Report on the First Half

Q2 | 2008

E

Highlights in the First Half

- Strong sales growth and even stronger earnings growth
- Sales up 11.8% and EBIT up 22.7%
- Business development significantly better than the automotive industry overall
- Forecasts for year as a whole affirmed
- Expert study confirms that paragon's growth will continue at a high pace over the next few years

The first six months at a glance

in € (000)	First Half of 2008	First Half of 2007	Change in %
Sales	60,460	54,061	11.8
EBITDA	11,156	9,507	17.3
EBITDA margin in %	18.5	17.6	–
EBIT	4,849	3,953	22.7
EBIT margin in %	8.0	7.3	–
Net earnings for period	482	697	- 30.9
Earnings per share	0.12	0.17	–
Equity-to-assets ratio* in %	29.3	31.1	–
Employees	599	562	6.6

* Shareholders' equity including profit participation rights

Economic Situation

After a sharp pick-up at the beginning of the year, the German economy stagnated, as anticipated, during the second quarter of 2008. Gross domestic product (GDP) in Germany was at the same level at the end of the first half of the year as it had been at the end of the first quarter. Reasons included trends in the areas of construction and industry, as well as the generally declining tendency in new orders.

According to the experts, however, the economy is sufficiently robust to achieve positive, although somewhat subdued, growth during the course of the year. Information provided by the Deutsche Institut für Wirtschaftsforschung (DIW – German Institute for Economic Research) indicates that average GDP for the year is likely to grow by slightly above two percent and remain only slightly below the previous year's growth. In the long term, experts expect an economic upswing in the US, as well as a rapid expansion in world trade and a global economic recovery.

The automotive industry in Germany, despite difficult conditions, in general gained in strength during the first half of 2008. In the first six months of the current fiscal year alone, production and export, as well as the number of new car registrations, rose between 2 and 4%. Moreover, an additional 15,500 employees were hired. According to the German Automotive Industry Association (VDA), domestic new orders were four percent above the previous year's figures at the end of the second quarter and order levels rose by 12% over the previous year).
Problems specific to the automotive industry, especially increasing maintenance and ancillary vehicle costs, however, influenced developments in the share price of automotive companies. Furthermore, pressures on the automotive industry at the international level, in particular in the US, have proven to have a negative impact on German securities.

Business Development of the paragon Group

The first half of the current fiscal year has been most satisfactory for paragon AG. After a successful start in the first three months, business development continued positive through the second quarter of 2008. Both the Automotive and Electronic Solutions business segments contributed to this result. Overall, Group sales rose by 11.8% to €60.5 million in the first six months. At €31.1 million, paragon AG grew during the second quarter of 2008 both vis-à-vis the previous year's quarter (+9.1%) and the first quarter of 2008 (+5.6%).

The largest growth driver in the Automotive segment was the Car Media Systems division with a jump in sales of over 40%. The Instrumentation and Control Systems division benefited primarily from growth in step motors. Climate control systems evidenced high growth chiefly during the second quarter.

The rise in unit sales in the Media Device Interface spurred the strong growth in the Car Media Systems division. A German car manufacturer is currently equipping the major portion of its model range with this top-of-the-range paragon AG product. The order volume more than tripled to significantly more than €25 million for the years 2008 to 2010 in comparison to 2007.

The Company's appearance at the CEBIT 2008 trade fair in Hanover received a warm reception from visitors. paragon presented itself as the leader in Car Media Systems with novel developments and cutting-edge integration solutions for hands-free phones, navigation and multimedia. The company was also represented at the Car Symposium in Ludwigsburg.
As announced, paragon opened a sales office in Italy at the end of January, pushing forward with its internationalization strategy. The strengthening of customer contacts from the Turin site enabled a road show to be initiated at the premises of the car manufacturer, Fiat.

Product innovations introduced in the context of the reference project Artega drew great interest from the expert employees of this customer. Follow-up talks have already taken place.

