



Interim report  
January 1 to March 31, 2012

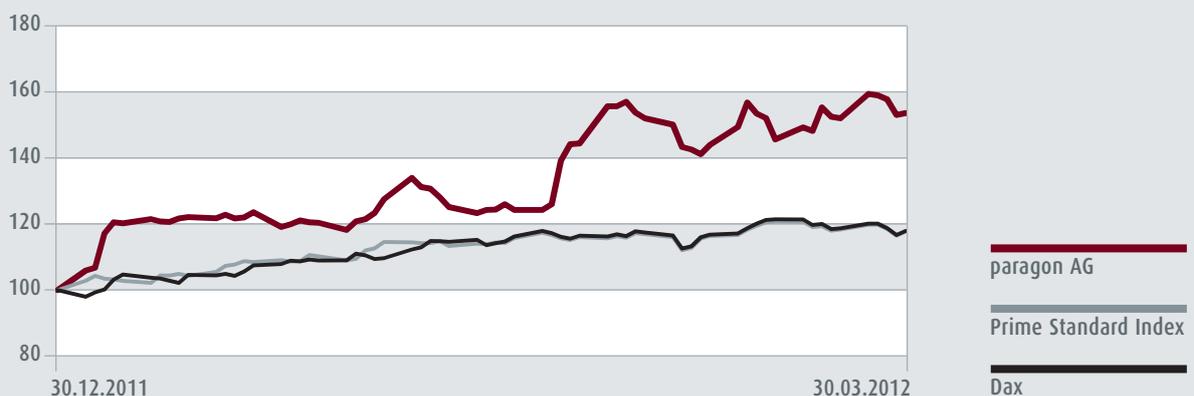
## Highlights

- Dynamic start into the year 2012
- Sales growth of 11.8 % to EUR 18.9 million
- Earnings margins at the 2011 level
- Forecast for the fiscal year confirmed

## Key Indicators

in EUR thousands	01.01.2012 to 31.03.2012	01.01.2011 to 31.03.2011	Change in %
Revenue	18,933	16,934	11.8
EBITDA	3,668	3,525	4.1
EBITDA margin in %	19.4	20.8	
EBIT	2,502	2,445	2.3
EBIT margin in %	13.2	14.4	
Net income	1,908	1,793	6.4
Earnings per share in EUR	0.46	0.44	6.4
Total assets	42,520	44,701	- 4.9
Total equity	11,706	6,256	87.2
Equity-to-assets ratio %	27.5	14.0	
Free cash flow	11,819	7,079	67.0
Interest-bearing liabilities	14,649	20,518	- 28.6
Net debt	6,689	10,393	- 35.6
Operating cash flow	1,928	1,265	52.4

## Price developments (indexed)



### Overall Economic Conditions

At the end of 2011 the global economy had clearly slowed. In the first months of 2012, however, a trend reversal was evidenced, according to the Institut für Weltwirtschaft, Kiel (ifw – Kiel Institute for the World Economy). Global trade had revived due to the strong recovery of foreign trade in the emerging countries and global industrial production, too, picked up.

According to information from the ifw, the German economy, too, has overcome its weak phase. In the first quarter of 2012 business climate indicators showed an upwards trend. Extremely low interest rates encouraged an upswing in investment. The upward movement in the job market, too, continued uninterrupted.

The automotive industry was in good form. The German Automotive Industry Association (VDA) was able to report that important automotive markets are on a growth course. The industry even posted double-digit growth rates in the US, Japan, Russia and India in March of 2012. The auto market in Western Europe was not quite as booming; despite the robust economy in Germany, it was down compared to the previous year.

### Business Developments at paragon AG

paragon AG started 2012 considerably stronger than anticipated. During the first quarter revenues rose 11.8% to



EUR 18.9 million (previous year: EUR 16.9 million). The Managing Board had predicted single-digit growth for the year as a whole in its 2012 preview.

