



Half-Year Report  
January 1 to June 30, 2011

## Highlights of the first half of 2011

- Resounding sales growth of 10%
- Earnings better than planned
- New products at IAA
- Managing Board raises forecast for 2011

## The first half of 2011 at a glance

in EUR thousands	01/01/2011 – 06/30/2011	01/01/2010 – 06/30/2010*	Change in %
Sales	33,359	30,424	+ 10 %
EBITDA	7,005	5,462	+ 28 %
EBIT	4,885	3,037	+ 61 %
Net earnings for period	3,583	2,996	+ 20 %
Earnings per share in EUR	0.87	0.73	+ 20 %
Liquidity	14,214	17,106	-17 %
Employees**	333	244	+ 36 %

\* Information from the first half of the previous year 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

Positive developments in the global economy have continued through the first months of the current year. As anticipated, after the soaring trend of 2010, growth became more moderate, although still sound. In Germany, production capacities were being utilized at normal levels once again and the healthy domestic economy contributed in considerable measure to the encouraging economic development.

The German automotive industry, too, held its growth path. Order intake, new registrations, exports and production all grew in double-digit percentages in the first half of 2011 as compared to the previous year. The German Automotive Industry Association (VDA) was able to report stable growth, and not only domestically. The Western European market recovered after a weak start to 2011; furthermore, Brazil in particular grew sharply.

### Business Developments at paragon AG

In the months from April to June, paragon was able to continue to improve sales growth (+ 12.0%) even over the positive growth of the first quarter of 2011 (+ 7.5% compared to the first quarter of the previous year). On the whole, the Company achieved sales growth of 10% to EUR 33.4 million in the first half of the year (prior year: EUR 30.4 million). This means that paragon achieved the growth that had been forecast by the Managing Board for 2012 earlier than anticipated.

These satisfying business developments favorably impacted the Company's earnings, which grew faster than anticipated. In the first half of 2011, for instance, EBITDA skyrocketed by 28% and EBIT by as much as 61%. After the first quarter, moderate single-digit growth in earnings continued. This rise in earnings was impacted by one-time effects in the amount of EUR 880,000 as well. The change in earnings shows that paragon is positioned outstandingly in the market with its current six product groups and has further potential. Its position as direct supplier to automotive manufacturers assures the Company direct contact with the clients' development departments.

The Managing Board obtained full approval at the most recent Annual General Meeting, which took place on May 17, 2011, in the town hall in Delbrück, the location of the Company's headquarters. The representative from the Schutzgemeinschaft der Kapitalanleger (SdK – Investor Protection Association) as well as the shareholders praised the Managing Board for its strategic orientation and the current development of the Company.

### Financial Position and Net Assets

As at June 30, 2011, paragon's total assets were reduced from EUR 47.8 million to EUR 44.2 million compared to the same date in the previous year.

Non-current assets decreased from EUR 18.5 million to EUR 16.9 million due to customary wear and tear. Current assets fell as well, by EUR 2.0 million to EUR 27.3 million (prior year: EUR 29.3 million). Against the backdrop of dynamic sales growth and the associated increase in production, inventories rose to EUR 7.5 million (prior year: EUR 5.6 million). On the other hand trade receivables dropped by over EUR 1 million to EUR 4.8 million (prior year: EUR 6.0 million), evidence of our clients' excellent payment practices. The drop in cash and cash equivalents from EUR 17.1 million to EUR 14.2 million can primarily be traced to the special dividend paid in December 2010 to insolvency creditors in the amount of EUR 1.2 million, as well as the payout from the escrow account in the amount of EUR 1.7 million. Resources freely available to the Company rose from EUR 4.4 million to EUR 7.6 million during the period under review.

Non-current provisions and liabilities slipped considerably from EUR 10.1 million to EUR 18.3 million (prior year: EUR 28.4 million), which is the result in particular of the reduction of the long-term loan in the amount of EUR 9.5 million. Current provisions and liabilities at EUR 17.8 million on the other hand are at approximately the same level as the same period in the previous year (prior year: EUR 17.2 million).

