paragon

DEPARTURE
ANNUAL REPORT 2023

Key Figures paragon Group[1]

€'000 or as stated	Jan. 1 to Dec. 31, 2023	Jan. 1 to Dec. 31, 2022[2]	Change
Sales (continuing operations)	161,647	160,677	0.6%
EBITDA[3] (continuing operations)	17,672	10,211	73.1%
EBITDA margin in %	10.9	6.4	72.0%
EBITDA[3] paragon semvox GmbH (discontinued operation)	7,562	4,738	59.6%
EBITDA continuing and discontinued operations	25,234	14,948	68.8%
EBIT (continuing operations)	1,052	–4,408	123.9%
EBIT margin in %	0.7	–2.7	123.7%
Result from continuing operations	–10,571	–9,503	–11.2%
Result from discontinued operations	6,759	5,309	27.3%
Group result	–3,812	–4,194	9.1%
Earnings per share in € (basic and diluted) from continuing operations	–2.34	–2.10	–11.2%
Earnings per share in € (basic and diluted) from discontinued operations	1.49	1.17	27.3%
Earnings per share in € (basic and diluted) from continuing operations and discontinued operations	–0.84	–0.93	9.1%
Investments (CAPEX)4) (continuing operations)	7,595	7,726	–1.7%
Operating cash flow (continuing operations)	–6,163	11,475	–153.7%
Free cash flow5) (continuing operations)	–13,758	3,750	466.9%
€'000 or as stated	Dec. 31, 2023	Dec. 31,2022[2]	Change
Balance sheet total	108,520	172,612	–37.1%
Equity capital	–4,084	–166	2,353.8%
Equity ratio in %	–3.8	–0.1	3,802.9%
Cash and cash equivalents	3,209	18,106	–82.3%
Bank and bond liabilities less cash and cash equivalents	57,650	87,324	–34.0%
Net gearing ratio[6]	2.28	5.84	–60.9%
Employees (continuing operations)[7]	740	729	1.5%

1 paragon GmbH & Co. KGaA sold its shares in paragon semvox GmbH to CARIAD SE by notarized agreement dated December 1, 2022. The closing took place on May 12, 2023. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiary. For this reason, paragon semvox GmbH is accounted for as a discontinued operation in accordance with IFRS 5.
2 Previous year's figures adjusted. The adjustments are explained in Note 5.
3 With regard to the calculation of EBITDA, please refer to the explanations in the combined management report of the annual report.
4 CAPEX = investments in property, plant and equipment + investments in intangible assets
5 Free cash flow = operating cash flow – capital expenditure (CAPEX)
6 As defined in section 3 of the bond terms and conditions WKN A2GSB8 (loans plus bonds less cash and cash equivalents divided by EBITDA)
7 Plus 39 temporary employees (December 31, 2022: 110)

Share

	Dec. 31, 2023	Dec. 31, 2022	Change
Closing price Xetra in €	3,84	4,31	–10,9%
Number of shares issued	4.526.266	4.526.266	0,0%
Market capitalization in million euros	17,4	19,5	–2,1

Highlights from Fiscal Year 2023

- Sales in 2023 stable compared to the previous year at EUR 161.6 million
- Cooperation and supply agreement concluded with Clarios, the world's leading supplier of low-voltage batteries
- EBITDA in the continuing operations amounted to EUR 17.7 million and EUR 7.6 million in the discontinued operation (Digital Assistance), bringing the total to EUR 25.2 million.
- Digital Assistance division (paragon semvox GmbH) sold to CARIAD SE. Net sales proceeds of around EUR 37.5 million used to further reduce debt in 2023.
- CHF Bond repaid in full
- Framework nominal value of the EUR bond reduced to EUR 45.2 million
- Stock exchange buyback program launched for the EUR bond
- Net debt significantly reduced. Net gearing ratio at 2.28
- Forecast for 2024: EUR 160 to 165 million in sales with EBITDA of EUR 18 to 20 million

Content

Foreword by the management

Dear shareholders Dear customers and business partners, dear employees,

2023 was an eventful year for paragon, but also a successful one.

In summer 2023, we concluded the agreement to sell our subsidiary paragon semvox GmbH (Digital Assistance division) to CARIAD SE, part of the Volkswagen Group. We did not take this decision lightly. Since the acquisition of Semvox GmbH in 2018, we have developed this division enormously. During this time, paragon semvox GmbH has developed into a leading market player in the field of digital voice assistance with its expertise in artificial intelligence. We made the decision to sell the company with a heavy heart in order to use the proceeds from the sale to further reduce the paragon Group's debt. This step is a key component in strengthening paragon's financial power. But there was also another reason; we still see considerable growth potential for paragon semvox GmbH, which a DAX company can realize much faster than a medium-sized company like paragon.

In August 2023, we then purposefully took the next step in our plan to strengthen our core business and accelerate the global scaling of our technology. With Clarios, the world's leading supplier of starter batteries, we concluded the transfer of part of our Power division together with further cooperation and supply agreements. The transaction enables Clarios to integrate our lithium-ion battery technology and a number of engineers to accelerate the development of new advanced low-voltage architectures for vehicles. We remain committed to the lithium-ion battery market and will supply the battery management electronics for Clarios' current and potentially future business and will therefore continue to participate in Clarios' future success. However, we will continue to offer battery management systems and traction batteries based on FSD technology to third parties.

We used the proceeds from the sale of the asset deal with Clarios – as well as the proceeds from the sale of the Digital Assistance division – to further reduce the paragon Group's debt. The CHF bond issued in 2019 was repaid in full and on schedule in 2023. The EUR bond extended in 2022 was reduced to EUR 45.2 million. As a result, the total of bank liabilities and bond liabilities (less cash and cash equivalents) amounted to just EUR 57.7 million as of the balance sheet date. Immediately before the outbreak of the Covid pandemic – in December 2019 – this figure was more than twice as high, at EUR 121.3 million. We are proud of this reduction in what is certainly a difficult market environment. Our net gearing ratio has fallen to 2.28 as a result. It is fair to say that paragon is in a much better financial position today than it was a year ago, although the company's liquidity situation has not yet fully normalized. In the course of the 2023 financial year, there was still a limited willingness on the part of lenders and equity providers to provide the company with additional funds. German banks in particular were generally reluctant to extend loans to medium-sized automotive suppliers. However, deferral agreements and extended payment terms were successfully reached with suppliers and service providers. We assume that payment terms with suppliers and service providers will be shortened in the course of the 2024 financial year, taking into account the planned sales and the forecast operating profitability, which will form the basis for further material savings.

The necessary reduction in debt has certainly been one of the predominant issues in recent quarters. We have reported regularly on the progress made. We consider the level of net debt we have now achieved to be appropriate for paragon and would now like to emphasize other aspects of our work in our communication with stakeholders. Increasing our profitability, expanding our sales activities in China, the USA and South Korea and developing new products for the automotive industry, as well as other sectors, are now increasingly the focus of our activities. We will provide you with comprehensive information on these exciting topics in due course.

In the 2024 financial year, we plan to generate sales of between EUR 160 million and EUR 165 million. This takes into account the fact that customer demand has recently normalized after working off the high order backlog of vehicle orders resulting from material bottlenecks at car manufacturers. We expect this market phase to continue in the coming months and demand not to pick up again before the end of the second quarter of 2024. EBITDA is expected to amount to between EUR 18 million and EUR 20 million in 2024; this takes into account the fact that the one-off financial effects from the sale of the subsidiary paragon semvox GmbH and assets of the Power division in 2023 will of course not be incurred in the coming year. However, the rationalization successes achieved will take full effect in 2024 and sustainably strengthen profitability.

One point cannot be emphasized often enough. None of our products in the four divisions are dependent on the combustion engine. The transformation of the automotive industry from combustion engines to electric drives will not have a negative impact on paragon's sales. This means that the current slowdown in the transition to electric vehicles is not a problem for paragon. In the long term, we expect demand for paragon products to increase as a result of the transformation.

We are confident that the progress already achieved and future progress in the operating business will be reflected in the development of the share and bond price. We would like to thank our shareholders and bondholders for their loyalty. We would like to take this opportunity to express our appreciation to our employees and thank them for their commitment in the 2023 financial year. Through their positive attitude and performance, they have strengthened paragon in the midst of a challenging market environment and brought it significantly forward. We would also like to thank our business partners and customers for their trust.

Delbrück, April 2024

Klaus Dieter Frers
Chairman
of the Board, CEO

Investor Relations

Performance of the paragon share

Starting from a price of EUR 4.31 at the end of 2022, paragon shares recorded a steady upward trend in the first half of the year. At the end of the first quarter, the share price stood at EUR 5.20. A high of EUR 6.30 per share was reached in June 2023. After that, the share price fell steadily and stood at EUR 3.84 at the end of the year. The stock market value at this time amounted to EUR 17.4 million, which corresponds to a loss in value of EUR 2.1 million in 2023.

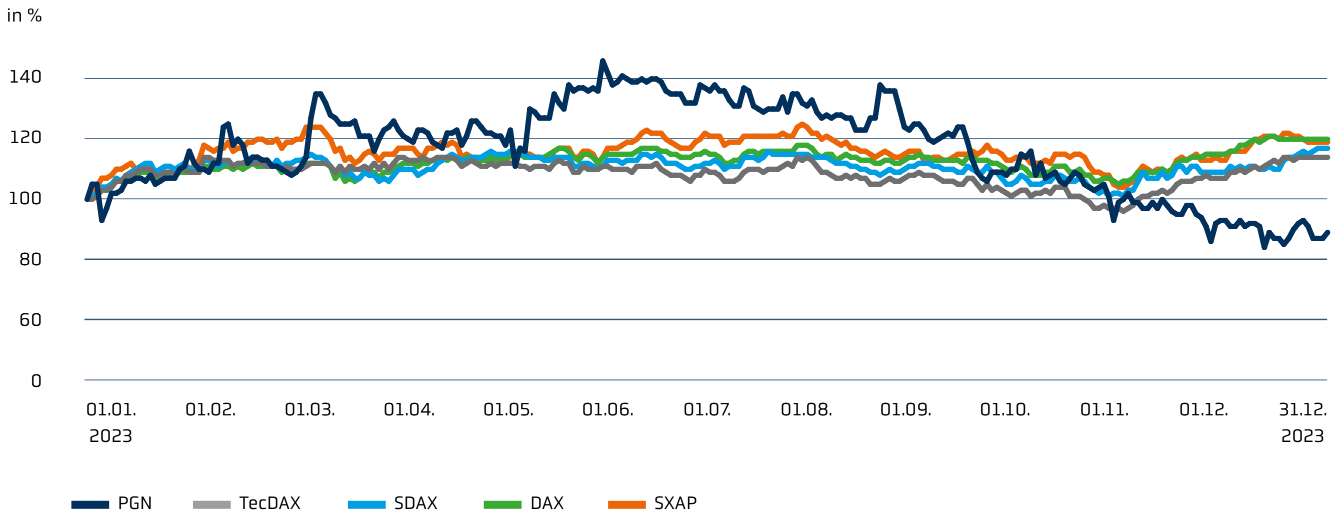
Corporate bond 2017/27

The corporate bond placed in June 2017 (ISIN DE000A2GSB86; WKN A2GSB8) with an original total volume (framework nominal) of EUR 50 million is listed on the Open Market (OTC) of the Frankfurt Stock Exchange in the Scale segment for corporate bonds of Deutsche Börse AG.

In March 2022, a bondholders' meeting resolved to amend the terms and conditions of the bond. In addition to a semi-annual interest payment and a higher interest coupon, the final maturity date was postponed by 5 years to July 5, 2027. In addition, partial repayments in the years 2023 to 2025 or in the event of the sale of business units or subsidiaries have been agreed. In the first half of 2023, paragon reduced the nominal amount of the bond from EUR 50.0 million to EUR 45.2 million through buy-backs.

The interest rate on the bond depends on the paragon Group's net gearing ratio. The interest rate in the 2023 financial year was 9.25%. Due to the reduced gearing ratio as of December 31, 2023, the interest rate on the bond will be 7.5% in the 2024 financial year.

At the end of the 2023 reporting period, the bond closed at a price of 69.4%.



On November 6, 2023, paragon started to buy back the bond on the stock exchange in a total nominal amount of up to EUR 20.2 million. The program will run until July 5, 2025 at the latest. The buyback will be carried out by an independent securities service provider. With regard to the purchase price and purchase volume, the service provider must comply with the ban on market abuse (so-called "safe harbor rules"). As a result, no more than 25% of the average daily turnover (20-day average) in the bonds may be purchased on the stock exchange on any one day. The bond buyback is carried out via the regional stock exchanges in Stuttgart, Frankfurt and Tradegate Exchange. By December 31, 2023, bonds with a total nominal value of EUR 131,000.00 had been repurchased.

Corporate bond 2019/23

On April 4, 2019, paragon issued a bond under the lead management of Helvetische Bank AG for CHF 35 million with a coupon of 4.00% and an original fixed term of 5 years. The bond has been listed on the SIX Swiss Exchange under ISIN CH0419041105 since April 23, 2019 and has been interest-bearing since this date, with the first payment due on April 23, 2020. On April 7, 2021, the term of the bond was shortened to 4 years and an early redemption of CHF 5.25 million on August 3, 2021 and CHF 8.75 million on April 23, 2022 was agreed. The outstanding nominal volume as of December 31, 2022 therefore amounted to CHF 21.00 million.

Following the conclusion of a public buyback program in the first quarter of 2023, the outstanding nominal volume was reduced to CHF 12.6 million. This remaining amount was repaid on time at the end of April 2023. The CHF bond has thus been repaid in full.

Investment in paragon semvox GmbH

paragon GmbH & Co. KGaA has sold all of its shares in paragon semvox GmbH to CARIAD SE, a wholly owned subsidiary of the VW Group, by notarized agreement dated December 1, 2022. The closing was completed on May 12, 2023. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiary paragon semvox GmbH. For this reason, paragon semvox GmbH is accounted for as a "discontinued operation" in accordance with IFRS 5 and was deconsolidated in the current financial year. The proceeds from the sale amounted to EUR 37.5 million, taking into account the transaction costs incurred. paragon semvox GmbH represented the Digital Assistance division within the paragon Group.

Financial communication

paragon GmbH & Co. KGaA regularly and simultaneously informed all capital market participants about the economic situation of the company. The continuous reporting included the annual report for the 2022 financial year (published on May 22, 2023), the interim report as of March 31, 2023 – 1st quarter (published on May 12, 2023), the interim report as of June 30, 2023 – 1st half-year (published on August 21, 2023) and the interim report as of September 30, 2023 – 9 months (published on November 13, 2023). In parallel to these dates, paragon GmbH & Co. KGaA published corresponding financial reports, which also included the management's assessment of future business development, and organized webcasts that generated lively interest.

The sales and earnings forecast for 2023 was communicated at the end of 2022 with sales of EUR 170 million and EBITDA of between EUR 20 and 25 million. This sales and earnings forecast by the management for the 2023 financial year was explained in the published Group management report for the 2022 financial year, including the key assumptions on which the forecasts are based.

In October 2023, the sales and earnings forecast was adjusted due to current economic developments in that the expected sales revenue for the 2023 financial year was specified at between EUR 160 million and EUR 170 million and EBITDA was increased to between EUR 25 million and EUR 27 million.

In the past financial year, the company further intensified its ongoing communication with institutional and private investors, including through presentations and 1-on-1s at various capital market conferences. The company understands effective financial communication as the targeted reduction of information asymmetry between management and shareholders regarding the current economic situation and the specific future potential of paragon GmbH & Co. KGaA. Accordingly, great importance is attached to ongoing dialog with professional capital market participants. Furthermore, the company endeavors to provide the general public with current and relevant information on an ongoing basis via various media channels and to be available as a personal contact for private investors.