Earnings margins were continuing at the same high level of 2011, despite increases in staff and start-up costs for numerous new products. The Managing Board is particularly pleased at the development in operating cash flow and free liquidity, which paragon wishes to use specifically for the Company's further development.

paragon is stressing its increasing focus on higher-quality systems in its product range by its entry into electro-mobility and an alliance to build up the business segment of Body Work Kinematics. The Company is concentrating its activities more intensely than ever on the aspect of efficiency enhancements. By continuing to recruit qualified staff, paragon has created the conditions for the development of additional products in the traditional man-machine interface field as well.

## Financial Position and Net Assets

Total assets as at March 31, 2012, dipped to EUR 42.5 million compared to EUR 44.7 million as at March 31, 2011.

Non-current assets decreased from EUR 17.5 million to EUR 16.9 million due to customary wear and tear. Current assets were down from EUR 27.2 million to EUR 25.6 million, due to a decline in trade receivables from EUR 5.5 million to EUR 1.0 million as the result of a factoring agreement. The increase in free liquidity, up 67.0% to EUR 11.8 million (previous year: EUR 7.1 million) is particularly noteworthy.

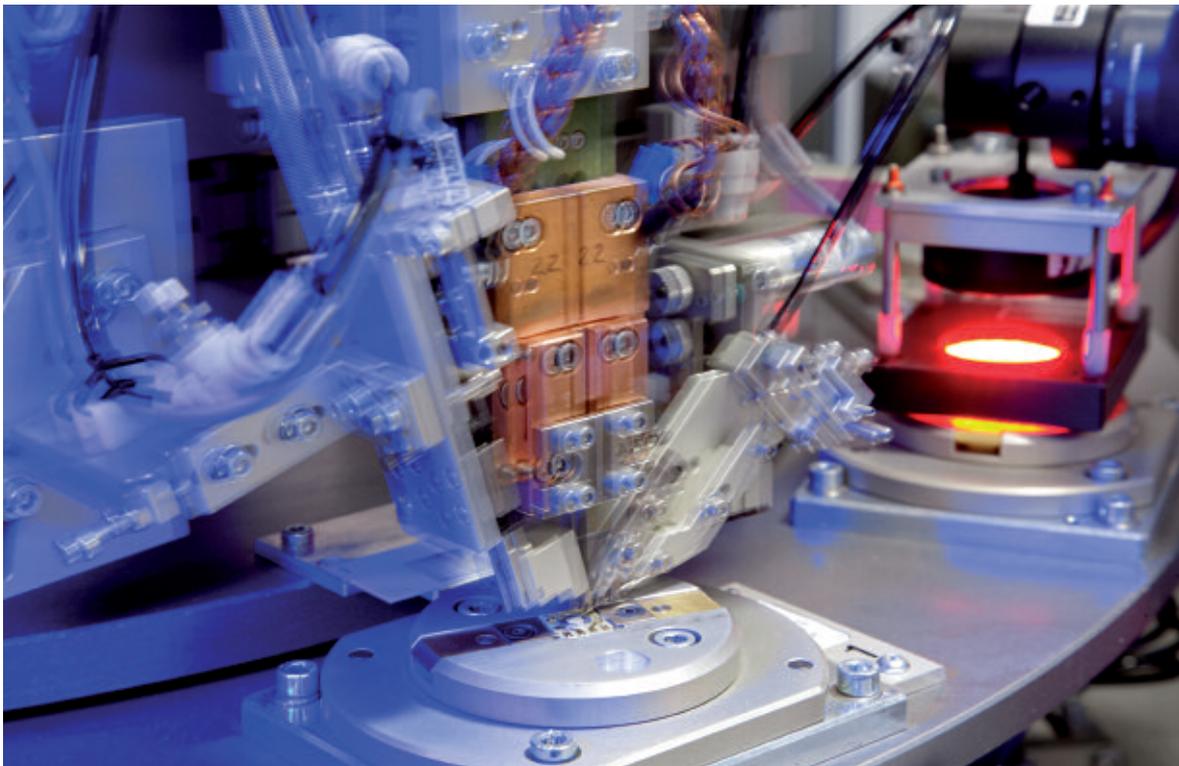
Non-current provisions and liabilities rose by EUR 4.1 million to EUR 16.6 million (previous year: EUR 20.7 million). This positive development can be traced back chiefly to a reduction in a long-term loan to EUR 11.9 million (previous year: EUR 15.1 million). In the case of current provisions and liabilities, a reduction in short-term loans (EUR - 2.3 million), as well as lower trade payables (EUR - 2.0 million), was