Operating cash flow confirms paragon's robust trend upwards. This indicator for operational development rose by EUR 1.3 million to EUR 4.3 million compared to June 30, 2010 (prior year: EUR 3.0 million). The repayment of financial loans, which significantly exceeded the contractually agreed amount, resulted in an outflow of EUR -3.0 million from cash flow related to financing activities; this will have a positive impact in future due to decreasing interest payments.

### Results of Operations

In the context of the economic upturn in the automotive industry, paragon was not just able to raise sales. The excellent earnings position already experienced in the past, which ranks the Company with the leaders among automotive suppliers, was once again improved. paragon's current earnings margins considerably exceed the figures announced by the Managing Board for all of 2011 (EBITDA 16.9% of sales, EBIT 8.6% of sales).

Urgently required new hires and the takeover of employees from the previous subsidiary, paragon finesse GmbH, forced personnel expenses up from EUR 6.5 million to EUR 8.4 million, but at the same time this represents an important investment in the Company's future. Cost of materials rose only from EUR 16.3 million to EUR 17.4 million, so that the ratio of cost of materials to sales improved from the previous year from 53.4% to 52.3%.

EBIT was up EUR 1.9 million to EUR 4.9 million (prior year, adjusted: EUR 3.0 million), corresponding to a percentage increase of 61%. EBITDA was also substantially higher, by EUR 1.5 million to EUR 7.0 million (prior year, adjusted: EUR 5.5 million) - a rise of 28%. These figures are testimony to paragon's commercial success.

As at June 30, 2011, paragon posted net income for the year according to IFRS of EUR 3.6 million (prior year, adjusted: EUR 3.0 million). Earnings per share thus also rose by 20% to EUR 0.87 (prior year, adjusted: EUR 0.73).

### Research & Development

In the first half of 2011 paragon intensified its work on the application of existing products and in particular on the development of new solutions. The buoyant automotive market and diverse product ideas ensured that the R&D departments in both development sites were working at full capacity. In Delbrück, the focus was on the series release for the redesign of the rear-view camera, equipping a client's transmission with an all-gear sensor and an intelligent steering controller for stepper motors and clock motors. Key development projects in Nuremberg included a steering device to connect a PC to the CAN Bus vehicle, the systems architecture for the digital version of the belt microphone belt-mic® and a universal coupler tank for the wireless connection of cell phones (Universal Phone Tray). Over the period from January 1 to June 30, 2011, paragon invested EUR 2.4 million (prior year: EUR 1.6 million) in the Research and Development area.

### Employees

As at June 30, 2011, paragon AG employed 333 of its own workers and 58 temporary workers, all of whom were active in Germany alone. This implies that the number of employees has considerably increased compared to the previous year (June 30, 2010: 244 employees and 25 temporary workers), which is the result above all of the takeover of assets of the previous subsidiary paragon finesse GmbH as at September 1, 2010. paragon expanded the number of staff vis-à-vis the previous quarter (March 31, 2011: 316 employees and 60 temporary workers) given the healthy state of the industry. As at June 30, 2011, the following employee numbers apply to the individual sites (employees/temporary workers): Delbrück (58/0), Suhl (195/43), Nuremberg (24/4) and St. Georgen (56/11).

## Investor Relations

The DAX (German Stock Index) showed a slight upwards trend. In the first quarter this leading index was able to modestly improve on its initial value on January 3, 2011, of 6,990 points. During the second quarter, too, the DAX stayed above the 7,000 mark without wavering. It could not, however, maintain its high of 7,528 points through the end of the period under review (June 30, 2011: 7,376).

The paragon share, on the other hand, underwent a surprising setback in the first half of 2011; there are no reasons on the part of the Company for this change in price. After the upswing in December of 2010, the share started 2011 at over EUR 13. The paragon share recovered swiftly from the Japanese crisis (mid-March: EUR 7.99) to rise to EUR 9.77 by May 10. In an uncertain stock market environment, the security dropped to EUR 7.27 (June 8), but then revived again to the level of EUR 8.00 (June 30). The behavior of market participants was expressed in intraday volatility in excess of 10 %.