Supervisory Board Report

Monitoring and Consulting in Continuous Dialogue with the Management

Prof. Dr. Iris Gräßler

Dear Shareholders,
Below we inform you about the work of the Supervisory Board in the 2023 financial year.

The Management Board and Supervisory Board of paragon GmbH & Co. KGaA are committed to the obligation set out in the German Corporate Governance Code ("Code") to ensure the continued existence of the company and its sustainable value creation in accordance with the principles of the social market economy (corporate interest). There were no conflicts of interest between individual members of the Management Board and Supervisory Board in the 2023 financial year. A list of all mandates held by Supervisory Board members can be found in the notes to the consolidated financial statements.

In the 2023 financial year, the Supervisory Board of paragon GmbH & Co. KGaA performed the advisory and supervisory duties incumbent upon it in accordance with the law, the Articles of Association, the Corporate Governance Code and the rules of procedure with great care. The Supervisory Board supervised the Management Board on an ongoing basis and satisfied itself of the legality, regularity, expediency and economic efficiency of the company's management. In addition, the Supervisory Board assisted the Management Board in an advisory capacity throughout and was involved in discussions and decision-making on issues of fundamental importance. Thanks to the good cooperation between the members of the Supervisory Board, it was also possible to make decisions directly at short notice.

In spring 2024, the Management Board and Supervisory Board issued an updated declaration of conformity in accordance with Section 161 AktG and made it permanently available in the Investor Relations section of the paragon GmbH & Co. KGaA website. The deviations from the recommendations of the Code and additional information on corporate governance at paragon GmbH & Co. KGaA are also explained there.

The Management Board provided the Supervisory Board with comprehensive written and verbal information at the Supervisory Board meetings on all significant events, general business developments and the current situation of the company. The Supervisory Board focused in particular on topics relating to strategy, planning, business development, financial planning, the risk situation and risk management. In addition, the members of the Supervisory Board intensively reviewed the reports of the Management Board and discussed them within the Board. In addition to the Supervisory Board meetings held in person and as video conferences between the Management Board and the Supervisory Board, the Chairwoman of the Supervisory Board and the Management Board discussed important topics as required. The Supervisory Board was kept fully informed of any extraordinary events that were significant for the assessment of the annual results.

There were no changes to the Supervisory Board or the Management Board in the 2023 financial year.

Meetings of the Supervisory Board

In the 2023 financial year, the Supervisory Board held four ordinary meetings and four extraordinary meetings. The four ordinary meetings were held in person and two extraordinary meetings were held as video conferences. These six meetings of the Supervisory Board took place in the presence of the Management Board. The remaining two meetings were held exclusively in the presence of the three Supervisory Board members. The Supervisory Board was fully represented at all meetings in 2023.

Meeting on April 25, 2023

At the first ordinary Supervisory Board meeting of 2023 in Delbrück, the Supervisory Board was informed about the current business development in the first months of 2023, the order situation, the continuation of the debt reduction and the status of the sale of paragon semvox GmbH to CARIAD SE. The Supervisory Board also dealt with the nomination of the auditor and Group auditor for the 2023 financial year and proposed Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, as auditor and Group auditor.

Meeting on May 22, 2023

The focus of the first extraordinary Supervisory Board meeting on May 22, 2023 – which was held as a video conference – was the audit and adoption of the annual financial statements for the 2022 financial year and the audit and approval of the consolidated financial statements for the 2022 financial year. The auditors from Baker Tilly GmbH & Co. KG Wirtschaftsprüfung were present for this purpose. The results of operations and net assets for the reporting year and their key influencing factors were explained by the Management Board for both the paragon Group and paragon GmbH & Co. KGaA. The agenda for the Annual General Meeting of paragon GmbH & Co. KGaA on June 30, 2023 was also discussed and approved by the Supervisory Board.

Meeting on June 29, 2023

At its second ordinary meeting on June 29, 2023 in Delbrück, the Supervisory Board was informed about business developments in the first quarter of 2023, focusing in particular on new orders received and the strategy for the North American business. Another topic was the financial structure of the paragon Group and the reduction of debt after the CHF bond was repaid in full in the second quarter of 2023. The Management Board also reported on the planned repayment of tax liabilities from the coronavirus period.

Meeting on August 15, 2023

The second extraordinary meeting on August 15, 2023 was held as a video conference. The sole topic of this meeting was the planned sale of the low-voltage battery business to

Clarios Advanced Solutions GmbH. The advantages and disadvantages of selling the business and the potential long-term cooperation with Clarios were discussed.

Meetings on August 22 and 23, 2023

The members of the Supervisory Board met here in person to discuss the terms negotiated by the management for the above-mentioned sale of the low-voltage battery business to Clarios Advanced Solutions GmbH.

Meeting on September 6, 2023

At the third ordinary Supervisory Board meeting on September 6, 2023 in Delbrück, the Management Board informed the Supervisory Board about business developments in the first half of 2023. Topics included the development of revenue, the reduction in liabilities and the completion of the sale of paragon semvox GmbH to CARIAD SE. Mr. Frers reported on his repurchase of 29.94% of the shares in paragon GmbH & Co. KGaA, which he has since completed privately.

Meeting on December 5, 2023

At the fourth ordinary Supervisory Board meeting on December 5, 2023 (at the offices of Supervisory Board member Walter Schäfers in Paderborn), the Supervisory Board discussed the business performance in the first nine months of 2023, the current business outlook and, in particular, the planning presented by the Management Board for the 2024 financial year and the 2024 financial calendar.

Formation of committees

As in the past, the company's three-member Supervisory Board refrained from forming committees in the 2023 financial year and dealt with all upcoming issues as a whole.

Audit of the annual and consolidated financial statements for the 2023 financial year

Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft, Bielefeld, was appointed as auditor and Group auditor for the financial year from January 1 to December 31, 2023 by resolution of the Annual General Meeting on June 30, 2023 and commissioned accordingly by the Chairwoman of the Supervisory Board. The Supervisory Board has received a declaration of independence from the auditor.

The subject matter of the audit was the annual financial statements of paragon GmbH & Co. KGaA for the fiscal year from January 1, 2023 to December 31, 2023, prepared by the management in accordance with the provisions of the German Commercial Code (HGB), the consolidated financial statements for the fiscal year from January 1, 2023 to December 31, 2023, prepared by the management in accordance with section 315a HGB on the basis of the International Financial Reporting Standards (IFRS), and the combined management report of the paragon Group and paragon GmbH & Co.

At the end of the audit, Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft, Bielefeld, issued an unqualified audit opinion on the annual financial statements, the consolidated financial statements and the combined management report of the paragon Group and paragon GmbH & Co. KGaA.

The auditor also determined that the information and monitoring system set up by the management is suitable for fulfilling the legal requirements and identifying developments that could jeopardize the company's continued existence at an early stage.

Each member of the Supervisory Board was provided by the auditor with the documents to be audited relating to the annual financial statements, the consolidated financial statements, the combined management report of the paragon Group and paragon GmbH & Co. KGaA and the report on the audit of the financial statements. The audit was reported on and discussed at the Supervisory Board meeting on April 24, 2024. The auditors took part in the discussion of the annual financial statements and the consolidated financial statements. They reported on the key findings of the audits and were available to answer additional questions and provide information to the Supervisory Board. Following the final results of its audit, the Supervisory Board approved the annual financial statements and the consolidated financial statements.

The Supervisory Board would like to express its thanks and appreciation to the Management Board and the employees of all Group companies for their high level of personal commitment, their achievements and their ongoing dedication to paragon GmbH & Co. KGaA and the work performed in 2023.

Delbrück, Germany, April, 2024

For the Supervisory Board,

Prof. Dr. Iris Gräßler
Chairwoman of the
Supervisory Board

Combined Management Report for the paragon Group and paragon GmbH & Co. KGaA

The combined management report summarizes the Group management report and the management report of paragon GmbH & Co.

To clarify which information relates to the parent company and which relates to the Group, we use “paragon GmbH & Co. KGaA”, “Company” or “paragon” for the parent company in the following. For information relating to the paragon Group, we use “paragon Group” or “Group”.

Foundations of the Group

Business model of the paragon Group

The paragon Group’s business model is based on the independent development of product innovations at its own expense. To this end, a tried and tested innovation system is used to keep the current product portfolio at a very high level of innovation on an ongoing basis. Thanks to the overall vehicle expertise that the paragon Group has successively built up over the past three decades, development and prototype construction are characterized by a deep understanding of the entire automotive industry.

The product innovation process in the paragon Group is inspired by the central idea of improving the individual driving experience of the occupants of modern passenger cars (as end customers).

The paragon Group derives the fields of innovation relevant to the automotive value chain from the global megatrends of climate change, digitalization and urbanization in the context of the constant increase in comfort and health protection for vehicle occupants and the technological consequences of efforts to reduce CO2 and the transformation towards locally emission-free mobility. The paragon Group has set up its activities in the Sensors, Interior, Kinematics and Power divisions for this purpose.

The market launch of product innovations is based on the so-called push principle, i.e. actual marketing to automotive manufacturers as direct customers only begins once functional prototypes (A samples) and corresponding property right applications have been filed. This gives the paragon Group a head start over the competition, even with short innovation cycles. With a high level of vertical integration in production, the paragon Group has also established itself as a reliable partner for automotive manufacturers.

The degree of automation in series production is constantly being increased in order to improve the cost structure over the life cycle of the individual product series. In this sense, series production of the large number of product variants represents an independent field of innovation within the company.

Group structure

paragon GmbH & Co. KGaA is the parent company of the paragon Group. In addition to the company headquarters in 33129 Delbrück, Bösendamm 11, (North Rhine-Westphalia), paragon GmbH & Co. KGaA and its subsidiaries have branches in Suhl (Thuringia), St. Georgen (Baden-Württemberg), Limbach (Saarland), Nuremberg (Bavaria) and Oroslavje (Croatia). Landsberg am Lech is the headquarters of the subsidiary movasys GmbH, Kunshan (China) is the headquarters of paragon Automotive Kunshan Co., Ltd. and Bangalore (India) is the headquarters of paravox Automotive Ltd.

In addition to the parent company, the scope of consolidation of the paragon Group also includes the domestic subsidiaries paragon movasys GmbH, paragon electronic GmbH, ETON Soundsysteme GmbH, paragon electrodrive GmbH and Nordhagen Immobilien GmbH. The foreign subsidiaries paravox Automotive Ltd (Bangalore), paragon Automotive Kunshan Co., Ltd, and paragon Automotive Technology (Shanghai) Co., Ltd. are also included in the scope of consolidation of the paragon Group. In the USA, paragon Automotive LLC was founded with the aim of bundling and strengthening sales activities in America from mid-2024. This company was still inactive in 2023.

paragon GmbH & Co. KGaA sold all of its shares in paragon semvox GmbH to CARIAD SE, a wholly owned subsidiary of the VW Group, by notarized agreement dated December 1, 2022. The closing took place on May 12, 2023. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiary paragon semvox GmbH. For this reason, paragon semvox GmbH will be deconsolidated in the 2023 consolidated financial statements and recognized as a discontinued operation in accordance with IFRS 5. paragon semvox GmbH represents the Digital Assistance division in the paragon Group.

The paragon Group comprises two segments. The “Electronics” segment comprises the development and sale of sensors, loudspeakers, microphones, batteries and instruments, primarily for the automotive industry. The companies paragon GmbH & Co. KGaA, paragon electronic GmbH, ETON Soundsysteme GmbH, Hepa GmbH, paragon Automotive Technology Co. Ltd, paragon Automotive Kunshan Co. Ltd. and Nordhagen Immobilien GmbH are allocated to the Electronics segment.

The “Mechanics” segment comprises the development and sale of electromechanical components for the automotive industry and the mechanical production of paragon Group products by paragon movasys GmbH.

Corporate strategy

The corporate strategy of the paragon Group pursues the goal of sustainable and stable growth in order to ensure the long-term success of the company. It is developed in a revolving process at management level. paragon’s sustainable strategy is to independently develop product innovations for the automotive industry based on the relevant fields of innovation of increasing comfort and protecting the health of passengers, as well as the technological consequences of the targeted CO2 reduction, in order to sustainably improve the individual driving experience of the occupants of modern passenger cars as end customers.

paragon does not develop and manufacture products that depend on the combustion engine, but participates in the transformation towards locally emission-free mobility.

As a result, the paragon strategy comprises the following four levels of sustainable anchoring:

a) **Ongoing development of product innovations based on megatrends (product development)**

In order to be able to occupy lucrative submarkets at an early stage, particularly in the premium segment of the automotive sector, paragon develops technological innovations as part of a tried and tested, permanent process and derives fields of action for the automotive industry from this, which are the subject of future development activities.

In this context, paragon is also aiming to systematically expand its product portfolio and existing business areas through targeted investments in technologies and production. The aim is to be able to offer higher-value systems from a single source and thus increase its share of the automotive value chain. To this end, paragon is constantly examining ways of increasing its own vertical integration.

b) **Acquiring new automobile manufacturers as customers (market penetration)**

paragon intends to further increase the volume of business with various premium manufacturers in the medium term, which are currently already important customers but for which paragon still sees considerable potential. This is to be supported by targeted sales activities as well as targeted acquisitions and spin-offs from acquisitions.

Vehicle functions and equipment that are currently still predominantly offered by European manufacturers in the premium automotive segment are increasingly in demand in Asia, particularly in the Chinese market. Here, paragon has already succeeded in penetrating the high-volume models of Chinese manufacturers with its first products.

c) **Development of new sales areas (market development)**

paragon is aiming for further internationalization of its business activities in the short and medium term for future growth. In addition to the home market of Germany and the key automotive countries in Europe, the short-term focus is particularly on the high-growth markets in Asia. The Chinese automotive industry is one of the world's major growth drivers in the sector and is now also responsible for the rapid spread of resource-saving technologies. For paragon, there is therefore potential for a further increase in sales on the Chinese automotive market.

America is also of interest for paragon's strategic orientation. Following the successful establishment in China, the expansion of sales to conquer the US market is the task for the coming years.

d) **Development of new submarkets with new product offerings (diversification)**

Another component of paragon's growth strategy is to develop new submarkets with innovative product offerings in the medium term.

Control system

In addition to a high innovation dynamic, flat hierarchies, short decision-making paths and continuously optimized process management characterize the organizational foundations of paragon. The Group also has the character of a medium-sized, family-run company and thus combines a long-term, strategic focus with the integration power of a listed company. Thanks to this special organizational focus, the management believes that it is in a position to compete successfully with significantly larger groups and to further expand its market position as a direct supplier to renowned automotive manufacturers in the future.

The management regularly compares its strategy with the actual business development in the paragon Group. The resulting follow-up activities are determined at management level as part of target discussions and optimizing measures or fundamental changes in direction are initiated.

The company's domestic electronics production at the Suhl, St. Georgen and Limbach plants is managed uniformly by paragon electronic GmbH. The aim of this joint management is to harmonize and standardize processes and workflows in order to increase production efficiency. This is to be supported primarily by the further automation of production processes. By continuously increasing the level of automation, the aim is to ensure a consistent, stable level of quality while simultaneously reducing quality costs. Other production sites are Landsberg am Lech and Oroslavje (Croatia), where paragon movasys GmbH products such as spoilers and other kinematic components are manufactured. In addition, there is the Chinese production facility in Kunshan, which manufactures products (some of which are developed locally) that belong to the Sensors, Interiors and Kinematics divisions

paragon GmbH & Co. KGaA has a comprehensive planning and control system for the operational implementation of strategic planning. Among other things, this includes continuous controlling of monthly and annual planning. These reports document possible deviations from the planned figures in a target/actual comparison and form the basis for business decisions. Another important management tool is the regular meetings of managers, at which current business developments in the individual divisions and an outlook for the medium and long term are discussed, as well as regular cross-divisional and division-specific project status meetings.