noted, so the overall figure dropped to EUR 14.2 million (previous year: EUR 17.7 million).

Excellent business developments were especially visible in cash flow from operating activity. paragon achieved an increase of 52.4% to EUR 1.9 million (previous year: EUR 1.3 million). The significantly lower loan repayments resulted in expenses of only EUR 0.4 million (previous year: EUR 1.0 million) in the area of financing activity.

## Results of Operations

Earnings margins remained high even with significantly higher revenues. With an EBIT margin in relation to revenues of 13.2% and an EBITDA margin of 19.4%, also in relation to revenues, paragon achieved the precise figures that the Company evidenced for all of 2011. This implies that paragon has been extremely successful in the start of 2012 from the perspective of earnings as well.



This pleasing result was achieved even though expenses in the personnel field have risen by EUR 0.6 million to EUR 4.9 million due to the recruitment of qualified personnel. It is particularly in view of further growth, however, that the selective build-up of our staff is an important factor for the Company's sustainability. The ratio of the cost of materials (material expense in relation to revenues) on the other hand dropped from 53.5% in the previous year to 52.4%. EBIT thus rose by 2.3% to EUR 2.5 million (previous year: EUR 2.4 million). EBITDA was up by 4.1% to EUR 3.7 million (previous year: EUR 3.5 million).

As at March 31, 2012, paragon posted net income for the year according to IFRS of EUR 1.9 million (previous year: EUR 1.8 million). This has produced earnings per share of EUR 0.46 (prior year: EUR 0.44). Both indicators were up 6.4%.

## Research & Development

Active product development is of key importance to paragon's business success. The Company is, therefore, continuing its activities in the area of research & development with great dynamism. The core development projects in the first quarter of 2012 included the cTablet Docking Station for integration of a tablet computer into the car, various applications in the field of position sensors, further development of the globally unique belt microphone belt-mic® and associated control devices, as well as activities in readying the Universal Phone Tray for the wireless connection of cell phones for series production. Total research and development costs amounted to EUR 1.5 million (previous year: EUR 1.2 million) in the period between January 1 to March 31, 2012.

## Employees

As at March 31, 2012, paragon AG employed 369 of its own workers and 52 temporary workers, all of whom were active in Germany alone. This shows an increase in the number of employees since the reporting date in the previous year from

376 workers to 421. A year ago the Company engaged 316 employees and 60 temporary workers. The number of staff also increased compared to December 31, 2011 (343 employees and 60 temporary workers) in order to enable sales to rise as planned. The following figures applied to the various locations as at March 31, 2012: (employees/temporary workers): Delbrück (68/1), Suhl (212/46), Nuremberg (28/3) and St. Georgen (61/2).