Financial Performance

The high growth in sales in the first half of 2008 can be explained by higher volumes, as well as the trend towards higher-quality, but less wage-intensive products. This trend is also reflected in the rise in the cost of materials from €30.2 million in H1 2007 to €35.4 million in H1 2008. Personnel expense in absolute terms increased to €14.5 million in H1 2008 (prior-year period: €13.2 million). In relation to sales and total operating revenue, however, these ratios are declining, particularly in the second quarter.

As a result of these positive developments, earnings before interest, taxes, depreciation and amortization (EBITDA) climbed by 17.3% to €11.2 million in the first half of 2008 (prior-year period: €9.5 million). As EBITDA grew stronger than sales, especially in the second quarter, the EBITDA margin improved to 18.5% (prior-year period: 17.6%).

Earnings before interest and taxes (EBIT) also grew faster than sales. paragon increased its EBIT by 22.7% to €4.8 million in the first half of 2008, compared to €4.0 million in the first six months of the previous year. The EBIT margin improved from 7.3% to 8.0%.

As previously announced, paragon has bought back shares valued at €3.0 million under the program resolved in 2007 designed to exchange high-interest with low-interest profit participation rights. As a result, net earnings for the first six months of 2008 at €482 thousand were, as expected, moderately below the prior-year figure of €697 thousand. Costs incurred by refinancing impacted interest earnings as expected.

Earnings per share came to €0.12 (prior year: €0.17); of which €0.06 was achieved in the second quarter (prior year: €0.03). The Company will benefit from significantly lower interest payments in the future.

Financial Position and Cash Flow

As of June 30, 2008, total assets rose slightly, by 1.4%, to €138.0 million, compared to the previous year's figure of €136.1 million.

While non-current assets declined somewhat by 1.3% to €93.5 million due to scheduled depreciation and amortization, current assets rose by €3.6 million compared to a year earlier. This growth originated primarily from a sales-related increase in receivables to €9.9 million and an accumulation of inventory to a level of €21.4 million year on year. The inventory accumulation is fundamentally comprised of semi-finished product in preparation for the vacation period and product start-ups. A corresponding reduction is anticipated in the second half of the year.

On the liabilities side, non-current liabilities as of June 30, 2008 declined by 10.7% year on year to €65.6 million in response to repayments, as well as the above-mentioned buyback of profit participation rights. Current liabilities, on the other hand, rose to €54.6 million. Trade payables rose in line with inventory, reaching €17.5 million.

Cash flow from operating activities developed very positively with cash inflows of €2.2 million during the period under review. The requisite build-up of inventory in the second quarter did, however, exert downward pressure.

Segment Report

During the first half of 2008, paragon AG evidenced growth significantly above the industry average in the core Automotive segment. Sales for the first six months of 2008 climbed to €50.0 million, up 15.7% from €43.2 million a year earlier. This segment's share of total sales is now 82.7% (prior year: 80.0%). Excellent capacity utilization and efficiency enhancements have resulted in an earnings situation that continues to be healthy. Although sales of high-value systems tend to be accompanied by higher material usage, the EBIT margin remained at a high level at 8.3%. The Automotive segment contributed an absolute amount of €4.2 million (85.7%) to total group EBIT.

Developments in the Electronic Solutions segment (including building technology) declined slightly as a result of the economic climate in the US, but especially due to the trend of the US dollar.

Revenues in this segment declined by 3.6% to €10.4 million during the first six months of the year.

While sales in Germany rose significantly, sales in the US declined by €0.4 million due to the change in the dollar exchange rate alone.

In spite of these trends, the earnings situation improved decisively. The positive earnings growth of paragon firstronic in Germany, in particular, contributed to this situation. On the whole, the segment achieved EBIT of €696 thousand (prior year: €261 thousand) with a margin of 6.7% in the first half of 2008.