The Managing Board considerably intensified its investor relations work vis-à-vis the previous year with road shows at home and abroad, as well as with its participation in several conferences. paragon was, for instance, an active participant in the Small & Mid Cap Conference of Close Brothers Seydler Bank AG (February 2) and at the Small Cap Forum of the Deutschen Vereinigung für Finanzanalyse und Asset Management GmbH, DVFA (April 12), both of which took place in Frankfurt am Main. The shareholders expressed their full support for the Company on the occasion of the 10th ordinary Annual General Meeting on May 17; they voted for 100 percent of management's proposals.

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.

## Capital Structure, Managing Board and Change of Control

Pursuant to the provisions of sections 289 (4) German Commercial Code, paragon AG provides the following explanations:

### Capital Structure

paragon AG's capital stock at the end of the period under review consisted of 4,114,788 shares with a par value of EUR 1.00. Subscribed capital amounted to EUR 4,114,788. All shares carry an entitlement to dividend payments. As far as the Managing Board is aware no restrictions on transfer and voting rights exist.

There are no shares with special rights that grant control authorities. Klaus Dieter Frers has direct holdings in paragon AG in excess of 10 %. He holds around 52 % of the shares.

Employees of paragon AG do not participate in such a way in the Company's capital that they are in a position to exercise control rights directly.

### Managing Board

paragon AG's Managing Board consisted of one member appointed by the Supervisory Board as at June 30, 2011: Mr. Klaus Dieter Frers, at the same time Chairman of the Board. In other respects, the provisions of sections 84 and 85 of the German Stock Corporation Act apply.

Furthermore, no member of the Managing Board occupied a position on a Supervisory Board. The Managing Board contracts do not contain a change-of-control clause.

A conditional capital increase of EUR 1.75 million by issue of 1,750,000 no par-value shares was permitted (conditional capital III) by resolution of the Annual General Meeting of May 22, 2007. This authorization is in effect until April 30, 2012.

### Outlook

In its summer forecast on economic development, the Institut für Weltwirtschaft (ifw – Institute for World Economy), Kiel, is predicting a somewhat slower pace for the global economy. The most recent indicators signaled a more leisurely economic expansion, which may be associated with a moderate rise in global GDP. ifw experts, nevertheless, are counting on a rise in global production of 4.4% in the current year. In Germany, too, the pace of expansion should be sufficiently strong to permit capacity utilization to rise once again. Gross domestic product, adjusted for prices, should increase by 3.6% as a result. Germany will remain on its path to full employment with an unemployment rate of 7.0% in 2011.

The German Automotive Industry Association is anticipating a good year for the car market in 2011 given the healthy growth in orders. The 64th International Motor Show (IAA) from September 15 to 25, 2011, should provide a further boost to the dynamic economic conditions in the industry, with its approximately 900 exhibitors. According to VDA estimates, continued positive global developments in world

markets will result in growth in the passenger vehicle market by 7% to 66 million units. The German manufacturers can benefit from this trend due to their international orientation. The VDA is expecting a new export record of 4.45 million passenger vehicles.

paragon is in a position to fully exploit the excellent prospects in the automotive industry thanks to its broad-based positioning, with six product groups, and approximately 150 individual products. An additional factor is that further product variants, as well as new solutions, will contribute to sales growth more rapidly than originally planned. Against this backdrop, the Managing Board, which had previously assumed modest growth in 2011, is raising its forecast for the current fiscal year. Currently the Company's management anticipates sales of EUR 65 million, despite the still pending plant holiday and Christmas, an increase of 8% compared to the prior year (total 2010: EUR 60.4 million). With a gross margin of 50% and EBIT of 11%, both in relation to sales, paragon hopes to once again achieve earnings well in excess of industry comparisons in 2011. Free cash flow should rise to EUR 8 million by the end of 2011; in parallel the Company wants to reduce bank liabilities to EUR 15 million as at December 31, 2011.

paragon plans to present novel solutions, which ideally complement the existing portfolio, at the upcoming International Motor Show (IAA) in September 2011. The focus is on exhibits that relate to automotive networking. The increasing fusion of automotive and consumer electronics is just as much one of the central challenges for auto manufacturers as is the dawning age of electro-mobility. At the IAA paragon will show for the first time the contribution that the Company can provide in this forward-looking field.