Financial performance indicators

The management regularly uses key performance indicators to measure the economic success of the operational implementation of its corporate strategy. The management system takes into account the type and/or amount of one-off or extraordinary effects on the performance indicators. The internal targets are generally defined as ranges for measuring and managing operating performance, depending on the respective planning horizon. Based on rolling medium-term planning, the paragon Group monitors the development of the key performance indicators revenue and EBITDA within a corridor, taking into account experience curve effects.

For the individual company paragon GmbH & Co. KGaA, revenue and EBITDA are also considered financial performance indicators. Against the backdrop of the growth strategy pursued, forward-looking corporate management is thus taken into account in terms of both risk-oriented and opportunity-oriented corporate management. The forecast for the paragon Group and for paragon GmbH & Co. KGaA can be found in the forecast report.

Group sales

As a rule, revenue in the paragon Group is generated predominantly through the sale of internally manufactured products in the Electronics and Mechanics segments directly to automotive manufacturers.

In this respect, Group sales are subject to various influences, some of which are taken into account in the forecast reporting by specifying a target corridor (range).

EBITDA

As part of corporate management, EBITDA is managed by the management in terms of the development of operating profitability in such a way that the strategically defined growth path can be implemented with appropriate profitability. In addition to measuring operating profitability, EBITDA is also used as an approximate value for operating cash flow as part of the management of the segments and divisions.

EBITDA is calculated by adjusting the annual result to exclude the following influences:

- Income taxes
- Financial result
- Scheduled depreciation and amortization
- Impairment losses and reversals of impairment losses on current assets
- Impairment losses and reversals of impairment losses on property, plant and equipment and intangible assets and
- Impairment of goodwill.

Gains and losses from the disposal of fixed assets as well as (unrealized) exchange rate gains and/or losses are therefore included in the EBITDA figure.

EBITDA is not a performance indicator defined in IFRS standards. The Group's definition of EBITDA may not be comparable with similarly designated performance indicators and disclosures by other companies.

In reporting on the forecast, EBITDA is stated in a range where applicable. This means that the dynamic effects that may arise over time for the relevant income and expense items are also taken into account as part of the rolling medium-term planning.

Non-financial performance indicators

Against the backdrop of the strategic positioning as an innovative provider of technologically sophisticated and high-quality products and systems based on current megatrends, the management also uses non-financial performance indicators as part of its corporate management. The non-financial performance indicators are not material for the management of the paragon Group.

Employees

The successful recruitment, development and retention of qualified employees (the term is used to refer uniformly to female, male and diverse employees) are of particular importance for the implementation of the sustainable growth strategy, taking into account paragon's specific business model. Personnel development is seen as a central building block for the company's success.

Development of employees in the paragon Group (continued operations):

	Dec. 31, 2023	Dec. 31, 2022	Change in%
Number of employees	**740**	**729**	**1,5%**
of which employed in development	104	122	-14,8%
Number of temporary workers	**39**	**110**	**-64,5%**
of which employed in development	0	0	0,0%

The proportion of female employees in the Group decreased to 38.9% (previous year: 39.8%). At 21.2%, the proportion of university graduates slightly decreased (previous year: 23.3%). The proportion of severely disabled employees was 2.8% (previous year: 3.2%). The average age changed slightly to 44.9 years (previous year: 44.3 years) and the average length of service remained unchanged at 6.1 years (previous year: 6.1 years).

Distribution of permanent employees across the Group locations:

	Dec. 31, 2023	Dec. 31, 2022	Change in %
Delbrück (Group headquarters, North Rhine-Westphalia)	140	160	-12,5%
Landsberg am Lech (Bavaria)	163	122	33,6%
Nuremberg (Bavaria)	3	2	50,0%
Limbach (Saarland)	67	60	11,7%
St. Georgen (Baden-Württemberg)	35	39	-10,3%
Suhl (Thuringia)	253	259	-2,3%
Germany total	**661**	**642**	**3,0%**
Kunshan (China)	60	51	17,6%
Oroslavje (Croatia)	17	16	6,3%
Bangalore (India)	2	20	-90,0%
Total abroad	**79**	**87**	**-9,2%**
Group total	**740**	**729**	**1,5%**

Quality and environment

As a production company with a large product portfolio, paragon has many years of experience in optimizing production processes. All paragon sites are certified in accordance with the IATF 16949 standard and are monitored annually. The established interactive and process-oriented management system provides for continuous improvements with an emphasis on error prevention and waste reduction.

The paragon Group operates according to a "zero-defect strategy", which is permanently pursued in production along the entire value chain.

Furthermore, environmental protection and occupational safety are an integral part of the company's mission statement. paragon has integrated the requirements of DIN EN ISO 14001 into its management system. Its effectiveness is confirmed in the annual audits. In addition, paragon pursues the concept of sustainability through the use of state-of-the-art production technologies and the careful use of raw materials and energy resources.

Other performance indicators

The financial and non-financial performance indicators listed above are essential for the management of the paragon Group. There are also other performance indicators for the Group. These other performance indicators are of secondary importance compared to the performance indicators. The management uses research and development activities in particular as indicators for management and as a yardstick for further development.

Research and development

As paragon's business model is based on the early occupation of lucrative market segments with self-developed product innovations, special skills and sufficient capacities in the area of research and development (R&D) are further control parameters.

Responsibility for the development of new products is decentralized at divisional level. The decentralized organization means that new ideas can be implemented quickly thanks to direct integration with the customer teams responsible for sales. Research and development activities are predominantly internal and application-oriented.

In the 2023 financial year, paragon spent a total of € 12.8 million (previous year: € 14.7 million) on R&D activities. This corresponds to a share of 7.9% of sales (previous year: 9.1%). The ratio of capitalized development costs to total research and development costs was approximately 30.4% (previous year: 34.6%). In the reporting period, paragon recognized amortization and impairment losses of € 6.7 million (previous year: € 5.3 million).

The investments made in the development of innovative products in recent years resulted in further series production launches in the reporting year. Accordingly, the management is convinced that the significant expenditure on development services in recent years as part of the market and product strategy is very much in line with the needs of manufacturers who are currently focusing more and more consistently on the fields of innovation.

Dividend policy

The management has always pursued a dividend policy that is intended to meet the strategic corporate objective of profitable growth and has therefore largely retained corporate profits in the past. As part of the extension of the EUR bond, it was agreed with the bondholders in March 2022 that paragon GmbH & Co. KGaA would refrain from distributing dividends until the final repayment of the EUR bond in 2027. In the reporting year, an amount of EUR 5.1 million (previous year: EUR 7.9 million) is subject to the distribution restriction.

The Management Board and Supervisory Board of paragon GmbH & Co. KGaA will therefore propose to the Annual General Meeting that no dividend be paid for the 2023 financial year (previous year: no dividend payment).

Economic report

General economic conditions

The Kiel Economic Report[1] of the Kiel Institute for the World Economy (IfW) states that the global economy held up better than expected in 2023 in the face of the inflation shock and the massive tightening of monetary policy, even if economic expansion was moderate. The IfW expects global GDP to increase by a total of 2.63.1% in the calendar year 2023.

1 https://www.ifw-kiel.de/de/publikationen/weltwirtschaft-im-winter-2023-konjunkturelle-dynamik-bleibt-vorerst-gering-32318/

The eurozone performed weaker than the global economy in 2023. The sharp rise in the cost of living curbed private consumption, financing conditions have become less favorable due to higher key interest rates and the external economic environment also offers little support. The economy in the eurozone therefore only grew by 0.5% in 2023 compared to the previous year.

As a supplier to the automotive industry, paragon generated the majority of the Group's revenue in the 2023 financial year with automobile manufacturers in the premium segment based in Germany and the European Union. These in turn sell the vehicles they produce worldwide. Overall economic development is therefore important for paragon insofar as it affects the sales opportunities of the automotive manufacturers it supplies and therefore also indirectly affects the development of demand from private consumers for paragon's products.

Sector-related market development 2023

In its press release dated January 18, 2024, the German Association of the Automotive Industry (VDA) states that the international automotive markets recorded a significant increase in new registrations in 2023. The most important factor here was the easing of supply chain restrictions, particularly in the semiconductor sector. The availability of these important components has improved significantly. However, the business environment remains challenging for the automotive industry. In Europe in particular, geopolitical and macroeconomic uncertainties led to subdued overall economic demand.

The European passenger car market achieved a further increase in new registrations of 13% to around 12.8 million new vehicles in 2023. This means that a further recovery was achieved in 2023 after the significant pandemic-related slump in 2020, but without having reached the same level again. In 2019, registrations still amounted to 15.8 million vehicles.

The US light vehicle market recorded a significant increase of around 13% to 15.5 million vehicles in 2023. Overall, however, the light vehicle market in 2023 was still below the pre-Covid-19 level of around 17.0 million vehicles in 2019.

The Chinese market recorded further growth of 11% to 25.8 million cars in 2023. This puts new registrations in 2023 at a new Chinese record level.

New registrations/sales of passenger cars therefore developed as follows in the most important sales markets:

In million units	2023	2022	Change
USA	15,5	13,7	13,1%
Europe	12,8	11,3	13,3%
China	25,8	23,2	11,2%

As a result, paragon operated in an economic sector environment in the past financial year that remained well below the pre-Covid-19 level in Europe and the USA in 2019.

Business performance of the Group

Forecast reported in the previous period

Paragon Group had published the following forecast for the 2023 financial year:

- approx. 170 million euros in sales,
- 20 to 25 million euros EBITDA

In October 2023, the sales and earnings forecast was adjusted in that the expected sales revenue for the 2023 financial year was specified at between EUR 160 million and EUR 170 million and EBITDA was increased to between EUR 25 million and EUR 27 million.

Key factors influencing the course of business

The 2023 reporting year is characterized by special business transactions. These special effects relate in detail to

- paragon GmbH & Co. KGaA sold all of its shares in paragon semvox GmbH to CARIAD SE, a wholly owned subsidiary of the VW Group, by notarized agreement dated December 1, 2022. The closing was completed on May 12, 2023. paragon semvox GmbH represented the Digital Assistance division within the paragon Group. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiary paragon semvox GmbH. For this reason, paragon semvox GmbH is accounted for as a discontinued operation in accordance with IFRS 5 and was deconsolidated in the current financial year. Taking into account the transaction costs incurred, the proceeds from the sale amounted to EUR 37.5 million. The deconsolidation gain amounted to EUR 5.7 million. EBITDA from discontinued operations (including the effect from the deconsolidation of paragon semvox GmbH) amounted to EUR 7.6 million.

- The proceeds from the sale were used to further reduce paragon's debt. Bank and bond liabilities (less cash and cash equivalents) were reduced by EUR 29.7 million from EUR 87.3 million as of December 31, 2022 to EUR 57.7 million as of the balance sheet date.
- In August 2023, paragon then took the next step in its plan to strengthen its core business and accelerate the global scaling of our technology. With Clarios, the world's leading supplier of starter batteries, the transfer of a part of our Power division was concluded together with further cooperation and supply agreements. The transaction enables Clarios to integrate our lithium-ion battery technology and a number of engineers to accelerate the development of new advanced low-voltage architectures for vehicles. We remain committed to the lithium-ion battery market and will supply the battery management electronics for Clarios' current and potentially future business and will therefore continue to participate in Clarios' future success. However, we will continue to offer battery management systems and traction batteries based on FSD technology to third parties. paragon generated income of EUR 6.6 million from this transaction. This is reported under other operating income.
- paragon issued a bond for CHF 35 million in 2019. Repayments of CHF 5.25 million were made on 3 August 2021 and CHF 8.75 million on 23 April 2022, leaving an outstanding nominal volume of CHF 21.00 million as of 31 December 2022. Following the conclusion of a public buyback program in the first quarter of 2023, the outstanding nominal volume was reduced to CHF 12.6 million. This remaining amount was repaid at the end of April 2023. The CHF bond has thus been repaid in full and on time.
- The nominal amount of the EUR bond issued in 2017 was reduced to EUR 45.2 million through buy-backs. Since November 6, 2023, paragon has been carrying out an on-exchange buyback program of around EUR 20.2 million for the EUR bond in compliance with the Market Abuse Regulation.

- The financial result in the reporting period was impacted by the one-off costs of EUR 3.5 million incurred for interim financing to ensure the punctual repayment of the CHF bond in April 2023.
- As at the previous year's reporting date, paragon still had deferred tax liabilities of € 10.9 million from the coronavirus period. These were paid in 2023 with the exception of a residual amount of € 0.5 million. The remaining amount was paid to the tax office in March 2024.

Sales revenue:

paragon generated revenue of € 161.6 million in the 2023 financial year (previous year: € 160.7 million). This means that revenue in 2023 is at a similar level to the 2022 financial year, but 4.9% below the original budget of EUR 170 million. This deviation is due to a reduction in the car manufacturers' production figures compared to the budget planning. Compared to previous years and expectations, car manufacturers took longer plant vacations in the summer and at the turn of the year.

Total sales are distributed across the four divisions as follows:

Sales distribution €'000	**2023**	Share in %	**2022**	Share in %	**Change in %**
Sensors	41.336	25,6%	50.609	31,5%	-18,3%
Interior	53.327	33,0%	55.476	34,5%	-3,9%
Power	9.347	5,8%	2.033	1,3%	359,8%
Kinematics	57.636	35,7%	52.559	32,7%	9,7%
Total	**161.646**	**100,0%**	**160.677**	**100,0%**	**0,6%**

Sales in the Sensors division decreased by 18.3% to EUR 41.3 million in the reporting year compared to the 2022 financial year (previous year: EUR 50.6 million) due to the scheduled discontinuation of an air quality product for a vehicle model in the third quarter of 2023.

In the Interior division, sales fell slightly by 3.9% to EUR 53.3 million (previous year: EUR 55.5 million). This was mainly due to slightly weaker demand in the display instruments product group (stopwatches, clocks and compasses) as a result of changes in the main customer's driving style.

The Power division contributed € 9.3 million to segment sales (previous year: € 2.0 million), which corresponds to an increase of 359.8%. This was due to increased quantities of a lithium-ion battery for an OEM, the start-up of another battery in the second quarter of 2023 and invoiced development costs.

The Kinematics division increased its revenue by 9.7% from € 52.6 million (previous year 2022) to € 57.6 million in the 2023 financial year. This makes the Kinematics division the largest division within the paragon Group for the first time.

A breakdown of revenue by region has been omitted, as paragon's automotive customers are active worldwide. The geographical unloading point for paragon (customers' production plant) cannot be used to infer the actual geographical distribution of customer sales.

EBITDA:

As in the previous year, paragon's management paid particular attention to working capital in the 2023 financial year and intensified the cost reduction and efficiency enhancement program already launched along the entire value chain to ensure the Group's profitability.

In the financial year, paragon generated EBITDA of € 17 ,7 million in the continuing operations. The discontinued Digital Assistance division (paragon semvox GmbH) contributed additional EBITDA of € 7.6 million in 2023, taking into account the deconsolidation result. EBITDA from continuing and discontinued operations thus amounted to EUR 25.2 million. The original EBITDA forecast has therefore been slightly exceeded. Taking into account the book gains of EUR 6.6 million from the transfer of part of the Power division to Clarios, operating EBITDA for the continuing and discontinued operations amounted to EUR 18 .6 million. This figure is slightly below the original forecast of an EBITDA of between EUR 20 and 25 million. This EBITDA deviation is the consequence of the slightly weaker sales revenue.