Capital Expenditure / Research & Development

Capital expenditure slowed somewhat during the first six months of 2008, to €4.6 million after € 5.8 million during prior-year period. After capacity upgrades over the last few years, paragon is currently undertaking targeted replacement and expansion investment especially by means of acquisitions. Furthermore, at the end of the first half of the year, a payment of €1.9 million in connection with the earlier complete takeover of paragon fidelity became due.

Reflective of the significance of research and development for paragon, expenses in this area at €5.2 million were only just below the same period of the previous year (€5.8 million). The R&D ratio was 8.6% of sales. Areas of focus in development in the Automotive division included, in addition to development of gauges, new variants of the MirrorPilot® Navigator. The MirrorPilot® Navigator will in future also permit hands-free cell phone operation, as well as navigation with voice emissions. Other areas of emphasis for development work included position sensors in the transmission system.

Employees

As of June 30, 2008, the paragon Group employed 599 individuals in total, precisely the same number as on March 31, 2008, but 6.6% above that of the previous year (562 employees as of June 30, 2007). In total, 303 employees were engaged at the production site of Suhl (prior year: 269), 90 employees in the company's headquarters at Delbrück (prior year: 92), as well as 68 employees at sites abroad (prior year: 66) as of June 30, 2008. In addition, 104 temporary workers were engaged by paragon as of June 30, 2008, compared with 75 a year earlier and 97 as of March 31, 2008. The personnel cost ratio, including the cost of temporary staff, declined slightly to 21.34% (prior year: 22.31%) as a percentage of total operating revenue. The drop was even steeper in the second quarter, with a ratio of 21.45% for Q2 2008 compared to 23.06% for Q2 2007.

Investor Relations

On May 14, 2008, paragon AG conducted its Annual Shareholders' Meeting at the Company's headquarters in Delbrück. The great majority of the approximately

220 shareholders present approved all agenda items requiring a vote. Klaus Dieter Frers (the Chairman of the Executive Board) and Volker Brinkmann (Finance Director) presented key indicators pertaining to the past fiscal year. In addition, the Executive Board provided information on paragon AG's future strategy and development, which include the expansion of foreign business under the leadership of the new Director of Marketing and Sales, Golo Alexander Wahl. paragon AG, via Mr. Wahl, will in future concentrate on foreign business with consolidated competences and thus enhance its international orientation.
The Annual Shareholders' Meeting also resolved the distribution of a dividend of EUR 0.10 to paragon shareholders.

The Executive Board intensified its investor relations work through numerous personal discussions on the occasion of the Annual Shareholders' Meeting. In addition to individual contacts and telephone calls, the Executive Board presented paragon AG to the financial community at the DVFA Analysts' Conference on April 2, 2008 in Frankfurt. In May, participation in another analysts' conference and a road show in London, followed.

In April, paragon welcomed a new solid and powerful major shareholder, confident in the Company's strategy, performance capabilities and future outlook. The Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte (Baden-Württemberg Retirement Fund for doctors, dentists and veterinarians) increased their voting rights share to 9.86%, thereby becoming the second largest shareholder after the founder of the Company and Chairman of the Executive Board, Klaus Dieter Frers (holdings unchanged at 52%). The investor took over the share package traded over the counter, which had previously been held by the Fonds Absolute Capital, managed by Florian Homm, since May of 2007.

As in the previous year, paragon AG's Executive Board will be represented at the DVFA Small Cap Conference in August, as well as at the Deutsche Eigenkapitalforum (German Equity Capital Forum) in November of 2008, both to take place in Frankfurt, and report on the status quo of business operations, as well as future developments and opportunities. These events also offer the opportunity for networking additional investors and analysts. Klaus Dieter Frers and Volker Brinkmann, especially, will seek active exchange of opinions and respond to questions from participants and visitors.