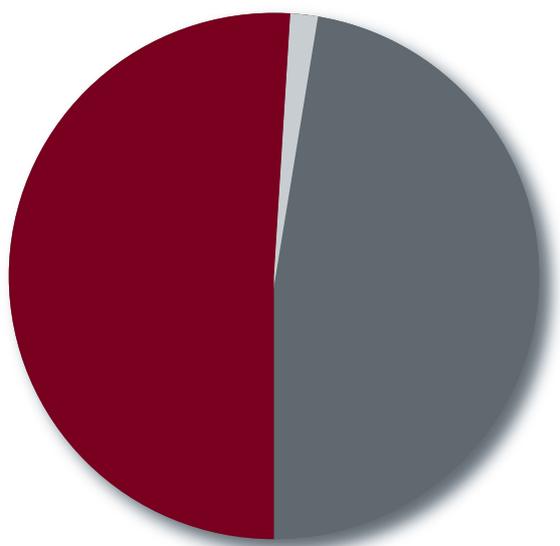
## Investor Relations

Developments in the German share index (DAX) were marked by a significant recovery in the first quarter of 2012. The leading index started the new year just above 6,000 points on January 2. Due to the positive developments in both economy and job market figures the DAX exceeded the 7,000 mark for the first time on March 15 at 7,079 points. The leading index was not, however, able to maintain this level through the end of the quarter and closed at 6,947 points on March 30.

ISIN:	DE 000 555 8696
WKN:	555869
Ticker symbol:	PGN
Market segment:	Prime Standard
Sector:	Technology
Stock exchange:	Frankfurt/Main (Xetra)
Number of shares:	4,114,788
Share price on March 31, 2012:	8.84 Euro
Market capitalization on March 31, 2012:	EUR 36.4 million
Average trading volume (52 weeks) as at March 31, 2012:	10,270 shares a day

The paragon share's value increased to a greater degree than that of the DAX. Quoted at EUR 6.09 on the first trading day (January 2), the share went on to exceed EUR 7.00 (January 12) and EUR 8.01 (February 22) until its high of EUR 9.17 (March 26) for this quarter. At the end of the quarter the value of the paragon share was EUR 8.84.

Investor relations work was a significant part of the work of the Managing Board. The Company's management conducted numerous interviews with journalists from the world of finance, as well as individual discussions with analysts, as



**Klaus Dieter Frers: 51,32 %**  
**Free Float: 45,64 %**  
**Axxion, S.A.: 3,04 %**

early as the first two months. The press conference on financial statements on March 22 at the Company's headquarters in Delbrück was the high point of paragon's financial market communications during the first quarter of 2012. The Managing Board explained the business figures to

several journalists in the financial center of Frankfurt am Main in phone discussions, as well as to the media. paragon will reinforce its communication with the financial markets by participating in the DVFA Small Cap Forum on April 17 and by the publication of research reports.

The positive course of business also resulted in paragon welcoming a new major shareholder. On March 26, Axxion, S.A., Munsbach, Luxembourg, announced that it had exceeded the threshold of 3% of voting rights and held 3.04% of paragon shares.

### Financial calendar for 2012

paragon is continuing its investor relation efforts with the following events in 2012:

**August 22, 2012:** Half-year report for January 1 to June 30, 2012

**November 21, 2012:** Interim report for January 1 to September 30, 2012

# The better car is possible!



## Risk Report

paragon AG's Managing Board assesses risks in close coordination with the Supervisory Board. The outstanding business results of core customers strengthen confidence in continued positive developments. All the premium manufacturers in Germany, from whom paragon obtains the large part of its revenues, are evidencing good to very good development, as distinct from the manufacturers in Southern Europe who are struggling with major problems. These latter customers, however, play only a minor role for paragon, or none at all. The sustained accumulation of liquidity and the significant reduction in debt decrease paragon's potential risks. At the time of publication of this report, no additional risks have been identified that might jeopardize the Company's continued existence.

## Outlook

The probability of the massive weakening in the economy that was feared at the end of 2011 has decreased considerably in the view of the Kiel Institute for the World Economy (ifw). Because of the fact that the economic reversal went hand-in-hand with another rise in the price of oil, experts continue to anticipate a rise in global production of 3.4 % for all of 2012.

In Germany the economy will grow tangibly in the course of 2012, in the opinion of the ifw, thus overcoming the weak phase covering the past fall and winter months. In the second half of the year production should rise more quickly as overall economic capacities grow. Due to the feeble start to the year the ifw opinion leaders foresee moderate growth in GDP of 0.7 %.