Sales and EBITDA in the Electronics and Mechanics segments:

Sales and EBITDA in the Electronics and Mechanics[1] segments developed as follows compared to the previous year:

The largest segment, Electronics (consisting of the Sensors, Interior and Power divisions), continued to dominate Group activities with segment sales of EUR 105.2 million (previous year: EUR 109.1 million). Of this figure, EUR 104.0 million (previous year: EUR 108.1 million) was attributable to sales with third parties in the Sensors, Interiors and Power divisions. The segment recorded a reduction in sales of 3.8%. EBITDA in the Electronics segment amounted to EUR 15 .9 million (previous year: EUR 14.0 million). The EBITDA margin accordingly amounted to 15.1 % (previous year: 12.8%).

Segment sales in the Mechanics segment amounted to EUR 57.6 million (previous year: EUR 52.6 million). This represents an increase in sales of 9.7% compared to the 2022 financial year. Segment EBITDA amounted to EUR 1.8 million (previous year: EUR –3.8 million), which corresponds to an EBITDA margin of 3.1% (previous year: –7.1%). The pleasing sales development was based on higher customer call-offs and new product launches and, in addition to the numerous measures to improve earnings, is responsible for the fact that the Mechanics segment is now posting positive EBITDA.

Business segment €'000 or as stated	**Electronics** **2023**	**Electronics** **2022**	Δ in %	**Mechanics** **2023**	**Mechanics** **2022**	Δ in %
Revenues with third parties	104,011	108,117	–3.8	57,636	52,560	9.7
Intersegment sales	1,236	986	25.3	1.357	266	409.6
Turnover	**105,246**	**109,103**	**–3.5**	**58,994**	**52,826**	**11.7**
EBITDA	15,861	13,977	13.5	1,811	–3,766	–148.1
EBITDA margin	15.1%	12.8%	18.0	3.1%	–7.1%	–143.7

Business segment €'000 or as stated	**Eliminations** **2023**	**Eliminations** **2022**	Δ in %	**Group** **2023**	**Group[2]** **2022**	Δ in %
Revenues with third parties	0	0	0.0	161,647	160,677	0.6
Intersegment sales	–2,593	–1,252	107.0	0	0	0.0
Turnover	**–2,593**	**–1,252**	**107.0**	**161,647**	**160,677**	**0.6**
EBITDA	0	0	–100.0	17,672	10,211	65.6
EBITDA margin	0.0%	0.0%	–100.0	10.9%	6.4%	70.3

1 Illustrated by the Kinematics division.

2 The Digital Assistance division, which was deconsolidated in the 2023 financial year, is presented as a discontinued operation in accordance with IFRS 5. The earnings contribution of the Digital Assistance division is not included in the overview..

Net assets, financial position and results of operations

Financial position of the paragon Group

Total assets decreased by € 64 ,1 million to 108.5 million as of December 31, 2023 (December 31, 2022: € 172.6 million). This development is mainly due to the deconsolidation of paragon semvox GmbH and the use of the proceeds from the sale to further reduce debt. Taking into account the transaction costs incurred, the proceeds from the sale amounted to EUR 37.5 million. The deconsolidation gain amounted to EUR 5.7 million.

Non-current assets decreased to 68 .3 million euros (December 31, 2022: 76.0 million euros). Non-current assets show a reduction in intangible assets of – 9.8% to 33 .7 million euros (December 31, 2022: 37.4 million euros). This reduction is the result of scheduled amortization which overcompensates the change in presentation of a development cost grant from current assets to intangible assets. The goodwill of EUR 5.7 million reported in the 2023 reporting year is unchanged from the previous year. The reduction in property, plant and equipment to EUR 26.7 million (previous year: EUR 30.8 million) is mainly due to scheduled depreciation.

Current assets decreased to EUR 40.2 million (December 31, 2022: EUR 96.6 million). This is due in particular to the deconsolidation of the division to be sold. As a result, assets classified as held for sale amounted to EUR 0 million in the reporting year (December 31, 2022: EUR 35.8 million).

Trade receivables fell slightly from EUR 7.7 million in the previous year to EUR 6.6 million in the reporting year. This is due to continued intensified receivables management. Inventories fell from 24.0 million euros in the previous year to 20.6 million euros in the reporting year. This is the result of a number of measures to reduce the capital tied up in inventories. Other nonfinancial assets fell from 4.4 million euros in the previous year to 3.1 million euros in the reporting year. The main reason for this is the change in presentation of the contributions to development costs for traction batteries made to a manufacturer of light vehicles (totaling € 5 million; previous year € 2.7 million) . These are now reported as intangible assets. Contract assets increased from EUR 1.3 million in the previous year to EUR 1.5 million in the reporting year.

Cash and cash equivalents fell from € 18.1 million in the previous year to € 3.2 million in the reporting year. The reduction in cash and cash equivalents is due to the repayment of the loan that was granted to paragon as interim financing – to repay bond liabilities in April 2023 – immediately before the previous year's reporting date.

Equity decreased to – 4.1 million euros (December 31, 2022: -0.2 million euros) due to the negative consolidated result. Accordingly, the equity ratio amounted to – 3.8% as of the reporting date (December 31, 2022: -0.1%). This is mainly due to the negative consolidated result.

Non-current provisions and liabilities decreased to EUR 43.9 million in the reporting year (December 31, 2022: EUR 67 ,0 million), which is mainly due to the change in the maturity of the EUR bond. In the reporting year, the nominal amount of the bond was reduced by EUR 4.8 million from EUR 50.0 million to EUR 45.2 million. In the previous year, the entire bond was reported as a long-term bond. In the reporting year, the non-current portion of EUR 24.8 million is reported under "Non-current bonds", while the remaining amount is reported under "Current bonds".

Deferred taxes of € 0.3 million (December 31, 2022: € 1.2 million) decreased by 75.9% compared to the previous year. This is mainly due to a reduction in the carrying amount of own work capitalized in the financial year.

Current provisions and liabilities decreased from € 105 .8 million to € 68.7 million. This is mainly due to the repayment of a short-term loan – for interim financing of the repayment of bond liabilities in April 2023. Trade payables decreased by EUR 0.6 million to EUR 24.4 million (December 31, 2022: EUR 25 .0 million). Other current non-financial liabilities decreased to 7.6 million euros (December 31, 2022: 15.9 million euros); this reduction is mainly due to the repayment of tax liabilities.

Financial position of the paragon Group

Debt financing

The paragon Group further reduced its debt in 2023. The CHF bond issued in 2019 was repaid as planned in 2023. The framework nominal value of the EUR bond issued in 2017 was reduced to EUR 45.2 million. All but EUR 0.5 million of the tax liabilities due were repaid. This remaining amount was paid to the tax office in March 2024. To ensure the scheduled repayment of the CHF bond, an interim loan was taken out immediately before the previous year's balance sheet date. This interim loan was repaid in the first half of 2023.

The EUR bond is therefore the main element of debt financing. The interest rate in 2023 was 9.25%. For 2024, the interest rate will fall to 7.5%. paragon has been carrying out an exchange-based buyback program since November 2023 in accordance with the provisions of the Market Abuse Regulation.

In addition, two long-term real estate loans (totaling EUR 6.7 million) to finance the company's own properties in Landsberg am Lech and Limbach remain a key element of financing.

Equity financing

Due to the negative Group equity, the paragon Group cannot currently be financed through equity.

Liquidity

Cash flow from operating activities fell to EUR -6.2 million in the reporting period (previous year: EUR +11.5 million). The starting point for the cash flow from operating activities was the negative result after income taxes, which improved from -4.2 million euros in the previous year to - 3.8 million euros in the reporting year. In particular, the positive result from the disposal of property, plant and equipment changed from EUR 2.2 million (loss) in the previous year to EUR -12.9 million (profit) in the reporting year. This is the result of the sale of fixed assets to the battery manufacturer Clarios and the earnings contribution from the sale of the Digital Assistance division. Furthermore, cash flow from operating activities was negatively impacted by the reduction in other current liabilities and liabilities in the amount of 8.4 million euros. This reduction is mainly due to the repayment of tax liabilities deferred due to the coronavirus crisis. In addition, interest paid increased from EUR -6.5 million in the previous year to EUR -11.9 million in the reporting year. This increase is mainly due to the interest payment of EUR 3.5 million for the interim financing to ensure the scheduled repayment of the CHF bond in April 2023.

Cash flow from financing activities fell from EUR +5.1 million in the previous year to EUR -46.9 million in the reporting year. This was due in particular to repayments of financial loans, primarily the repayment of interim financing in May 2023, which was received in December 2022 in the amount of EUR 21.5 million. This was earmarked to finance the repayment of the bond liabilities due in April 2023 (final maturity of the CHF bond and partial repayment of the EUR bond). In addition, payments of around EUR 19.9 million were made for the repayment of bonds (CHF bond and EUR bond).

Cash flow from investing activities increased from 0.6 million euros in the previous year to 38.1 million euros in the reporting period. The main element is the cash inflow of € 37.5 million due to the sale of the Digital Assistance division in May 2023. In addition, proceeds from the disposal of property, plant and equipment and intangible assets amounting to € 8.2 million were generated (previous year: € 7.9 million). The main reason for these proceeds was the sale of the low-voltage battery business to Clarios. Investments in intangible assets in the financial year again relate to own work capitalized and contributions to development costs for traction batteries in the amount of EUR 2.3 million to a manufacturer of light vehicles.

Cash flow from operating activities less payments for investments in property, plant and equipment and less payments for investments in intangible assets amounted to EUR -13,8 million (previous year: EUR +3.8 million).

Cash and cash equivalents fell accordingly by EUR 14.9 million to EUR 3.2 million as of the balance sheet date (previous year: EUR 18.1 million). It should be noted here that cash and cash equivalents in the previous year were influenced by the cash inflow from interim financing immediately before the end of the year. This interim financing was repaid at the same time as the cash inflow from the sale of the Digital Assistance division.

The company's liquidity situation improved in the 2023 financial year, but has not yet fully normalized. In the course of the 2023 financial year, there was still limited willingness on the part of lenders and equity providers to make additional funds available to the company. However, deferral agreements and extended payment terms were successfully reached with suppliers. In this context, reference is also made to the further explanations in the section "Going concern risks".

Earnings position of the paragon Group

In the 2023 financial year, the paragon Group generated revenue from continuing operations of € 161.6 million (previous year: € 160.7 million). Overall, Group revenue increased slightly by 0.6% compared to the 2022 financial year. Please refer to the relevant passages in the "Group business performance" section.

Other operating income increased to 12.1 million euros (previous year: 4.6 million euros). This increase is mainly due to the book profit of EUR 6.6 million from the sale of production facilities and intangible assets in connection with a cooperation with Clarios, the world's leading supplier of starter batteries.

The amount of own work capitalized (2023: EUR 3.9 million; previous year: EUR 5.1 million) decreased. This change is due to increased customer reimbursements for development services which are deducted from the value of own work capitalized.

The cost of materials fell to 91.5 million euros (previous year: 94.6 million euros). The cost of materials ratio fell from 58.9% in the previous year to 56.6% in the reporting year. This was due to the change in the product mix.

Personnel expenses increased by 7.9% to EUR 44.2 million in the reporting year (previous year: EUR 41.0 million). With sales revenue remaining almost constant, the personnel expenses ratio rose to 27.4% (previous year: 25.5%). This is attributable to two effects. Firstly, a change in the product mix led to higher personnel expenses (and lower material expenses) and secondly, the wage and salary structure of employees was adjusted upwards due to the higher cost of living in 2023.

Other operating expenses were reduced by 8.3% to EUR 22.7 million (previous year: EUR 24.7 million). This reduction is also due to lower legal and consulting costs. In the previous year, EUR 1.4 million in consultancy costs for the extension of the EUR bond were recognized in expenses.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for continuing operations increased to EUR 17,7 million (previous year: EUR 10.2 million), which corresponds to an EBITDA margin for continuing operations of 10.9 % (previous year: 6.4%).

Depreciation and amortization of property, plant and equipment and intangible assets increased to € 16 .4 million compared to the previous year (€ 14.3 million). Impairment losses on fixed assets (previous year: EUR 0.3 million) amounted to EUR 0.2 million in the reporting year.

The financial result amounted to EUR –12.5 million and increased in particular due to the costs of interim financing of EUR 3.5 million to secure the repayment of the CHF bond in April 2023 (previous year: EUR –7.5 million).

Taking into account income taxes of EUR 0.9 million (previous year: EUR 2.4 million), the result from continuing operations amounted to EUR –10.6 million (previous year: EUR –9.5 million). The result from discontinued operations amounted to EUR 6.8 million (previous year: EUR 5.3 million). This results in a consolidated net loss of EUR – 3.8 million (previous year: EUR –4.2 million). The overall result for the 2023 financial year is – 3.9 million euros (previous year: –3.5 million euros).

The result from discontinued operations includes a deconsolidation gain of € 5.7 million. This results from the difference between the disposal proceeds of € 38.8 million and the net assets of the discontinued operation (paragon semvox GmbH) of € 31.6 million less transaction costs incurred of € 1.3 million and taxes of € 0.2 million.

Overall statement on the net assets, financial position and results of operations of the paragon Group

The net assets, financial position and results of operations of the paragon Group in the past financial year were mainly characterized by

- a significantly reduced balance sheet total due to the deconsolidation of paragon semvox GmbH
- a reduction in bank and bond liabilities
- constant sales compared to the previous year
- a negative operating cash flow due to the repayment of tax liabilities from the previous year
- slightly negative equity at Group level

The management estimates business development in the 2023 reporting year

- for the Electronics segment as pleasing. Sales revenue and the EBITDA margin were maintained at a high level in this segment.
- for the Mechanics segment is not yet fully satisfactory. Although sales revenue increased, the earnings target has not yet been fully achieved.
- For the Group as a whole, the EBITDA achieved (taking into account the book profit from the sale to Clarios) was satisfactory.

Opportunity and risk report

Unless stated otherwise, the information in the opportunity and risk report applies equally to the paragon Group and to paragon GmbH & Co. KGaA as the parent company.

Risks and opportunities are defined as possible future developments or events that could lead to a negative or positive deviation from the Group's forecasts or targets.

paragon has established and continuously developed a comprehensive risk management system to identify opportunities and risks. In regularly prepared risk reports from all divisions, the company management and the Supervisory Board are informed about the probability of occurrence and possible extent of damage of the risks. The risk reports contain an assessment of the risks and proposals for appropriate countermeasures. Please refer to the disclosures in the notes to the consolidated financial statements for information on the risk management objectives and methods relating to the use of financial instruments.

Opportunities report

Opportunities

The market research institute S&P Global (IHS) expects global sales of passenger cars and light commercial vehicles to increase by 2.8% in 2024 compared to 2023. In light of the specific positioning of the paragon product portfolio in the premium segment, which is accompanied by a correspondingly high share of these vehicles in the model penetration of paragon products, opportunities will arise for paragon in the Electronics and Mechanics business segments in 2024. The management has been pursuing the goal of increasing the share of revenue per vehicle for years, for example by increasing the equipment rates for existing customers, acquiring new customers internationally for existing products and developing innovative products and systems with a higher share of the automotive value chain.