The uncertain situation in global financial markets continued at the beginning of fiscal 2008. Tensions in the equity markets could clearly be felt at the national level as well during the first half of the year. DAX growth was considerably weaker than the previous year and ended the first half of the year at 6,300 points. After opening at 8,000 points in January, this equates to a loss of approximately 21% from the beginning of the year. paragon's share price was not unaffected by difficulties in the capital markets and the uncertain environment. The paragon share closed just above €7.0 at the end of the second quarter. This corresponds to a decline of 10% from the beginning of the second quarter. In February, the share reached its year high to date at just under €9.0 (all data refer to XETRA).

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

Events after the balance sheet date

paragon fidelity GmbH, Cadolzburg, was merged with paragon finesse GmbH as part of the legal implementation of the divisional organizational structure, under a notarial agreement dated July 23, 2008.

No other events of note have occurred after the balance sheet date.

Report on Risks and Opportunities

The 2007 annual report provides information on paragon AG's fundamental and specific risks and opportunities and details general corporate and market risks and measures to combat these risks; it also describes the risk management system that has been implemented in detail. Taking into account these points paragon AG continuously monitors risk and opportunity potential and endeavors to optimize these processes and control mechanisms.

Market and Industry

There have been no significant changes in the market and industry risks.

Procurement and Production

The development of the US dollar exchange rate has not resulted in any fundamental changes in risk in this area. In order to exploit the fall in the dollar, purchasing activities in the US have been ramped up. The consequent shift of production of the products concerned to the Company's production site in Grand Rapids, Michigan (US), will enhance earnings potential by through improved capacity utilization.

Liquidity and Financing

Persistent uncertainties of the financial markets, in addition to developments in the US dollar exchange rate, influence this risk position. A collapse of the financial markets could have negative consequences for paragon. The Executive Board is in close contact with financiers due to general and paragon-specific developments in this field and does not anticipate problems at this point in time.
If individual risk positions are not itemized in this report, this implies that there have been no changes vis-à-vis the details provided in the 2007 annual report. Specific risks above and beyond those included in the report have not been identified for the second half of the year.

Capital Structure, Executive Board and Change of Control

paragon AG is required to provide the following explanations in accordance with to the regulations under section 289 paragraph 4 of the HGB (German Commercial Code) and section 315 paragraph 4 of the HGB:

Capital

paragon AG's capital stock at the end of the period under review consisted of 4,114, 788 shares with a par value of €1.00. The Company's subscribed capital was also €4,114, 788. These shares have been entitled to dividends since January 1, 2008. No restrictions on transfer or voting rights exist as far as the Executive Board is aware.

Klaus Dieter Frers owns direct holdings in paragon AG in excess of 10% at approximately 52%. There are no shares with special rights that grant control authorities.

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

Executive Board

The Executive Board of the Company, according to its statutes, consists of at least two members appointed by the Supervisory Board. Otherwise, the rules under sections 84 and 85 of the German Stock Joint Corporation Act apply. Authorization to buy back the Company's shares to a level of 10% of capital stock is in place, as is the authorization to increase capital by up to 2.0 million shares (authorized capital). Furthermore, capital can be conditionally raised by up to 2,040,012 shares (conditional capital I, II and III).

In the event of a change in control resulting from a takeover bid, agreements exist in the contracts of the members of the Company's Executive Board that provide for compensation payments under certain conditions.

Outlook (Forecast)

After a strong first half of the year, the German economy will weaken slightly during the second half of the year. The German Institute for Economic Research (DIW) is expecting GDP growth of just over two percent for the year on the whole. The role of the domestic economy is positive. Investment demand from many companies, as well as accelerated private consumption, will generate economic stability. A drop in unemployment and good wage agreements are having a positive impact. Above all, however, foreign business, particularly in Asia, Russia and Turkey, will play an important role for the German automotive industry during the remainder of the year. According to information from the German Automotive Industry Association (VDA) foreign production and passenger vehicle production will be around 5.6 million passenger vehicles and thus come very close to domestic production volumes.

