 2012E. For fiscal year 2013E and 2014E, assuming a constant tax rate of 29%, we estimate net income of EUR 6.7m and EUR 7.1m.

In our view, paragon will pay a dividend per share of EUR 0.30 for 2012E, which corresponds to a payout ratio of 20%. For 2013E and 2014E we expect a dividend per share of EUR 0.35 and EUR 0.40.

Expected dividend per share for 2012E: EUR 0.30

Balance sheet outlook

Development of Assets

By 31 March 2012, total assets amounted to EUR 42.5m. One of the biggest single positions besides cash and cash equivalents were property, plant and equipment at EUR 13.1m, amounting to about 31% of total assets. By the end of 2012 we estimate property, plant and equipment position of EUR 13.1m. By the end of its 2012 fiscal year we expect cash and cash equivalents to be at EUR 21.5m. Current assets may increase due to higher inventories and accounts receivable, resulting from the increase in sales, to EUR 32.8m.

In the coming years we assume higher inventories, accounts receivables and cash and cash equivalents due to the positive sales development.

Cash and cash equivalents at the end of 2012 forecast: EUR 21.5m

Development of Equity & Liabilities

At the end of March 2012, equity amounted to EUR 11.7m which corresponds to an equity ratio of 27.5%. We assume an increase to EUR 18.0m by 31 December 2012 with an equity ratio of 36.1%, due to good operating development. Based on paragon's promising perspectives for the future, we expect an equity ratio of 41.4% in 2014E.

Total liabilities were at EUR 30.8m by 31 March 2012. By the end of 2012 we estimate total liabilities at EUR 31.9m.

Equity ratio by 31 March 2012: 27.5%

Cash flow outlook

Cash flow from operating activities was EUR 8.6m in FY 2011 and EUR 1.9m in 1Q 2012. For the current fiscal year we assume operating cash flow to be approximately EUR 8.5m. For FY 2013E we expect an increase to EUR 9.9m. Free cash flow is expected to be in 2012 approximately EUR 4.4m (PY: EUR 5.3m).

Positive operating cash flow from operating activities

Appendix

Financials

paragon AG

Profit and loss account

(31 December) IFRS	EURm	2010*	2011	2012E	2013E	2014E
Sales		60.4	67.1	72.4	78.3	82.5
YoY growth		-	11.1%	8.0%	8.1%	5.3%
Change in inventories		0.6	0.1	0.7	0.8	0.8
Other work performed		0.2	1.3	1.4	1.6	1.6
Total output		61.2	68.5	74.6	80.6	84.9
Material expenses		-32.4	-33.7	-36.9	-39.8	-42.0
Staff expenses		-13.8	-16.7	-19.0	-20.7	-21.3
Other operating income		2.7	1.9	2.0	2.2	2.0
Other operating expenses		-7.4	-6.9	-7.1	-7.4	-8.0
EBITDA		10.3	13.0	13.6	14.9	15.7
Amortization, depreciation and impairment		-5.1	-4.2	-4.1	-4.4	-4.7
EBIT		5.2	8.8	9.5	10.5	11.0
in % of sales		8.6%	13.2%	13.2%	13.4%	13.4%
Net financial result		-0.8	-1.3	-0.9	-1.0	-1.1
EBT		4.4	7.5	8.6	9.5	10.0
in % of sales		7.3%	11.2%	11.9%	12.1%	12.1%
Income taxes		-0.7	-2.2	-2.5	-2.7	-2.9
Net income including minorities		3.8	5.3	6.1	6.7	7.1
Minority interests		0.0	0.0	0.0	0.0	0.0
Net income attributable to shareholders		3.8	5.3	6.1	6.7	7.1
in % of sales		6.3%	8.0%	8.5%	8.6%	8.6%
Shares outstanding (in millions)		4.1	4.1	4.1	4.1	4.1
Earnings per share (EUR)		0.92	1.30	1.49	1.63	1.72
Dividend per share (EUR)		0.00	0.25	0.30	0.35	0.40