The marketing of numerous new product developments in the four continuing operations will continue in 2024. Thanks to its strategic positioning, paragon will be able to benefit in future from changes in the automotive landscape triggered by the megatrends of increased comfort and occupant health protection, as well as the technological consequences of the targeted CO2 reduction. paragon does not develop and manufacture products that are dependent on the combustion engine, but actually participates in the transformation towards locally emission-free mobility.

paragon considers the following opportunities to be significant:

- The business model of independent development of product innovations can result in competitive advantages for paragon in the Electronics and Mechanics segments due to the dynamic technological change surrounding the megatrends.
- The focus in the development of product innovations is increasingly shifting from the component level to the system level in the Electronics and Mechanics business segments. This gives paragon the opportunity to increase the proportion of value added per vehicle.
- The cooperation with Clarios, the world's leading supplier of low-voltage batteries, creates major sales potential for the paragon Group. Today, paragon produces state-of-the-art electronics for on-board lith-

ium-ion batteries for a well-known motorcycle manufacturer. The company is working on a new type of on-board power supply battery based on "flow-shape design" technology for a leading German mass manufacturer. The A and B sample phases have already been successfully completed.
- Through paragon Automotive Kunshan Co., Ltd., paragon is represented in China with its own local production facility. The Chinese government's current five-year plan (2021-2026) is based on strong growth in economic output in the coming years. At the same time, the issue of particulate emissions will remain a challenge in China's densely populated regions and therefore for the country as a whole. For paragon, there is therefore particularly high sales potential in the Chinese automotive market in the medium term if Chinese car manufacturers can be won as new customers for the DUSTPROTECT particulate filter system with high equipment rates and sales figures. There are also further opportunities for the Kinematics division, as adaptive spoiler systems are gaining increasing recognition in China as a means of increasing the range of electric vehicles. Significant orders have already been won in this area. Further orders in this area are expected.

paragon's increased efforts in recent years to establish itself in the Chinese market are now showing clear success. This can be seen in particular in the acquisition of new customers and the resulting series start-ups. Opportunities are also arising for paragon from the increased efforts to establish partnerships with other Chinese automotive suppliers. In the future, this could result in projects to jointly develop the market. paragon believes it is well positioned for this.

- The next phase of paragon's business will benefit from the fact that, following the launch of activities in the Chinese market in 2015, business is now to be expanded to the American continent. The first steps were taken at the end of 2022 with a cooperation with an established sales company in Detroit (USA). An independent company, paragon Automotive LLC, has now been founded in the United States.
- The growing product portfolio of the Kinematics division makes a significant contribution to the safety and energy efficiency of vehicles. Opportunities also arise from successful development and application experience with kinematics products for vehicle interiors (e.g. rear seat folding table). As a result of the trend towards increasing comfort within vehicles, which is being promoted in particular by the increasing shift of the driver's tasks to electric assistance systems and is thus steadily leading to the further development of forms of autonomous driving, paragon's experience in the interaction of mechanics and actuators may be in greater demand in the future.

Overall assessment of the opportunities

Through the regular and structured tracking of opportunities in the paragon Group and in the relevant sales markets as well as internal barrier-free communication at the various management levels, the company's management is able to identify opportunities for the Group. At the end of the 2023 financial year, both external and internal opportunities were identified or confirmed that have a positive impact on the financial performance indicators forecast for the 2024 financial year.

Risk report

Risk management

As part of risk-oriented corporate management, paragon uses a comprehensive risk management system.

In the paragon Group, risks are defined not only as activities, events and developments that jeopardize the existence of the company, but also as those that influence the success of the business. Particular consideration is given to risk concentrations, e.g. dependencies on individual customers, suppliers, products or countries. In the case of material risks, mutual dependencies and influences are taken into account, as individual risks can reinforce each other or there may be offsetting effects between them. We understand business success to mean measurable parameters such as sales and EBITDA. In the reports of the respective process owners, the risks are therefore presented in these dimensions. The risk assessment is always based on the earnings risk. A risk is also the possibility that a threat could cause damage to an asset or the loss of an asset by exploiting a vulnerability and thus cause direct or indirect damage. The aim is to recognize and evaluate these risks in order to be able to select suitable and appropriate security measures on this basis.

Strategic corporate management and risk management

The objective of risk management is to ensure the continued existence of the company, i.e. its future development and profitability, and to reduce the risks that result in a breach of the confidentiality, integrity and availability of the information and data used or contained in the course of carrying out activities. It is also the task of risk management to indicate deviations from the company's objectives and thus any departure from the defined framework at an early stage in order to enable timely countermeasures to be taken. The risk policy guidelines for this are defined in the risk manual.

Group-wide responsibility for risk management lies with the Management Board. Risk management at the respective locations is adequately covered and ensured through regular (video) meetings with the respective senior managers. In this way, the Management Board is kept directly informed and the relevant risks are continuously monitored and managed by the Management Board. Work is also carried out to identify risk factors in risk areas where quantification is not possible or expedient.

Central risk management

Central risk management plays an important role in the risk management and control process. As part of its responsibility for the company's risk situation, the Management Board delegates the task of carrying out ongoing risk management activities to Central Risk Management. Responsibility for central risk management lies with the Head of Controlling. Central risk management at paragon has the task of coordinating all risk management functions of decentralized risk management, evaluating risk analyses and consolidating them into risk reporting as well as further developing the risk management system. Central risk management determines the reporting cycles and, together with the Management Board, defines the threshold values for the risks above which a risk controlling report must be prepared outside of the mandatory reporting obligations. Both the thresholds and the reporting cycles are based on the relevance of the risks.

Central risk management supports the decentralized risk managers in preparing the risk analyses and checks their feedback and plausibility. It summarizes the individual risk reports in a joint document. This allows interactions between risks to be analyzed and the overall risk situation of the paragon Group to be recorded, evaluated and commented on. This summary is referred to as risk reporting. Particular importance is attached to this task, as the objective of an integrated risk management system is to take a holistic view of a company's risk situation. Risk reporting serves as the basic information for the statements on the risk situation of the paragon Group in the management report.

Together with the decentralized risk managers, new risk management measures are developed or existing ones adapted.

Decentralized risk management

Decentralized risk management in the paragon Group is located in the departments and locations. As decentralized risk managers, the division and process managers are responsible for risk management in their respective areas of work. Decentralized risk management reports on the development of risks in these areas as part of risk controlling. The decentralized risk managers must prepare an analysis of the risks for which they are responsible at each quarterly reporting cycle date. The focus here is on describing the expected development of the risk. Depending on this, measures for future risk management or the improvement of existing management measures must be developed and included in the controlling report as a proposal for implementation. The decision on implementation is the responsibility of the Management Board. In addition, the Management Board must be informed immediately throughout the year of any risks that occur (ad hoc risk reporting). For reasons of efficiency, regular meetings with the participation of all decentralized risk managers no longer take place. Instead, individual meetings are held with the decentralized risk managers.

Risk monitoring

Risk monitoring is the task of decentralized and central risk management. For this purpose, early warning indicators are defined by the decentralized risk manager for the critical success factors. The task of central risk management is to monitor the defined early warning indicators. As soon as the defined thresholds are reached, risk reporting is prepared by the decentralized risk manager, i.e. a forecast of the expected impact of the occurrence of a risk for paragon.

These forecasts are to be supplemented by scenario analyses that take different data constellations into account. Risk monitoring thus serves as a kind of knowledge amplifier for management decisions, as it attempts to reduce uncertainty regarding the future development of the company and the risk situation.

Based on this information and the measures proposed by the decentralized risk managers and central risk management, the management decides whether and to what extent risk management measures should be taken or whether an adjustment to the company's objectives is necessary. Decentralized risk management is responsible for tracking the early warning indicators, monitoring the associated threshold values and carrying out scenario analyses.

Risk reporting

The quarterly report to the Management Board contains all new risks recorded in the reporting period as well as risks whose changes compared to the previous month were greater than or equal to 50%.

The risks analyzed by paragon on an ongoing basis as part of risk monitoring can be assigned to the following risk groups, each of which is subdivided into individual risks:

- Going concern risks
- Strategic and political Risks
- Market risks
- Operational risks
- Transaction risks
- Financial risks
- Personnel risks

Dimensions of the risk assessment

As part of the quantification of the individual risks, the possible probability of occurrence and the possible amount of loss in euros are multiplicatively linked. The loss potential for each risk is determined from the two parameters. The amount of potential loss defines the classification into one of the five relevance classes:

Relevance classes €'000		**Classification in Euro**
1	Insignificant risk – which cannot have a noticeable impact on either the annual result or the company value	up to 100,000
2	Intermediary risk – which can have a noticeable negative impact on the annual result	up to 500,000
3	Significant risk – which can have a significant impact on the annual result or lead to a noticeable reduction in the value of the company	up to 1,000,000
4	Serious risk – which can have a significant impact on the annual result and considerably reduce the value of the company	up to 5,000,000
5	Going concern risk – which may jeopardize the continued existence of the company with a significant probability	over 5,000,000

For risks that show a change of 100% or more compared to the previous reporting period, there is an ad hoc reporting obligation to the Management Board by Central Risk Management and a reporting obligation of the Management Board to the Supervisory Board within 24 hours of becoming aware of the risk.

In the current reporting year, the company considers one financial risk to be a going concern risk both at the level of the individual financial statements and at Group level. This risk relates to the liquidity situation. For further details, please refer to the separate section “Going concern risks”.

Risks

Going concern risks

In the previous year, the company assessed a financial risk as a going concern risk both at the level of the individual financial statements and at Group level. This risk related to the financing requirements due to the scheduled repayment of the CHF bond, the purchase of the EUR bond and tax liabilities still existing and due from coronavirus times. The CHF bond was repaid as scheduled in April 2023. The nominal amount of the EUR bond was reduced. Furthermore, the company has been carrying out an on-exchange buyback program since November 2023 in accordance with the provisions of the Market Abuse Regulation. The tax liabilities still due from coronavirus times were repaid up to EUR 0.5 million. This remaining amount was paid to the tax office in March 2024.

The company’s liquidity situation improved in the 2023 financial year, but has not yet fully normalized. In the course of the 2023 financial year, there was still a limited willingness on the part of lenders and equity providers to provide the company with additional funds. German banks in particular were generally reluctant to extend loans to medium-sized automotive suppliers. However, deferral agreements and extended payment terms were successfully reached with suppliers and service providers.

The company assumes that a return to the original payment agreements with suppliers and service providers will take place in the course of the 2024 financial year, taking into account the planned sales and the forecast operating profitability, and that deferred liabilities will be repaid. If the planned level of sales and profitability is not achieved, it would not be possible to return to the original payment agreements. There would then be a risk that suppliers and service providers would no longer accept extended payment terms and deferrals. The solvency of paragon would be jeopardized.

At the same time, the company is working on optimizing inventories at all production plants. On the other hand, the possibility of taking out new bank loans in the mid-single-digit million range is an option that paragon’s management is still examining for feasibility.

Overall, the management is convinced that the financing of the operating business and the repayment of deferred liabilities to suppliers and service providers can be presented as planned and that the short and medium-term solvency of the company and the Group is therefore fully secured. The risk that the improvement in the liquidity situation cannot be realized as planned represents a material uncertainty with regard to solvency, which may cast significant doubt on the company’s ability to continue as a going concern and therefore represents a risk to the company’s ability to continue as a going concern. This statement applies equally to the paragon Group and to paragon GmbH & Co. KGaA as the parent company.

Strategic and political risks

Macroeconomic developments are monitored as part of the risk management system due to their potential influence on the demand behavior of consumers as end customers of the automotive industry. This could result in fundamental changes in supply and demand behavior on the procurement and sales markets for paragon. For example, a longer-term economic downturn, possibly triggered by economic policy measures in individual submarkets such as the USA or China, could have a negative impact on the company’s net assets, financial position and results of operations. In particular, a politically motivated departure from the rule-based international trading system or its disruption through individual protectionist measures could lead to distortions in the global automotive value chain. The paragon Group’s presence with its own production sites in China and its specific customer/product structure could reduce this risk.

The future course of the coronavirus (SARS-CoV-2) and the associated COVID-19 diseases continue to pose a macroeconomic risk. The resulting measures to contain the virus and the pandemic have led to a slump in global economic growth within a very short space of time in 2020. Risks exist for the paragon Group depending on the further impact on the sales development of key customers, which could have a direct impact on the earnings and liquidity situation. A renewed long-term interruption of operations at the sites – for example as a result of official measures – could lead to deviations in revenue planning due to reduced customer call-offs.

Russia's invasion of Ukraine over two years ago on February 24, 2022 poses a further risk that still cannot be conclusively quantified at present. The progress of the war and the impact on both the industry in Germany and the European automotive industry remain unclear.

Although we cannot conclusively assess the impact of these strategic and political risks on paragon, it cannot be ruled out that they may represent a serious risk in their entirety.

Market risks

For years, paragon has enjoyed a strong market position as an established and innovative direct supplier to German premium manufacturers in the automotive industry. The market research institute S&P Global (IHS) expects global production of passenger cars and light commercial vehicles to increase by 2.8% in the 2024 financial year.

Supply chains

The dynamics of the automotive market for challenges in the supply chain have become clear in recent years. The shortage of semiconductors needed to manufacture vehicles has had consequences for OEMs. A change in the strategic orientation of chip manufacturers in the wake of the coronavirus pandemic meant that a lack of components led to production cutbacks and delays in deliveries. Russia's war of aggression against Ukraine has put considerable pressure on the supply chains for other necessary components. This production risk for our customers is exacerbated by just-in-time and just-in-sequence deliveries – sometimes coupled with a single source strategy. In the event of production stoppages or cutbacks, suppliers such as paragon could also be confronted with a reduction in call-off orders from customers, which could have an impact on sales and earnings. However, the management is convinced that the consequences for paragon can be mitigated, as the company is in close consultation with customers and suppliers regarding changes in call-off planning, among other things, in order to ensure the best possible protection. We classify this risk as a medium risk.

Customer concentration

Close ties to German premium manufacturers and a focus on specific market niches characterize paragon's strategic positioning. Sales opportunities and risks are assessed using a comprehensive operational sales controlling system. Fixed components of this system are the analysis of market and competitive data, rolling planning for the short and medium term and regular coordination meetings between sales, production and development. The comparatively broad portfolio of different products for a variety of vehicle platforms from a large number of customers documents the high degree of independence from individual product groups and customers. With the three largest customer groups, paragon generated 55.5%, 14.1% and 12.1% of revenue in the 2023 financial year. The loss of a major customer could have an impact on the net assets, financial position and results of operations in the medium term. However, due to the multi-year contract terms for the individual vehicle series (and the heterogeneous organization of customers into legally independent brands), the loss of a key customer would be announced at an early stage. paragon counters this risk through comprehensive development work on product innovations and detailed ongoing order backlog analyses as part of early risk identification. We classify this risk as a significant risk .

Capitalized development costs

paragon's innovation process is characterized by independent product development that takes into account the interests and wishes of vehicle occupants as end customers. This means that, unlike many automotive suppliers, paragon does not simply wait for requests and corresponding specifications from car manufacturers, but develops its own innovative solutions, which are implemented together with pilot customers and then offered to a broader customer base. As a large proportion of automotive innovations are increasingly being made in the field of electronics, there are many market opportunities for paragon in this business segment. However, it cannot be ruled out that a product development will not achieve the expected number of units or will not find a market, or that commercial success will be lower or later than originally planned. In view of the high proportion of capitalized development costs in the balance sheet due to IFRS accounting standards, a corresponding impairment of intangible assets could have a negative impact on the company's net assets, financial position and results of operations. We classify this risk as a medium risk.

Goodwill

No impairment of goodwill was necessary in the current financial year. In particular, a deterioration in the business prospects of the subsidiary paragon movasys GmbH could lead to an impairment requirement. We classify this risk as a medium risk.

Operational risks

Technological development

The market for automotive electrics, electronics and mechatronics is subject to increasingly dynamic technological change. The future economic success of paragon will therefore depend on its ability to develop new, innovative products for and together with customers in good time and to launch them successfully on the market. The prerequisite for this is that new technological developments and trends are recognized in good time and that we respond to them and implement solutions together with our customers. If paragon is unable to identify and implement new trends, customer requirements or technological developments in good time or at all in the future and develop new products and further develop or adapt existing products in accordance with business principles, this may have a negative impact on the company's net assets, financial position and results of operations. In close cooperation with the development departments of key customers, paragon contributes to automotive product innovations with a wide range of development projects and innovative solutions. Significant deviations from project targets in terms of time and money can result in cost and legal risks (e.g. contractual penalties). Ongoing development and project controlling is intended to limit the associated risks. We classify this risk as a medium risk.