Furthermore, the topics of fuel efficiency and decisions regarding the commuter tax allowance will play a significant role in the future development of the German automotive industry.

paragon AG is in a strong position for the future. At the beginning of the second half of the year, the three divisions of Climate Control Systems, Instrumentation and Control Systems, and Car Media Systems were restructured into the two divisions of Sensor/Actuator Technology and Cockpit Systems. This allows the development resources of the competence centers to be consolidated across all sites and geared in an even more focused fashion towards these two growth markets. This formation of joint teams promotes strength in innovation, allowing paragon to benefit even better from the trend to systems of higher quality. The new organization, effective from July 1, 2008, is being legally implemented by, among other factors, the above-mentioned merger of paragon fidelity GmbH and paragon finesse GmbH.
The consolidation into two divisions strengthens the Company's positioning as an innovative system supplier, already supported by the implementation of the Artega Project. Consistent customer orientation through introduction of a key account structure as at March 1 of this year is improving customer proximity and increasing customer satisfaction. The divisional organization and the key account structure depend on and complement each other. Participation in the Internationale Zuliefererbörse IZB (International Supplier Exchange) in Wolfsburg in October will enhance paragon's market presence.

After a first half of the year marked by strong sales growth, record order levels (€67.0 million as of June 30, 2008) and even better earnings growth, continued sound business development is anticipated. The Executive Board, therefore, affirms its expectations that the next two quarters will be successful and that the announced rise in sales of 5 to 10%, as well as an even greater rise in earnings in all earnings categories (excluding the tax effect), will be achieved.

On the whole, the Executive Board views paragon as well-positioned both strategically and operationally, and as a result assumes strong growth in the years to follow as well. In order to subject these deliberations to external assessment, the Executive Board commissioned a study. The consultancy, Oliver Wyman, well known for its extensive automotive expertise, reviewed paragon's business planning for the next few years. As part of this process, the plan was compared to market studies and Oliver Wyman estimates and, in addition, customer, suppliers, competitors and neutral market participants were surveyed. Oliver Wyman has confirmed that paragon, as an engineering manufacturer, is positioned in one of the automotive sectors exhibiting the highest growth. The divisions Displays, Sensors and Actuators are particularly noteworthy in this respect. Ultimately, the consultants concur with the expectation of the Executive Board that sales will at least double by 2012 due to organic growth. This is further corroborated by the level of scheduled and unscheduled orders, which is at more than €300 million. The two divisions of Cockpit Systems and Sensor/Actuator Technology are expected to grow equally.

Consolidated Balance Sheet as of June 30, 2008 (paragon AG, Delbrück)

in € (000)	06/30/2008	12/31/2007
Assets		
Non-current assets		
Intangible assets	31,223	31,530
Goodwill	27,294	27,430
Property, plant and equipment	31,120	32,130
Financial assets	266	266
Deferred tax assets	3,630	3,901
Total non-current assets	**93,533**	**95,257**
Current assets		
Inventories	21,406	17,709
Trade receivables	9,883	6,259
Income tax claims	831	867
Other assets	10,542	9,606
Cash and cash equivalents	1,857	6,443
Total current assets	**44,519**	**40,884**
Total assets	**138,052**	**136,141**

in € (000)	06/30/2008	12/31/2007
Liabilities and equity		
Equity		
Subscribed capital	4,115	4,115
Capital reserves	7,753	7,753
Distributable profit	482	2,464
Retained earnings	7,695	5,642
Reserve for currency translation differences	- 2,179	- 1,824
Total equity	**17,866**	**18,150**
Non-current liabilities		
Long-term financial lease liabilities	715	225
Long-term loans	26,564	29,111
Profit participation rights	22,543	25,494
Investment grants	8,141	9,147
Deferred tax liabilities	6,758	6,691
Provisions for pensions	908	959
Other non-current liabilities	0	1,898
Total non-current liabilities	**65,629**	**73,525**
Current liabilities		
Current portion of financial lease liabilities	510	521
Short-time loans and current portion of long-term loans	25,333	20,109
Trade liabilities	17,516	13,753
Other provisions	912	1,012
Income tax liabilities	2,863	2,929
Other current liabilities	7,423	6,142
Total current liabilities	**54,557**	**44,466**
Total equity and liabilities	**138,052**	**136,141**