Despite a strong start to 2012, the German Automotive Industry Association (VDA) predicts a year of hard work with more headwind than in 2011 when records in production, exports and sales were achieved. The high growth rates are unlikely to continue, even if the global automotive market stays on its growth path. On the whole the VDA is anticipating an increase of 4% in the global passenger vehicle market.

Even if the dynamic start to 2012 exceeded the expectations of the Managing Board, the Company's management still expects sales growth in the single digits and constant growth in EBIT compared to the previous year.

paragon wants to exploit its highly recognized brand profile with German premium manufacturers in order to gain increasing shares in the value creation chain of automobile production. The augmentation of the new business areas of electro-mobility and Body Work Kinematics promises to contribute to this in the medium term. In the course of the summer of 2012 separate production of battery modules for electric cars is planned; this will be set up in the buildings previously used for electronics production. The philosophy of efficiency enhancements, however, does not relate only to the new business segments. In the traditional field of activity of the man-machine interface, paragon plans to develop new future-oriented products taking into account this aspect.

paragon is also expanding its activities regionally, as well as in terms of its product range. In May 2012 the Company will be directly present in the Chinese market with the opening of a sales office in Shanghai.

## Balance Sheet of paragon AG, Delbrück, as of March 31, 2012

in EUR thousands	31.03.2012	31.03.2011
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	3,234	3,070
Property, plant and equipment	13,134	13,649
Other assets	160	151
Deferred taxes	397	670
<b>Total non-current assets</b>	<b>16,925</b>	<b>17,540</b>
<b>Current assets</b>		
Inventories	6,858	7,033
Trade receivables	994	5,489
Income tax assets	196	196
Other assets	1,635	899
Cash and cash equivalents	15,912	13,544
<b>Total current assets</b>	<b>25,595</b>	<b>27,161</b>
<b>Total assets</b>	<b>42,520</b>	<b>44,701</b>

in EUR thousands	31.03.2012	31.03.2011
<b>Equity and liabilities</b>		
<b>Equity</b>		
Subscribed capital	4,115	4,115
Capital reserve	3,478	7,753
Loss carried forward	2,205	- 7,405
Net income/comprehensive income	1,908	1,793
<b>Total equity</b>	<b>11,706</b>	<b>6,256</b>
<b>Non-current provisions and liabilities</b>		
Non-current finance lease obligation	44	380
Non-current borrowings	11,943	15,060
Special item for investment grants	2,548	3,267
Deferred taxes	0	0
Pension provisions	2,048	2,041
<b>Total non-current provisions and liabilities</b>	<b>16,583</b>	<b>20,748</b>
<b>Current provisions and liabilities</b>		
Current portion of finance lease obligations	180	333
Current borrowings and current portion of non-current borrowings	2,482	4,745
Trade payables	3,535	5,491
Other provisions	288	2,551
Income tax liabilities	700	261
Other current liabilities	7,046	4,316
<b>Total current provisions and liabilities</b>	<b>14,231</b>	<b>17,697</b>
<b>Total equity and liabilities</b>	<b>42,520</b>	<b>44,701</b>

**Income Statement of paragon AG, Delbrück,  
for the Period from January 1 to March 31, 2012**

in EUR thousands	<b>Q1 2012</b> <b>01.01. – 31.03.2012</b>	Q1 2011 01.01. – 31.03.2011
<b>Sales revenue</b>	<b>18,933</b>	<b>16,934</b>
Other operating income	669	656
Increase or decrease in finished goods and work in process	249	421
Other own work capitalized	500	267
<b>Total operating performance</b>	<b>20,351</b>	<b>18,278</b>
Cost of materials	- 9,917	- 9,053
<b>Gross profit</b>	<b>10,434</b>	<b>9,225</b>
Staff costs	- 4,859	- 4,317
Depreciation and amortization of property, plant, equipment and intangible assets	- 858	- 1,080
Impairment of property, plant and equipment and intangible assets	- 308	0
Other operating expenses	- 1,907	- 1,383
<b>Earnings before interest and taxes (EBIT)</b>	<b>2,502</b>	<b>2,445</b>
Financial income	9	1
Finance costs	- 266	- 339
<b>Net financing costs</b>	<b>- 257</b>	<b>- 338</b>
<b>Earnings before taxes</b>	<b>2,245</b>	<b>2,107</b>
Income taxes	- 337	- 314
<b>Net income</b>	<b>1,908</b>	<b>1,793</b>
Earnings per share (basic)	0.46	0.44
Earnings per share (diluted)	0.46	0.44
Average number of shares outstanding (basic)	4,114,788	4,114,788
Average number of shares outstanding (diluted)	4,114,788	4,114,788