Information technology

The increasing penetration of information technology (IT) and its networking of the Group's entire value chain harbours a multitude of opportunities as well as risks, such as system failures or unauthorized external access (cyber attacks) to the company's data and information. In cooperation with specialized service partners, paragon has implemented established security solutions to avert potential threats to the IT infrastructure and mission-critical data. We classify this risk as a medium risk.

Transaction risks

In the group of transaction risks, paragon summarizes all risks associated with the purchase and sale of companies or parts of companies. In this context, delays in negotiations or in the actual implementation of the transaction could result in risks such as the excessive use of management resources and downstream management levels or the unforeseen increase in costs associated with the transaction. Furthermore, a significant deviation from the originally intended sales proceeds could lead to a negative impact on earnings. In order to minimize the risks associated with the transaction, paragon is seeking professional support from renowned investment banks and experienced external consultants as part of the marketing process. We currently classify this risk as insignificant.

Financial risks

In the group of financial risks, paragon monitors interest rate, currency and liquidity risks as well as risks from bad debts, balance sheet risks and tax risks.

Interest rate change

Interest rate risks are virtually insignificant for paragon, as fixed interest rates are currently agreed for the majority of non-current liabilities. paragon currently classifies the interest rate risk as an insignificant risk

Exchange rate fluctuations

In procurement, paragon takes advantage of global price competition on all relevant markets and secures a significant portion of procurement prices through framework agreements, annual agreements and long-term supplier relationships. The Group continues to source the majority of its purchasing value from European contractual partners, with the remainder being purchased directly in Asia and the USA. The euro is the predominant purchasing currency, with only a small proportion invoiced in US dollars in the reporting year. Currency risks arise primarily for purchases in US dollars that are destined for the European currency area. These risks are minimized through price escalation clauses and other suitable measures. The company monitors potential currency risks on the procurement and sales side using continuously reviewed exchange rate expectations. paragon does not use any financial instruments to hedge currency risks on the procurement and sales side. The company continues to classify the risk as a medium risk.

Liquidity

The company ensures its solvency through comprehensive liquidity planning and control. These plans are prepared on a short, medium and long-term basis. In addition, paragon has a consistent accounts receivable management system to ensure a prompt inflow of funds. A significant proportion of receivables is also covered by trade credit insurance.

The company's liquidity situation improved in the 2023 financial year, but has not yet fully normalized. In the course of the 2023 financial year, there was still limited willingness on the part of lenders and equity providers to provide additional funds for the company's further growth. However, extended payment terms were successfully agreed with suppliers. The company expects to return to the original payment agreements with suppliers and repay deferred liabilities in the course of the 2024 financial year, taking into account the planned revenue and forecast operating profitability.

We also refer to the comments in the separate section “Going concern risks”.

Personnel risks

The company is fundamentally dependent on the recruitment and long-term retention of qualified personnel and individuals in key positions. The future economic success of paragon depends to a considerable extent on the continued involvement of its managers, executives and employees in key positions. This applies in particular to its founder and Managing Director Klaus Dieter Frers, who is the driving force behind the company and an important source of ideas. In addition, paragon is also dependent on qualified employees in the areas of management, research and development and sales. The company cannot guarantee that it will be able to retain its managers, executives and employees in key positions in the future or that it will be able to recruit new managers and employees with the appropriate qualifications. There is increasing competition for such qualified employees and the personnel market, particularly in regions outside German conurbations, is comparatively small, meaning that individual experts would be difficult or impossible to replace. If paragon does not have sufficient qualified personnel available in the future, the company's strategic and economic objectives may not be achieved or may only be achieved at a later date, which could have a negative impact on the company's net assets, financial position and results of operations. paragon continues to classify the personnel risk as a medium risk.

Overall assessment of the risk situation

The company's risk management was further adapted to the dynamic development of the paragon Group in the past year. The management currently assumes that the ongoing Group-wide monitoring of operating risks will become increasingly important as business activities expand.

Against the backdrop of the ambitious growth strategy, paragon's overall economic development remains linked to the economic development of the automotive industry and, in particular, its key customers. A differentiated look at the development of the automotive industry shows that the company is positioned in forward-looking market segments and submarkets, maintains promising customer relationships and has a number of products, some of which are only offered on the market by paragon. 90% of revenue in 2023 was generated as a single source, i.e. paragon was the sole supplier for the corresponding product.

paragon will continue to hedge against general market risks in the automotive industry in the future. Market risk represents a significant individual risk for paragon. In the reporting year, paragon continued to realize a high proportion of revenue with the three most important customers in accordance with IFRS 8.34. The strategic positioning as a direct supplier to German premium manufacturers with long-standing, successful business relationships with these companies should further mitigate the risk. However, it can be assumed that car manufacturers will pass on the continuously increasing cost pressure resulting from the transformation process in terms of technologies and business models to suppliers. However, the existing customer contacts offer considerable opportunities to place new product innovations. The increasing diversification of the Group's product portfolio should help to further reduce market risks.

With regard to the supply chains – in particular semiconductors and other primary materials – there may still be restrictions in our customers' automotive production. The potential further impact of the war in Ukraine on energy prices and the availability of materials cannot be meaningfully assessed at present.

Overall, the management is convinced that the company's financing can be provided as planned and that the short and medium-term solvency of the company and the Group is therefore fully secured. If this cannot be realized as planned, the continued existence of the company would be at risk. We refer to the further explanations in the section "Risks to the company's continued existence".

There are inherent limitations to the effectiveness of any internal control and risk management system. No system can guarantee that all actual risks have been identified at an early stage and that all violations or errors in the internal processes have been ruled out, even if the system has been assessed as appropriate and effective. In this sense, paragon's internal control and risk management system described above cannot offer absolute certainty.

Description of the main features of the internal control and risk management system with regard to the Group accounting process (Section 315 (4) HGB)

The paragon Group is characterized by a clear and manageable corporate structure. In addition to paragon GmbH & Co. KGaA, the scope of consolidation comprises only a small number of companies that are included in the consolidated financial statements in accordance with the rules of full consolidation. As the internal control and risk management system is not defined by law, paragon follows the definition of the Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors in Germany), Düsseldorf, on the accounting-related internal control system (IDW PS 261).

An internal control system is understood to be the principles, procedures and measures introduced by management in the company that are aimed at the organizational implementation of management decisions. The following objectives are pursued:

a) Ensuring the effectiveness and efficiency of business activities (incl. protection of assets, including the prevention and detection of asset misappropriation),
b) the regularity and reliability of internal and external accounting, and
c) Compliance with the legal and statutory regulations applicable to the company.

The Group's risk management system comprises the entirety of all organizational regulations and measures for identifying risks and dealing with the risks of entrepreneurial activity.

The Management Board of paragon GmbH & Co. KGaA bears overall responsibility for the internal control and risk management system with regard to the accounting process. The principles, procedural instructions, the structural and procedural organization and the processes of the accounting-related internal control and risk management system are set out in organizational instructions, which are adapted to current external and internal developments at regular intervals.

In view of the size and complexity of the accounting process, management has determined the scope and design of the control activities and implemented them in this process. In addition, process-independent controls have been established. The control activities address those control risks which, in terms of their probability of occurrence and their impact, could have a significant influence on the accounting and the overall statement of the consolidated financial statements, including the combined management report. The main principles, procedures, measures and control activities include

- Identification of material control risks relevant to the Group accounting process
- Process-independent controls for monitoring the Group accounting process and its results at the management level of paragon GmbH & Co. KGaA

Control activities in the finance department of paragon GmbH & Co. KGaA that provide key information for the preparation of the consolidated financial statements, including the combined management report

Risk reporting in relation to the use of financial instruments (Section 315 (2) no. 1 HGB)

The paragon Group is exposed to the following risks from the use of financial instruments:

Interest rate risks are virtually insignificant for paragon, as fixed interest rates are currently agreed for the majority of non-current liabilities.

The company ensures its solvency through comprehensive liquidity planning and control. These plans are prepared on a short, medium and long-term basis. In addition, paragon has a consistent accounts receivable management system to ensure a prompt inflow of funds. A significant proportion of receivables is also covered by trade credit insurance. An additional option for short-term financing is available in the form of factoring agreements.

The company monitors potential currency risks on the procurement and sales side using continuously reviewed exchange rate expectations. The individual risks are explained in the risk report “Financial risks”.

Forecast report

The expected development of the paragon Group is described in the following sections. Risks and opportunities that could result in a deviation from the forecast developments are presented in the opportunity and risk report.

Market development 2024

The International Monetary Fund (IMF) expects global economic output to continue to grow by 3.1% in 2024 and by 3.2% in 2025. However, the forecast for 2024-25 is below the historical (2000-19) average of 3.8%, as both the central banks’ increased key interest rates to combat inflation and the withdrawal of fiscal support in view of the high level of debt are weighing on economic activity and the underlying productivity growth is low. New commodity price spikes due to geopolitical shocks – including ongoing attacks in the Red Sea – and supply disruptions or more persistent underlying inflation could weigh on the economy going forward. A worsening of the problems in the real estate sector in China could also lead to reduced growth.

With regard to the automotive industry, we expect – in line with the market research institute S&P Global (IHS) – that the global passenger car market will grow slightly in 2024.

The following assumptions are considered material for the derivation of the paragon Group’s forecast:

- Increase in production figures within the global automotive industry and stable, positive development of paragon’s core markets (Europe and China).
- Continued robustness of the premium segment in the face of economic influences on the automotive industry.

- No significant restrictions on the availability of primary products and semiconductors.
- Maintaining production while the risk of renewed restrictions on public life due to Covid 19 remains latent.

paragon Group

The Group's corporate planning is based on detailed sales and revenue planning and is broken down to product level on a customer-specific basis. The main cost components are planned for a period of several years using individual planning models and then extrapolated in line with sales development.

Significant parameters such as price changes in purchasing or sales as well as possible cost increases in the area of personnel or changes to the tax base are integrated into the planning. The continuously updated risk management system allows the company to identify risks at an early stage and, if necessary, take appropriate countermeasures.

The management's forecast is based on the solid order situation for 2024 and the known sales expectations of automotive customers according to S&P Global (IHS) and their existing call-off orders for paragon products for the first half of 2024. paragon's management therefore expects the Group to generate revenue of EUR 160 to 165 million and EBITDA of between EUR 18 and 20 million in the 2024 financial year.

A key driver of sales will be the strong demand for air quality sensors in the Sensors division and display instruments in the Interior division. These products are being installed in more and more model series and air quality sensors have recently attracted increased attention from manufacturers due to the intense social debate surrounding particulate matter levels in city centers. The company continues to see the expansion of activities in the Sensors and Kinematics division in the Chinese market as a further driver. In the 2024 financial year, sales revenue in China will also continue to rise due to the start of further kinematics and sensor series orders.

Development of the key performance indicators:

€'000 or as stated	2023	2022	Change in %	Forecast 2024
Financial performance indicators				
Group sales	161.647	160.677	0,6%	160 to 165 million
EBITDA continuing and discontinued operations	25. 234	14.948	68,8%	18 to 20 million

This combined management report contains disclosures and forecasts relating to the future development of the companies in the paragon Group. These forecasts represent estimates that the management has made on the basis of the information available at the present time. If the assumptions on which the forecasts are based prove to be incorrect or risks, such as those mentioned in the risk report, materialize, actual results may differ from current expectations. The management assumes no obligation to update the statements contained in this combined management report outside of the statutory disclosure requirements.

Takeover-related disclosures in accordance with Sections 289a (1) and 315a (1) HGB

Composition of the subscribed capital

The subscribed capital (share capital) of paragon GmbH & Co. KGaA amounts to EUR 4,526,266.00 and is divided into 4,526,266 ordinary bearer shares with no par value (no-par value shares), each representing EUR 1.00 of the share capital. All shares are entitled to a share in profits. Each share entitles the holder to one vote at the Annual General Meeting.

Share voting or transfer restrictions

The management is not aware of any restrictions relating to voting rights or the transfer of shares.

Shareholdings exceeding 10% of the voting rights

- According to the voting rights notification dated 5.10.2023, Mr. Ralf Haller's total share of voting rights was reduced from 29.94% to 0.0% as of 29.09.2023. The attribution was based on the indirect shareholding in ElectricBrands AG in accordance with Section 34 para. 1 sentence 1 no. 1 WpHG.
- According to the voting rights notification dated October 5, 2023, Mr. Klaus Dieter Frers' total share of voting rights increased from 20.06% to 50.0% as of September 29, 2023. Mr. Klaus Dieter Frers also informed the company that, in a decision dated 11 October 2023, the German Federal Financial Supervisory Authority (BaFin) exempted him from the obligation to publish the acquisition of control of paragon GmbH & Co. KGaA, based in Delbrück, in accordance with section 37(1)(4) WpÜG and in accordance with section 35(2)(1) in conjunction with section 14(2)(1) WpÜG. § Section 14 para. 2 sentence 1 WpÜG to publish a mandatory offer.
- In a voting rights notification dated 28.12.2023, the company was informed that Frers Family Office GmbH holds 50.0% of the voting rights. Mr. Klaus Dieter Frers controls Frers Family Office GmbH.

Shares with special rights that confer powers of control

There are no shares with special rights that confer powers of control.

Type of voting right control if employees hold an interest in the capital

Insofar as employees participate in the limited partnership capital (share capital) as shareholders, they cannot derive any special rights from this.

Appointment and dismissal of members of the Management Board and amendment of the Articles of Association

The management of paragon GmbH & Co. KGaA is the responsibility of paragon GmbH as the general partner. With this capitalist structure of the KGaA, the management bodies of the general partner thus effectively manage the business of the KGaA. The relevant provisions of the German Stock Corporation Act for the Management Board apply mutatis mutandis to the management.

Unlike the Management Board of an AG, however, the personally liable partner is a "born" management body, i.e. he is authorized to manage the business and represent the company on a permanent basis and not for a specific period of time. He is not appointed by the Supervisory Board or the Annual General Meeting, but by the articles of association. For this reason, it cannot be dismissed by the Supervisory Board or the Annual General Meeting.

With regard to the regulations on amending the Articles of Association, reference is made to Section 278 para. 3 AktG in conjunction with Section 179 para. § Section 179 para. 2 sentence 2 AktG.

Powers of the management to issue shares

By resolution of the Annual General Meeting on 31 August 2021, the general partner is authorized, with the approval of the Supervisory Board, to increase the company's share capital on one or more occasions up to and including 30 August 2026 by up to a total of EUR 2,263,133.00 against cash and/or non-cash contributions by issuing up to 2,263,133 new ordinary bearer shares with no par value (no-par value shares) (Authorized Capital 2021/I).

Shareholders must generally be granted subscription rights. The statutory subscription right can also be granted in such a way that the new shares are taken over by a banking syndicate with the obligation to offer them indirectly to the shareholders for subscription in accordance with Section 186 (5) AktG. However, the general partner is authorized, with the approval of the Supervisory Board, to exclude shareholders' statutory subscription rights in defined cases.

By resolution of the Annual General Meeting on August 31, 2021, the general partner is authorized, with the approval of the Supervisory Board, to issue bearer or registered convertible bonds or bonds with warrants or a combination of these instruments on one or more occasions up to and including August 30, 2026 in a total nominal amount of EUR 150,000,000.00 with a maximum term of ten years and to grant the holders or creditors of convertible bonds or bonds with warrants conversion or option rights of up to EUR 2,263,133,000.00.000,000.00 with a maximum term of ten years and to grant the holders or creditors of convertible bonds or bonds with warrants conversion or option rights to up to 2,263,133 new ordinary bearer shares in the company (Contingent Capital 2021/I).