Consolidated Income Statement for the period from January 1 to June 30, 2008 (paragon AG, Delbrück)

in € (000)	Q-2 2008 04/01 – 06/30	Q-2 2007 04/01 – 06/30	First Half of 2008 01/01 – 06/30	First Half of 2007 01/01 – 06/30
Revenue	**31,057**	**28,469**	**60,460**	**54,061**
Other operating income	1,258	1,321	2,147	2,330
Changes in inventory of finished goods and work in progress	1,244	-385	2,532	- 156
Other own work capitalized	1,076	1,574	2,937	2,881
Total operating revenue	**34,635**	**30,979**	**68,076**	**59,116**
Cost of materials	- 17,810	- 15,882	- 35,375	- 30,234
Gross income	**16,825**	**15,097**	**32,701**	**28,882**
Personnel expense	- 7,429	- 7,144	- 14,529	- 13,191
Depreciation/amortization/impairment of property, plant and equipment and intangible and financial assets	- 3,092	- 2,832	- 6,307	- 5,554
Other operating expenses	- 3,792	- 3,331	- 7,016	- 6,184
Earnings before interest and taxes (EBIT)	**2,512**	**1,790**	**4,849**	**3,953**
Financial income	51	198	121	206
Financing expenses	- 2,152	- 2,011	- 4,046	- 3,203
Financial result	**- 2,101**	**- 1,813**	**- 3,925**	**- 2,997**
Income before taxes	**411**	**- 23**	**924**	**956**
Income taxes	- 170	155	- 442	- 259
Net income	**241**	**132**	**482**	**697**
Earnings per share (basic)	0.06	0.03	0.12	0.17
Earnings per share (diluted)	0.06	0.03	0.12	0.17
Average number of shares outstanding (basic)	4,114,788	4,113,411	4,114,788	4,113,411
Average number of shares outstanding (diluted)	4,124,294	4,128,458	4,124,983	4,128,458

Consolidated Cash Flow Statement in accordance with IFRS (paragon AG, Delbrück)

in € (000)	01/01 – 06/30/2008		01/01 – 06/30/2007	
Cash flow from operating activities				
Income before taxes and deferred taxes	**924**		**956**	
Adjustment for:				
Depreciation, amortization and impairment losses		6,307		5,554
Financial result	3,926		2,998	
Losses from the disposal of non-current assets	- 36		9	
Change in other provisions and provisions for pensions	- 159		- 3,975	
Income from reversal of special account for grants	- 1,007		- 1,044	
Other non-cash income and expense	0		0	
Change in trade receivables, other receivables and other assets	- 4,614		- 2,199	
Change in inventory level	- 3,697		- 529	
Change in trade payables and other liabilities	4,721		- 6,301	
Interest paid	- 4,047		- 3,186	
Income taxes	- 134		- 461	
Net cash from operating activities		**2,184**		**- 8,178**
Cash flow from investing activities				
Payments for investment	- 4,592		- 5,816	
Payments for investment in long-term financial assets (prior year: for the purchase of subsidaries)	- 1,900		- 65	
Proceeds from the disposal of intangible assets and property, plant and equipment	70		17	
Funds from investment grants	0		867	
Interest received	121		188	
Net cash from investing activities		**- 6,301**		**- 4,809**
Cash flow from financing activities				
Dividend distribution to shareholders	- 411		- 1,234	
Repayment of (financial) credits	- 3,197		- 2,610	
Proceeds from (financial) credits taken	6,494		9,450	
Proceeds from equity additions	0		3	
Net cash inflow from the issuance of profit participation rights	0		6,750	
Net cash outflow due to repayment of profit participation rights	- 3,000		-5,000	
Net cash from financing activities		**- 114**		**7,359**
Exchange rate changes		- 355		- 146
Change in cash and cash equivalents		**- 4,586**		**- 5,774**
Cash and cash equivalents at the beginning of the period		**6,443**		**8,758**
Cash and cash equivalents at the end of the period		**1,857**		**2,984**