Source: CBS Research AG, paragon AG

* on a pro forma basis (period 01.01.2010 - 31.12.2010)

paragon AG

Balance Sheet

	IFRS	EURm	2010	2011	2012E	2013E	2014E
Assets							
Noncurrent assets			18.2	17.1	17.1	17.4	17.7
as % of total assets			41.9%	41.4%	34.3%	28.7%	25.1%
Property, plant and equipment			14.3	13.3	13.1	13.0	13.0
Intangible assets			3.1	3.3	3.5	3.8	4.1
Others			0.9	0.6	0.6	0.6	0.6
Current assets			25.3	24.3	32.8	43.3	52.7
as % of total assets			58.1%	58.6%	65.7%	71.3%	74.9%
Inventories			6.5	6.9	8.3	11.3	15.0
Receivables and other assets			5.0	2.1	3.0	3.1	3.2
Cash and cash equivalents			13.8	15.3	21.5	28.9	34.6
Total Assets			43.5	41.4	49.9	60.7	70.4
Shareholders' equity and liabilities							
Shareholders' equity			4.5	9.8	18.0	23.5	29.2
as % of total equity and liabilities			10.3%	23.7%	36.1%	38.7%	41.4%
Subscribed capital			4.1	4.1	4.1	4.1	4.1
Capital reserves			7.8	3.5	2.4	2.4	2.4
Revenue reserves			3.2	5.3	11.5	16.9	22.6
Loss carried forward			-10.6	-3.1	0.0	0.0	0.0
Noncurrent liabilities			20.6	17.2	17.4	20.2	21.9
as % of total equity and liabilities			47.3%	41.6%	34.9%	33.3%	31.2%
Long-term financial debt			14.7	12.3	12.4	15.2	16.7
Pension provisions			1.9	2.0	2.3	2.7	3.1
Investment grants			3.5	2.7	2.4	2.2	2.0
Finance lease obligations			0.4	0.2	0.2	0.2	0.2
Current liabilities			18.5	14.4	14.5	17.0	19.3
as % of total equity and liabilities			42.5%	34.7%	29.0%	28.0%	27.4%
Trade accounts payable			2.1	3.1	3.7	4.8	6.3
Current financial debt			5.9	2.4	2.6	3.9	4.6
Others			10.5	8.9	8.2	8.3	8.4
Total equity and liabilities			43.5	41.4	49.9	60.7	70.4

Source: CBS Research AG, paragon AG

paragon AG

Cash flow statement

	IFRS	EURm	2010*	2011	2012E	2013E	2014E
EBT				7.5	8.6	9.5	10.0
Depreciation, amortisation and impairment				4.2	4.1	4.4	4.7
Financial result				1.3	0.9	1.0	1.1
Income from the reversal of the special item for investment grants				-0.8	-0.3	-0.2	-0.2
Other non-cash expenses/income				-0.2	-0.2	-0.2	-0.2
Gain/loss on disposal of property, plant and equipment				0.0	0.0	0.0	0.0
Movements in working capital:				-0.6	-2.0	-1.6	-1.8
Change in inventories				-0.4	-1.4	-3.0	-3.7
Change in trade receivables, other receivables and other assets				0.2	-0.9	-0.1	-0.1
Change in trade payables and other liabilities				1.4	-0.1	1.1	1.4
Change in provisions				-1.8	0.3	0.4	0.5
Interest paid				-1.2	-0.9	-1.0	-1.0
Income taxes paid				-1.6	-1.8	-2.0	-2.1
Cash flow from operating activities				8.6	8.5	9.9	10.4
Capital expenditures for intangibles assets and PPE				-3.4	-4.1	-4.7	-4.9
Proceeds from disposal of PPE				0.1	0.0	0.0	0.0
Interest received				0.0	0.0	0.0	0.1
Cash flow from investing activities				-3.3	-4.1	-4.6	-4.9
Proceeds from capital increase				0.0	0.0	0.0	0.0
Purchase of treasury stock				0.0	0.0	0.0	0.0
Increase/Decrease in debt position				-5.8	-0.5	3.3	1.6
Dividends paid				0.0	-1.0	-1.2	-1.4
Others				2.0	3.3	0.1	0.0
Cash flow from financing activities				-3.7	1.8	2.1	0.2
Net increase (decrease) in cash&cash equivalents for period				1.5	6.2	7.4	5.6
Change in the scope of the consolidation				0.0	0.0	0.0	0.0
Currency adjustment				0.0	0.0	0.0	0.0
Cash&cash equivalents at beginning of period				13.8	15.3	21.5	28.9
Cash and cash equivalents at the end of the period				15.3	21.5	28.9	34.6

Source: CBS Research AG, paragon AG

* Due to insolvency process cash flow statement not applicable

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