The bonds can be issued against cash contributions, but also against contributions in kind, in particular investments in other companies. In the case of bonds with warrants, they may also be issued against non-cash contributions if the terms and conditions of the warrants provide for the option price per share in the company to be paid in full in cash upon exercise.

Change of control and compensation agreements

In accordance with Article 6 No. 3 of the company's Articles of Association in the version dated June 30, 2023, additional general partners with or without management and/or representation powers may be admitted to the company. The admission requires the consent of the general partner and the approval of the Annual General Meeting. The provisions of the company's Articles of Association regarding the general partner apply accordingly to newly admitted general partners.

Pursuant to Section 6 No. 4 of the company's Articles of Association in the version dated June 30, 2023, the general partner shall withdraw from the company if someone other than Brigitte Frers or a person related to Klaus Dieter Frers in a direct line (Section 1589 (1) sentence 1 BGB) becomes the legal or beneficial owner of the majority of voting rights in the general partner and no takeover or mandatory offer is made within three months of the acquisition taking effect in accordance with the provisions of the German Securities Acquisition and Takeover Act. 1 BGB) becomes the legal or beneficial owner of the majority of voting rights in the general partner and does not submit a takeover or mandatory offer to the company's shareholders in accordance with the provisions of the German Securities Acquisition and Takeover Act (WpÜG) within three months of the acquisition taking effect.

If the general partner withdraws from the company without a new general partner being admitted at the same time, the company shall be continued by the limited liability shareholders alone on a transitional basis in accordance with Section 6 No. 5 of the company's Articles of Association. In this case, the Supervisory Board must immediately apply for the appointment of an emergency representative to represent the company until a new general partner is admitted.

Annual financial statements of paragon GmbH & Co. KGaA

Business performance of paragon GmbH & Co. KGaA

For the individual company paragon GmbH & Co. KGaA, revenue and EBITDA are also considered financial performance indicators. From 2023, paragon has switched to using an absolute EBITDA amount as the key profitability indicator rather than an EBITDA margin.

paragon GmbH & Co. KGaA had published the following forecast for the 2023 financial year:

- 120 million euros in sales,
- 12 million euros EBITDA

The business performance of paragon GmbH & Co. KGaA (HGB annual financial statements) in the 2023 reporting year was characterized by reduced revenue as a result of the scheduled discontinuation of an air quality product for a vehicle model in the third quarter of 2023. In total, sales revenue of EUR 110.6 million was generated (previous year: EUR 117.0 million). The sales forecast was therefore not achieved. This deviation is due to a reduction in the car manufacturers' production figures compared to budget planning. Compared to previous years and expectations, this was due to extended plant vacations by car manufacturers in the summer and at the turn of the year.

The sale of paragon semvox GmbH and the transfer of part of the Power division to Clarios led to positive earnings contributions. In this context, please refer to the comments on the Group's business performance. This also enabled EBITDA of EUR 25.7 million to be achieved in the 2023 financial year. The EBITDA forecast was clearly exceeded.

Financial position of paragon GmbH & Co. KGaA

The total assets of paragon GmbH & Co. KGaA in the HGB single-entity financial statements were significantly lower than in the previous year at EUR 105.2 million (previous year: EUR 152.1 million).

Fixed assets fell by 30.2 million euros to 62.5 million euros (previous year: 92.7 million euros). The main reason for this decline is the sale of the investment in paragon semvox GmbH and the sale of fixed assets to the battery manufacturer Clarios.

Receivables and other assets remained constant at EUR 39.8 million (previous year: EUR 39.6 million).

Cash and cash equivalents amounted to € 2.1 million as of the reporting date (previous year: € 17.8 million). The reduction in cash and cash equivalents results from the repayment of the loan that was granted to paragon as interim financing – to repay bond liabilities in April 2023 – immediately before the previous year's reporting date.

Equity increased from EUR 4.2 million to EUR 8.4 million due to the positive net profit in the reporting year .

Provisions at paragon GmbH & Co. KGaA amounted to EUR 7.3 million as of the balance sheet date (previous year: EUR 5.1 million). Liabilities decreased to EUR 89.5 million (previous year: EUR 142.1 million). This is mainly due to the repayment of interim financing in the amount of EUR 22.5 million, the repayment of the CHF bond and partial repayment of the EUR bond, as well as the payment of tax liabilities.

Financial position of paragon GmbH & Co. KGaA

The development of the annual result (net profit € 4.2 million in the reporting year compared to a net loss of € 8.8 million in the previous year) is mainly due to the sale of the investment in paragon semvox GmbH and the partial sale of the Power division. The recognized write-downs and write-ups on investments had a negative impact on . The total of write-downs and write-ups on investments amounted to € 6.6 million in the reporting year compared to € 3.1 million in the previous year.

The scheduled repayment of bank loans and repayment of interim financing led to a negative cash flow from financing activities.

Cash and cash equivalents fell to EUR 2.1 million as of the balance sheet date (previous year: EUR 17.8 million). In the previous year, this was heavily influenced by interim financing for the repayment of bond liabilities.

Earnings position of paragon GmbH & Co. KGaA

The revenue of paragon GmbH & Co. KGaA in the HGB annual financial statements amounted to € 110.6 million in the reporting year, a decrease of € 6.4 million compared to the previous year (previous year: € 117.0 million). This was mainly due to the scheduled discontinuation of an air quality product in the third quarter of 2023. This reduction in sales was only partially offset by higher sales in the Power segment.

In the financial year, internally generated intangible assets were capitalized via own work capitalized in the amount of EUR 2.9 million (previous year: EUR 3.5 million). This reduction is due to increased customer reimbursements for development services which is deducted from the own work capitalized

Other operating income in the reporting year mainly includes the capital gain from the sale of the subsidiary paragon semvox GmbH amounting to EUR 16.0 million. Furthermore, the book profit from the sale of a part of the Power division of EUR 6.6 million is recognized here. This item also includes income from the repurchase of own bonds as well as income from the reversal of impairment losses and from the use of vehicles by employees.

At 76.0% (previous year: 71.0%), the cost of materials ratio increased compared to the previous year due to a change in the product mix. Personnel expenses increased to EUR 15.3 million (previous year: EUR 13.4 million). The increase in personnel expenses is mainly due to a general increase in wages and salaries in 2023 as a result of the rise in the cost of living.

Other operating expenses amounted to EUR 14.9 million in the reporting year (previous year: EUR 19.5 million); the reduction is mainly due to a book loss from the sale of fixed assets and reduced legal and consulting costs reported in the previous year. The main expenses in the reporting year were for additions to valuation allowance, rent and leasing, damages, IT expenses and the remuneration of the general partner.

The profit transfer results from the profit transferred from paragon electronic GmbH in the amount of EUR 2.8 million (previous year: EUR 2.2 million). In the reporting year, non-cash reversals of write-downs on financial assets in the amount of EUR 0.9 million (previous year: EUR 0.0 million) and write-downs on financial assets in the amount of EUR 7.5 million (previous year: EUR 3.1 million) were incurred. They relate to adjustments to the carrying amounts of the investments in the subsidiaries paragon movasys, paragon Kunshan and paragon Shanghai.

Taking into account income taxes and other taxes, paragon GmbH & Co. KGaA thus reported a net profit of € 4.2 million in the reporting year (previous year: net loss of € 8.8 million). EBITDA (earnings before interest, taxes, depreciation and amortization and write ups, result from profit transfer agreements) for paragon GmbH & Co. KGaA amounted to EUR 25.7 million in the reporting year (previous year: EUR 8.5 million). The EBITDA margin amounted to 23.2% in the reporting year (previous year: 7.3%). This increase can be explained by the special effects from disposals described above.

Overall statement on the net assets, financial position and results of operations of paragon GmbH & Co.

The development of the net assets, financial position and results of operations of paragon GmbH & Co. KGaA in the past fiscal year was strongly influenced by the sale of the investment in paragon semvox GmbH and the sale of part of the Power division. The Management Board considers business development in the 2023 reporting year to be encouraging.

Development of the key performance indicators

In the current financial year, the management expects a slight decline in revenue for paragon GmbH & Co. KGaA in the HGB annual financial statements due to the scheduled discontinuation of an air quality product in 2023. EBITDA will be lower in the 2024 financial year due to the special effects in 2023.

Development of the key performance indicators:

€'000 or as stated	2023	2023	Change in %	Forecast 2024
Financial performance indicators				
Turnover	110,588	116,965	-5.5%	90 million euros
EBITDA	25,706	8,534	301.2%	7 million euros

Declaration on Corporate Governance pursuant to Section 315d in conjunction with Section 289f (1) HGB and Declaration of Conformity of paragon GmbH & Co. KGaA with the German Corporate Governance Code

The Management Board and Supervisory Board of the company are committed to the principles of transparent and responsible corporate management and control. They attach great importance to the standards of good corporate governance.

The corporate governance declaration in accordance with Section 315d in conjunction with Section 289f (1) HGB can be viewed permanently on the paragon website at https://ir.paragon.ag. It contains the declaration of compliance with the German Corporate Governance Code in accordance with Section 161 AktG, relevant information on corporate governance practices and a description of the working methods of the Management Board and Supervisory Board and their composition, the targets set in accordance with Section 76 (4) and Section 111 (5) AktG and information on their achievement as well as the company's measures in connection with increasing diversity.

The details of the remuneration of the members of the Executive Board and Supervisory Board are presented in the remuneration report in accordance with Section 162 AktG, which the Supervisory Board will discuss and pass a resolution on at its meeting on April 24, 2024. This report will subsequently be published on the paragon website at https://ir.paragon.ag.

Delbrück, April 2024
paragon GmbH & Co. KGaA

The management of the personally
liable shareholder, paragon GmbH

Klaus Dieter Frers

Consolidated Income Statement

€'000	Appendix	Jan. 1– Dec. 31, 2023[1]	Jan. 1– Dec. 31, 2022[2]
Sales	11	**161,647**	**160,677**
Other operating income	12	12,064	4,642
Increase or decrease in inventories of finished goods and work in progress		–1,492	118
Other own work capitalized	13	3,883	5,063
Overall performance		**176,102**	**170,501**
Cost of materials	14	–91,529	–94,590
Gross profit		**84,571**	**75,911**
Personnel expenses	15	–44,231	–40,983
Depreciation of property, plant and equipment and amortization of intangible assets	16	–16,432	–14,279
Impairment of current assets		0	–22
Impairment of property, plant and equipment and intangible assets		–187	–318
Other operating expenses	17	–22,669	–24,718
Earnings before interest and taxes (EBIT)		**1,050**	**–4,408**
Financial income	18	142	42
Financing expenses	18	–12,654	–7,585
Financial result		**–12,513**	**–7,544**
Earnings before taxes (EBT)		**–11,463**	**–11,951**
Income taxes	19	890	2,448
Result from continuing operations		**–10,571**	**–9,503**
Result from discontinued operations	20	**6,759**	**5,309**
Group result		**–3,812**	**–4,194**
Earnings per share in € (basic and diluted) from continuing operations	21	–2,34	–2,10
Earnings per share in € (basic and diluted) from discontinued operations		1,49	1,17
Earnings per share in € (basic and diluted) from continuing and discontinued operations		–0,84	–0,93
Average number of shares in circulation (basic and diluted)		**4,526,266**	**4,526,266**

1 paragon GmbH & Co. KGaA sold its shares in paragon semvox GmbH to CARIAD SE by notarized agreement dated December 1, 2022. The closing took place on May 12, 2023. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiaries. For this reason, paragon semvox GmbH is accounted for as a discontinued operation in accordance with IFRS 5.

2 Previous year's figures adjusted. The adjustments are explained in Note 5.

Consolidated Statement of Comprehensive Income

€'000	Appendix	Jan. 1– Dec. 31, 2023[1]	Jan. 1– Dec. 31, 2022[2]
Group result		–3,812	–4,194
Items that will not be reclassified to profit or loss			
Actuarial gains and losses from continuing operations	29	43	698
Currency translation reserve from continuing operations		–149	31
Items that will be reclassified to profit or loss			
Currency translation reserve from discontinued operations		0	0
Overall result		–3,918	–3,466

Note: For arithmetical reasons, rounding differences of +/– one unit (€ thousands) may occur in tables.

Consolidated balance sheet

€'000	Appendix	Dec. 31, 2023[1]	Dec. 31, 2022[2]
ASSETS			
Non-current assets			
Intangible assets	22	33,711	37,360
Goodwill	23	5,745	5,745
Property, plant and equipment	24	26,719	30,830
Investments accounted for using the equity method		1,522	1,522
Shares in associated companies		120	121
Other non-current financial assets		456	468
		68,274	**76,046**
Current assets			
Inventories	25	20.641	24,008
Trade receivables	26	6,646	7,660
Other current financial assets	27	5,193	5,189
Other current non-financial assets	27	3,094	4,364
Contract assets	28	1.461	1,251
Cash and cash equivalents	29	3,209	18,106
Income tax assets		0	217
Assets classified as held for sale		0	35,771
		40,245	**96,566**
Total assets		**108,520**	**172,612**

1 paragon GmbH & Co. KGaA sold its shares in paragon semvox GmbH to CARIAD SE by notarized agreement dated December 1, 2022. The closing took place on May 12, 2023. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiaries. For this reason, paragon semvox GmbH is accounted for as a discontinued operation in accordance with IFRS 5.