Segment Report (paragon AG, Delbrück)

in € (000)	Exterior sales		Earnings before interest and taxes (EBIT)	
	First Half of 2008 01/01 – 06/30	First Half of 2007 01/01 – 06/30	First Half of 2008 01/01 – 06/30	First Half of 2007 01/01 – 06/30
Automotive	50,016	43,231	4,153	3,692
Electronic Solutions	10,444	10,830	696	261
Total	**60,460**	**54,061**	**4,849**	**3,953**

Consolidated Statement of Changes in Equity (paragon AG, Delbrück)

in € (000)	Subscribed capital	Exchange rate differences	Capital reserves	Profit/loss carried forward	Net income	Total
Balance 01/01/2007	**4,113**	**- 1,166**	**7,748**	**4,670**	**2,206**	**17,571**
Net income					697	697
Profits carried forward				2,206	- 2,206	0
Dividend distribution				- 1,234		- 1,234
Capital increase (exercise of stock options)	1		2			3
Currency translation changes		- 146				- 146
Balance 06/30/2007	**4,114**	**- 1,312**	**7,750**	**5,642**	**697**	**16,891**
Balance 01/01/2008	**4,115**	**- 1,824**	**7,753**	**5,642**	**2,465**	**18,151**
Net income					482	482
Profits carried forward				2,465	- 2,465	0
Dividend distribution				- 411		- 411
Currency translation changes		- 356				- 356
Balance 06/30/2008	**4,115**	**- 2,180**	**7,753**	**7,696**	**482**	**17,866**

Basis of Presentation

The interim paragon AG consolidated financial statements as of June 30, 2008, 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. This report represents an update of the 2007 annual report that takes into consideration the period under review; the 2007 annual report should be used as a reference for explanation and additional information while reading this report. It can be found at www.paragon-online.de.

Scope of Consolidation

he scope of consolidation has not changed in the first half of 2008 from that in the 2007 annual report. In addition to the parent company, paragon AG, Delbrück, nine subsidiaries are included in the consolidation.

Income Statement, Balance Sheet, Cash Flow Statement, Segment Report

The sections on "Financial Position", "Financial Performance" and "Cash Flow" provide a detailed overview and specific explanations regarding paragon AG's income statement, balance sheet and cash flow statement.

Related Parties

No significant changes have occurred from the disclosures provided on the relationship with the Frers family in the 2007 annual report other than those listed below.

A total of €0.6 million has been paid to Artega Automobil GmbH & Co. KG based on the cooperation agreement with the company. These payments relate to paragon's right to advertise using the Artega name, support from Artega regarding advertising and marketing measures and other services.

Financial Obligations

Other financial obligations totaled €29.4 million as of June 30, 2008. Of this amount, €18.9 related to open purchase orders for capital expenditure and materials.

Notes on the Preparation of the Report on the First Half of 2008.

An audit or audit review of the interim consolidated 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 Executive Board is convinced that statements regarding the future are realistic, there can be no guarantees. The assumptions harbor risks and uncertainties that may result in actual events diverging from expected events.

Responsibility Statement

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

Delbrück, August 5, 2008

Klaus Dieter Frers   Volker Brinkmann   Golo Alexander Wahl

paragon AG
Schwalbenweg 29
33129 Delbrück · Germany
Phone: + 49 (0) 52 50 - 97 62 - 0
Fax: + 49 (0) 52 50 - 97 62 - 60
E-Mail: investor@paragon-online.de
Internet: www.paragon-online.de