## Balance Sheet of paragon AG, Delbrück, as at June 30, 2011

in EUR thousands	06/30/2011	06/30/2010
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	3,023	3,862
Property, plant and equipment	13,087	13,868
Financial assets	0	180
Other assets	152	0
Deferred taxes	608	622
<b>Total non-current assets</b>	<b>16,870</b>	<b>18,532</b>
<b>Current assets</b>		
Inventories	7,487	5,627
Trade receivables	4,834	5,995
Income tax assets	196	0
Other assets	577	552
Cash and cash equivalents	14,214	17,106
<b>Total current assets</b>	<b>27,308</b>	<b>29,280</b>
<b>Total assets</b>	<b>44,178</b>	<b>47,812</b>

in EUR thousands	06/30/2011	06/30/2010
<b>Equity and liabilities</b>		
<b>Equity</b>		
Subscribed capital	4,115	4,115
Capital reserve	7,753	7,753
Loss carried forward	- 7,405	- 110,828
Net income/comprehensive income	3,583	101,165
<b>Total equity</b>	<b>8,046</b>	<b>2,205</b>
<b>Non-current provisions and liabilities</b>		
Non-current finance lease obligation	157	555
Non-current borrowings	13,071	22,509
Special item for investment grants	3,074	4,099
Deferred taxes	0	72
Pension provisions	2,041	1,150
<b>Total non-current provisions and liabilities</b>	<b>18,343</b>	<b>28,385</b>
<b>Current provisions and liabilities</b>		
Current portion of finance lease obligations	334	278
Current borrowings and current portion of non-current borrowings	4,684	237
Trade payables	5,159	5,865
Other provisions	2,766	1,724
Income tax liabilities	333	0
Other current liabilities	4,513	9,118
<b>Total current provisions and liabilities</b>	<b>17,789</b>	<b>17,222</b>
<b>Total equity and liabilities</b>	<b>44,178</b>	<b>47,812</b>

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

in EUR thousands	<b>First Half of 2011</b> 01/01 – 06/30/2011	First Half of 2010 01/01 – 06/30/2010	<b>Q2 2011</b> 04/01 – 06/30/2011	Q2 2010 04/01 – 06/30/2010
Sales revenue	33,359	30,424	16,425	14,665
Other operating income	1,274	102,119	618	101,539
Increase or decrease in finished goods and work in process	708	84	287	- 253
Other own work capitalized	490	150	223	85
<b>Total operating performance</b>	<b>35,831</b>	<b>132,777</b>	<b>17,553</b>	<b>116,036</b>
Cost of materials	- 17,444	- 16,255	- 8,391	- 7,681
<b>Gross profit</b>	<b>18,387</b>	<b>116,522</b>	<b>9,162</b>	<b>108,355</b>
Staff costs	- 8,414	- 6,466	- 4,097	- 3,828
Depreciation and amortization of property, plant, equipment and intangible assets	- 2,120	- 2,425	- 1,040	- 1,194
Impairment of property, plant and equipment and intangible assets	- 5	0	- 5	0
Other operating expenses	- 2,963	- 6,426	- 1,580	- 4,330
<b>Earnings before interest and taxes (EBIT)</b>	<b>4,885</b>	<b>101,205</b>	<b>2,440</b>	<b>99,003</b>
Financial income	15	107	14	107
Finance costs	- 655	- 182	- 316	- 144
<b>Net financing costs</b>	<b>- 640</b>	<b>- 75</b>	<b>- 302</b>	<b>- 37</b>
<b>Earnings before taxes</b>	<b>4,245</b>	<b>101,130</b>	<b>2,138</b>	<b>98,966</b>
Income taxes	- 662	35	- 348	18
<b>Net income</b>	<b>3,583</b>	<b>101,165</b>	<b>1,790</b>	<b>98,984</b>
Earnings per share (basic)	0.87	24.59	0.44	24.06
Earnings per share (diluted)	0.87	24.59	0.44	24.06
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 - 06/30/2011	01/01 - 06/30/2010
<b>Cash flow from operating activities</b>		
Earnings before income taxes	4,245	101,130
Depreciation and amortization of non-current assets	2,120	2,425
Net financing costs	639	75
Gains (-) or losses (+) from the disposal of items of property, plant and equipment and financial assets	1	0
Increase (+), decrease (-) in other provisions and pension provisions	157	- 2,577
Income from the release of the special item for investment grants	- 394	- 632
Increase (-), decrease (+) in trade receivables, other receivables, and other assets	- 570	- 1,783
Impairment of intangible assets	5	0
Increase (-), decrease (+) in inventories	- 1,015	- 1,200
Decrease (+), Increase (-) in trade payables and other liabilities	533	- 92,071
Interest paid	- 655	- 181
Income taxes paid	- 627	-2,195
<b>Net cash provided by/used in operating activities</b>	<b>4,326</b>	<b>2,991</b>
<b>Cash flow from investing activities</b>		
Payments for investments of property, plant and equipment	- 430	- 640
Payments for investments in intangible assets	- 475	- 18
Interest received	15	107
<b>Net cash provided by/used in investing activities</b>	<b>- 890</b>	<b>- 551</b>
<b>Cash flow from financing activities</b>		
Cash repayments of borrowings	- 3,388	- 2,541
Amounts paid insolvency rate	- 42	- 6,590
Cash proceeds from issuing borrowings	639	14,700
Repayment of liabilities under finance lease	- 221	- 263
<b>Net cash provided by/used in financing activities</b>	<b>- 3,012</b>	<b>5,306</b>
Cash-effective change in liquidity	424	7,746
Cash and cash equivalents at beginning of period	13,790	8,268
Cash and cash equivalents at end of period	14,214	16,014