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

in EUR thousands	01.01. – 31.03.2012		01.01. – 31.03.2011	
Earnings before income taxes	2,245		2,107	
Depreciation/amortization of non-current assets	858		1,080	
Financial result	257		337	
Increase (+), decrease (-) in other provisions and pension provisions	- 554		- 58	
Income from the reversal of the special item for investment grants	- 161		- 201	
Increase (-), decrease (+) in trade receivables, other receivables and other assets	- 1,079		- 1,547	
Impairment of intangible assets	308		0	
Increase (-), decrease (+) in inventories	- 127		- 561	
Increase (+), decrease (-) in trade payables and other liabilities	947		860	
Interest paid	- 266		- 339	
Income taxes paid	- 500		- 413	
<b>Cash flow from operating activities</b>		<b>1,928</b>		<b>1,265</b>
Cash payments to acquire property, plant and equipment	- 493		- 197	
Cash payments to acquire intangible assets	- 488		- 272	
Interest received	9		1	
<b>Cash flow from investment activities</b>		<b>- 972</b>		<b>- 468</b>
Cash repayments of borrowings	- 319		- 1,451	
Amounts paid on insolvency ratio	0		- 122	
Cash proceeds from issuing loans	0		639	
Cash repayments for liabilities from finance lease	- 55		- 109	
<b>Cash flow from financing activities</b>		<b>- 374</b>		<b>- 1,043</b>
<b>Cash-effective change in liquidity</b>	<b>582</b>		<b>- 246</b>	
Cash and cash equivalents at beginning of period	15,330		13,790	
Cash and cash equivalents at end of period	15,912		13,544	

## Statement of Changes in Equity of paragon AG, Delbrück

in EUR thousands	Subscribed capital	Capital-reserve	Net profit for the year		Total
			Loss carried forward	Net income/comprehensive income	
Balance as of January 1, 2011	4,115	7,753	- 7,405	0	4,463
Net income	0	0	0	5,335	5,335
Other comprehensive income	0	0	0	0	0
Transfer from capital reserves	0	- 4,275	4,275	0	0
Comprehensive income	4,115	3,478	- 3,130	5,335	9,798
Balance as of December 31, 2011	4,115	3,478	- 3,130	5,335	9,798

in EUR thousands	Subscribed capital	Capital-reserve	Net profit for the year		Total
			Profit carried forward	Net income/comprehensive income	
Balance as of January 1, 2012	4,115	3,478	2,205	0	9,798
Net income	0	0	0	1,908	1,908
Other comprehensive income	0	0	0	0	0
Comprehensive income	4,115	3,478	2,205	1,908	11,706
Balance as of March 31, 2012	4,115	3,478	2,205	1,908	11,706

## Additional Disclosures

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The quarterly report has been prepared using the uniform accounting principles of the International Financial Reporting Standards (IFRS), which were also used for the fiscal year from January 1, 2011, to December 31, 2011. The standards of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) apply as of the balance sheet date. The form and content of the interim report comply with the reporting requirements of the German stock exchange. The quarterly report represents an update of the

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

The risk situation of paragon AG was covered in detail in the report on risks and opportunities in the annual report for the fiscal year from January 1, 2011, to December 31, 2011. The statements made in that report with respect to overall risk continue to be valid without exception.



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