### 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				101,165	101,165
Comprehensive income	0	0	0	101,165	101,165
Balance as of 06/30/2010	4,115	7,753	- 110,828	101,165	2,205

  

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				3,583	3,583
Comprehensive income	0	0	0	3,583	3,583
Balance as of 06/30/2011	4,115	7,753	- 7,405	3,583	8,046

### Shares held by members of the Managing and Supervisory Boards as at June 30, 2011

Capital stock: 4,114,788 shares

	Shares 06/30/2011
Managing Board, total	2,111,730
Supervisory Board, total	2,000
Boards, total	2,111,730
as % of share capital	51.32

### Condensed Notes to the Financial Statements for the Period January 1 to June 30, 2011

#### Basis of Presentation

The interim paragon AG financial statements as of June 30, 2011, have been prepared according to the uniform accounting principles of the International Financial Reporting Standards (IFRS). Furthermore, the standards of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) apply. The provisions of IAS 34, "Interim Financial Reporting", were also taken into account.

The form and content of the report on the first half of the year comply with the reporting requirements of the German stock exchange. The report, taking into consideration the reporting period, represents an update of the annual report of the short fiscal year from June 1 to December 31, 2010, which should be referenced for explanation and additional information while reading this report. It can be found at [www.paragon-online.de](http://www.paragon-online.de).

#### Income Statement, Balance Sheet, Cash Flow Statement

The sections on "Net assets, financial position and results of operations" provide a detailed overview and specific explanations regarding paragon AG's income statement, balance sheet and cash flow statement.

#### Events after the Balance Sheet Date

There were no events that occurred after June 30, 2011, that would have an influence on the statements regarding the first half of 2011.

#### Notes on the Preparation of the Half-Year Report

An audit or audit review of the interim financial statements was not performed.

Future-oriented statements entail risks. The present report on the first half of the year contains statements that relate to paragon AG's future development. These statements are based on assumptions and estimates. While the Managing Board is convinced that statements regarding the future are realistic, there can be no guarantees in this respect. The assumptions harbor risks and uncertainties that may result in actual events diverging from expected events.

#### Responsibility Statement

To the best of my knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company, and the interim management report of the Company includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company for the remaining months of the fiscal year.

Delbrück, August 10, 2011

Klaus Dieter Frers



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