2 Previous year's figures adjusted. The adjustments are explained in Note 5.

€'000	Appendix	Jan. 1– Dec. 31, 2023[1]	Jan. 1– Dec. 31, 2022[2]
LIABILITIES			
Equity			
Subscribed capital	30	4,526	4,526
Capital reserve	30	15,485	15,485
Revaluation reserve	30	64	21
Loss carryforward	30	–20,478	–16,284
Group result	30	–3,812	–4,194
Reserves from currency differences	30	132	281
		–4,084	**–166**
Non-current provisions and liabilities			
Non-current lease liabilities	31	8,687	9,710
Long-term loans	32	6,001	7,313
Long-term bonds	33	24,825	45,000
Deferred taxes	19	292	1,211
Provisions for pensions	34	1,921	2,383
Other non-current financial liabilities	37	2,205	1,375
		43,930	**66,993**
Current provisions and liabilities			
Current lease liabilities	31	2,958	4,379
Short-term loans and current portion of long-term loans	32	7,872	30,550
Liabilities from deliveries and services		24,374	24,950
Short-term bond	33	22,162	22,566
Other provisions	35	488	273
Income tax liabilities	36	614	288
Other current financial liabilities	37	2,632	1,629
Other current non-financial liabilities	38	7,574	15,924
Liabilities directly associated with assets classified as held for sale		0	5,226
		68,673	**105,786**
Total liabilities		**108,520**	**172,612**

Consolidated Cash Flow Statement

€'000	Appendix	Jan. 1– Dec. 31, 2023	Jan. 1– Dec. 31, 2022
Group result		**–3,812**	**–4,194**
Result from discontinued operations Group result		–6,759	–5,309
Depreciation of fixed assets		16,432	14,278
Financial result		12,513	7,544
Profit (–), loss (+) from disposal of property, plant and equipment and financial assets		–6,140	2,213
Increase (+), decrease (–) in other provisions and pension provisions		–1,031	–1,597
Other non-cash expenses and income		–979	–1,828
Increase (–), decrease (+) in trade receivables, other receivables and other assets		537	–1,120
Devaluation of non-current assets (+)		0	318
Increase (–), decrease (+) in inventories		3.367	–1,238
Increase (+), decrease (–) in trade payables and other liabilities		–8.369	11,793
Interest paid		–11.921	–6,500
Income tax expense (+)/income (–) without deferred taxes		0	–2,886
Cash flow from operating activities (continuing)	44	**–6.163**	**11,475**
Cash flow from operating activities (discontinued)		**n.a.**	**3,084**
Proceeds from the disposal of property, plant and equipment (+)		4,100	6,395
Payments for investments in property, plant and equipment (–)		–1,717	–2,677
Payments for investments in intangible assets (–)		–5,878	–5,048
Proceeds from the sale of consolidated companies and other business units (+)		37,538	0
Proceeds from the sale of intangible assets		4,100	1,500
Proceeds from the sale of securities held as fixed assets		0	416
Cash flow from investing activities (continued)	44	**38,143**	**585**
Cash flow from investing activities (discontinued)		**n.a.**	**–4,460**
Payments for the repayment of financial loans (–)		–24.783	–7.267
Proceeds from the raising of financial loans (+)		2.340	21.638
Payments for the repayment of bonds (–)		–19.949	–11.710
Payment for the repayment of liabilities from leases (–)		–4.379	–748
Proceeds from the assumption of lease liabilities (+)		0	2.696
Payments for prolongation costs EUR bond (–)		0	–271
Change in OCI		–106	727
Cash flow from financing activities (continued)	44	**–46.878**	**5,064**
Cash flow from financing activities (discontinued)		**n.a.**	**905**
Cash-effective change in cash and cash equivalents (continued)		–14,897	17,125
Cash and cash equivalents at the beginning of the period (continued)		18,106	981
Cash and cash equivalents at the end of the period (continued)	29	3,209	18,106

Statement of Changes in Equity[1]

€'000	Subscribed capital	Capital reserve	Revaluation reserve	Currency translation reserve	Loss carryforward	Group result	Total
Jan. 1, 2023	4,526	15,485	21	281	-16,284	-4,194	-166
Appropriation of earnings	0	0	0	0	-4,194	4,194	0
Group results	0	0	0	0	0	-3,812	-3,812
Actuarial gains and losses	0	0	43	0	0	0	43
Currency conversion	0	0	0	-149	0	0	-149
Total other comprehensive income	0	0	43	-149	0	0	-106
Overall result	0	0	43	-149	-4,194	382	-3,918
Dec. 31, 2023	4,526	15,485	64	132	-20,478	-3,812	-4,084

€'000	Gezeichnetes Kapital	Kapital-rücklage	Neu-bewertungs-rücklage	Rücklage aus der Währungs-umrechnung	Verlustvortrag	Konzern-ergebnis	Gesamt
Jan. 1, 2022	4,526	15,485	-677	250	-10,323	-5,960	3,300
Appropriation of earnings	0	0	0	0	-5,960	5,960	0
Group results	0	0	0	0	0	-4,194	-4,194
Actuarial gains and losses	0	0	698	0	0	0	698
Currency conversion	0	0	0	31	0	0	31
Total other comprehensive income	0	0	698	31	0	0	728
Overall result	0	0	698	31	-5,960	1,766	-3,466
Dec. 31, 2022	4,526	15,485	21	281	-16,284	-4,194	-166

1 Previous year's figures adjusted. The adjustments are explained in Note 5.

Notes to the Consolidated Financial Statements 2023

(1) General information

paragon GmbH & Co. KGaA, with its registered office at Bösendamm 11, 33129 Delbrück, Germany, is a partnership limited by shares established under German law. The shares of paragon GmbH & Co. KGaA have been traded on the regulated market, Prime Standard segment, of the Frankfurt Stock Exchange since 2000. paragon GmbH & Co. KGaA is entered in the commercial register of Paderborn Local Court (HRB 13491). The purpose of paragon GmbH & Co. KGaA (hereinafter also referred to as "paragon", the "Company" or the "Group") is research and development in the field of microelectronics, the manufacture and sale of electronic devices, associated peripherals and corresponding assemblies, and the administration of patents, licenses and utility models.

The Management Board of paragon GmbH, the general partner of paragon GmbH & Co. KGaA, approved the consolidated financial statements as of December 31, 2023 and the combined management report for the reporting period from January 1 to December 31, 2023 for submission to the Supervisory Board on April 24, 2024.

The consolidated financial statements and the combined management report for the reporting period from January 1 to December 31, 2023 of paragon GmbH & Co. KGaA will be submitted to the electronic Federal Gazette and will be available as part of the annual report on the company's website (https://www.paragon.ag/).

paragon GmbH & Co. KGaA sold its shares in paragon semvox GmbH to CARIAD SE by notarized agreement dated December 1, 2022. The closing took place in May 2023. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiary paragon semvox GmbH. For this reason, paragon semvox GmbH is accounted for as a discontinued operation in accordance with IFRS 5. In the paragon Group, it represented the Digital Assistance division.

(2) Application of the International Financial Reporting Standards (IFRS)

The consolidated financial statements of paragon GmbH & Co. KGaA as of December 31, 2023 were prepared in accordance with Section 315 e (1) HGB (consolidated financial statements in accordance with international accounting standards), the provisions of the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, applicable on the reporting date and adopted by the European Union, and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC).

(3) Facts jeopardizing the existence of the company

The financial statements for the reporting period from January 1 to December 31, 2023 were prepared on a going concern basis. Accordingly, the carrying amounts of assets and liabilities were determined on the basis of going concern values.

At the time of preparation, there is significant uncertainty with regard to securing the continuous financing of paragon GmbH & Co. KGaA and the paragon Group due to the company's liquidity situation, which has not yet been fully normalized and which may cast significant doubt on the company's ability to continue as a going concern. Details on this can be found in the risk report in the "Going concern risks" section of the combined management report.

(4) Events after the balance sheet date

The consolidated financial statements must be prepared on the basis of the circumstances prevailing on the balance sheet date. In accordance with IAS 10.7, the value elimination period ends with the release of the consolidated financial statements for publication. The consolidated financial statements as of December 31, 2023 will be approved by the Management Board and passed on to the Supervisory Board for signature on April 24, 2024. No significant events have occurred up to this date.

(5) Adjustment of prior periods

The published prior-year figures have been adjusted for the following items.

Transaction costs for bond prolongation

In the reporting year, there was an error correction in connection with the recognition of transaction costs as part of the extension of the EUR bond in 2022. The EUR bond was extended by a further five years in March 2022. Transaction costs for consultants, lawyers and notaries were incurred as part of this prolongation. These costs were deducted from the acquisition costs of the bond in the published financial statements for 2022. As the extension led to a material change in the bond in accordance with IFRS 9 3.3.2, these costs must be recognized as an expense in accordance with IFRS 9 B3.3.6. The affected items in the previous year's financial statements were adjusted. In the balance sheet, this led to a EUR 1,282 thousand increase in the carrying amount of the bond, a EUR

385 thousand reduction in deferred tax liabilities and a EUR 897 thousand reduction in equity. In the income statement, other operating expenses were increased by EUR 1,424 thousand, interest expenses were reduced by EUR 142 thousand and tax expenses were reduced by EUR 385 thousand.

Revenue recognition over time

In the reporting year, an error was corrected in connection with the recognition of revenue for period-related transactions. paragon reported finished goods produced on behalf of customers as inventories in the published financial statements as of 31 December 2022. In accordance with IFRS 15 35c, however, there is a performance obligation in this regard that is fulfilled over a certain period of time. Revenue must therefore be recognized as of the reporting date. The relevant items in the previous year's financial statements have been adjusted. A contract asset in the amount of EUR 1,251 thousand was recognized in the balance sheet. At the same time, inventories were reduced by EUR 1,181 thousand. Equity was increased by EUR 71 thousand. In the income statement, sales revenue was increased by EUR 359 thousand and the change in inventories was reduced by EUR 289 thousand.

Recognition of liabilities from sale and leaseback transactions that do not constitute a sale

Lease liabilities from sale and leaseback transactions were reported even though these transactions did not meet the criteria of a sale in accordance with IFRS 15. This led to an incorrect balance sheet presentation of the lease liabilities, as these should have been reported as other financial liabilities in accordance with IFRS 16.103(a). A corresponding disposal of property, plant and equipment and the recognition of a right-of-use asset were correctly not carried out. As a result, non-current lease liabilities were reduced by EUR 1,375 thousand and current lease liabilities by EUR 516 thousand. The corresponding offsetting entry was made in other non-current and current financial liabilities. This did not have any effect on earnings.

Further reclassifications

In addition to the above-mentioned adjustments, the

a) In the reporting year, other current assets were broken down into the items "other current financial assets" and "other current non-financial assets". The item "other current financial assets" amounted to TEUR 5,189 in the previous year. The item "other current non-financial assets" was reduced by the same amount.
b) Other liabilities are broken down in the reporting year into the items "other financial liabilities" and "other non-financial liabilities". The previous year's presentation was adjusted accordingly. At the same time, other provisions were reduced by TEUR 784 and other current non-financial liabilities were reduced by TEUR 329 thousand. Other current financial liabilities were increased accordingly by TEUR 1,113.

The following tables summarize the effects on the consolidated financial statements.

	Published consolidated financial statements	Adjustments	Adjusted consolidated financial statements
Sales revenue	**160,318**	**359**	**160,677**
Other operating income	4,642		4,642
Increase or decrease in inventories of finished goods and work in progress	407	–289	118
Other own work capitalized	5,063		5,063
Overall performance	170,431	70	170,501
Cost of materials	–94,590		–94,590
Gross profit	**75,841**	**70**	**75,911**
Personnel expenses	–40,983		–40,983
Depreciation of property, plant and equipment and amortization of intangible assets	–14,279		–14,279
Impairment of current assets	–22		–22
Impairment of property, plant and equipment and intangible assets	–318		–318
Other operating expenses	–23,293	–1,424	–24,718
Earnings before interest and taxes (EBIT)	**–3,054**	**–1,354**	**–4,408**
Financial income	42		42
Financing expenses	–7,728	142	–7,585
Financial result	**–7,686**	**142**	**–7,544**
Earnings before taxes (EBT)	**–10,740**	**–1,212**	**–11,951**
Income taxes	2,063	385	2,448
Result from continuing operations	**–8,676**	**–827**	**–9,503**
Result from discontinued operations	**5,309**		**5,309**
Group result	**–3,367**	**–827**	**–4,194**
Actuarial gains and losses	698		698
Currency translation reserve	31		31
Overall result	**–2,639**	**–827**	**–3,466**
Earnings per share in € continuing operations (undiluted)	–1,92	–0,18	–2,10
Earnings per share in € continuing operations (diluted)	–1,92	–0,18	–2,10
Earnings per share in € discontinued operation (undiluted)	1,17		1,17
Earnings per share in € continuing and discontinued operations (diluted)	–0,74	–0,18	–0,93

The following tables summarize the effects on the consolidated financial statements.

	Published consolidated financial statements	Adjustments	Adjusted consolidated financial statements
Assets			
Non-current assets			
Intangible assets	37,360		37,360
Goodwill	5,745		5,745
Property, plant and equipment	30,830		30,830
Shares in associated companies and joint ventures	1,642		1,642
Other assets	468		468
Total non-current assets	**76,046**		**76,046**
Current assets			
Current assets	25,188	–1,181	24,008
Inventories	7,660		7,660
Trade receivables	0	1,251	1,251
Contract asset value	217		217
Income tax assets		5,189	5,189
Other current financial assets	9,553	–5,189	4,364
Other current non-financial assets	18,106		18,106
Cash and cash equivalents	35,771		35,771
Assets classified as held for sale	**96,496**	**70**	**96,566**
Total assets	**172,542**	**70**	**172,612**

The following tables summarize the effects on the consolidated financial statements.

	Published consolidated financial statements	Adjustments	Adjusted consolidated financial statements
LIABILITIES			
Equity			
Subscribed capital	4,526		4,526
Capital reserve	15,485		15,485
Revaluation reserve	21		21
Profit / (–) loss carried forward	–16,284		–16,284
Group result	–3,367	–827	–4,194
Currency differences	281		281
Total equity	**661**	**–827**	**–166**
Non-current provisions and liabilities			
Non-current lease liabilities	11,085	–1,375	9,710
Long-term loans	7,313		7,313
Long-term bonds	45,000		45,000
Deferred taxes	1,596	–385	1,211
Provisions for pensions	2,383		2,383
Other non-current financial liabilities	0	1,375	1,375
Total non-current provisions and liabilities	**67,378**	**–385**	**66,993**
Current provisions and liabilities			
Current portion of lease liabilities	4.895	–516	4.379
Short-term loans and current portion of long-term loans	30.550		30.550
Short-term bonds	21.284	1.282	22.566
Liabilities from deliveries and services	24.950		24.950
Other provisions	1.057	–784	273
Income tax liabilities	288		288
Other current financial liabilities		1.629	1.629
Other current non-financial liabilities	16.253	–329	15.924
Liabilities directly associated with assets classified as held for sale	5.226		5.226
Total current provisions and liabilities	**104,503**	**1,283**	**105,786**
Total liabilities	**172,542**	**70**	**172,612**

The following tables summarize the effects on the consolidated financial statements.

€'000	Published consolidated financial statements	Adjustments	Adjusted consolidated financial statements
Earnings before taxes (EBT)	**–10,740**	**–1,212**	**–11,952**
Depreciation of fixed assets	14,278		14,278
Financial result	7,686	–142	7,544
Profit (–), loss (+) from disposal of property, plant and equipment and financial assets	2,213		2,213
Increase (+), decrease (–) in other provisions and pension provisions	–1,597		–1,597
Other non-cash expenses and income	–1,828		–1,828
Increase (–), decrease (+) in trade receivables, other receivables and other assets	–1,050	–70	–1,120
Devaluation of non-current assets (+)	318		318
Increase (–), decrease (+) in inventories	–1,238		–1,238
Increase (+), decrease (–) in trade payables and other liabilities	11,793		11,793
Interest paid	–6,500		–6,500
Income tax expense (+)/income (–) without deferred taxes	–437		–437
Cash flow from operating activities (continuing)	**12,899**	**–1,424**	**11,475**
Cash flow from operating activities (discontinued)	**3,084**		**3,084**

The following tables summarize the effects on the consolidated financial statements.

€'000	Published consolidated financial statements	Adjustments	Adjusted consolidated financial statements
Proceeds from the disposal of property, plant and equipment (+)	6,395		6,395
Payments for investments in property, plant and equipment (–)	–2,677		–2,677
Payments for investments in intangible assets (–)	–5,048		–5,048
Proceeds from the sale of consolidated companies and other business units (+)	0		0
Proceeds from the sale of intangible assets	1,500		1,500
Proceeds from the sale of securities held as fixed assets	416		416
Cash flow from investing activities (continued)	**585**		**585**
Cash flow from investing activities (discontinued)	**–4,460**		**–4,460**
Payments for the repayment of financial loans (–)	–7.267		–7.267
Proceeds from the raising of financial loans (+)	21.638		21.638
Payments for the repayment of bonds (–)	–11.710		–11.710
Payments for the repayment of lease liabilities	–748		–748
Proceeds from lease liabilities	2.696		2.696
Payments for prolongation costs EUR bond (–)	–1.695	1.424	–271
Change in OCI	727		727
Cash flow from financing activities (continued)	**3,640**	**1,424**	**5,064**
Cash flow from financing activities (discontinued)	**905**		**905**
Cash-effective change in cash and cash equivalents (continued)	17,125	0	17,125
Cash and cash equivalents at the beginning of the period (continued)	980		980
Cash and cash equivalents at the end of the period (continued)	18.105		18.105

(6) New accounting principles due to new standards

The effects of new accounting standards whose scope of application is compatible with the activities of paragon GmbH & Co. KGaA are listed below. For reasons of materiality, paragon GmbH & Co. KGaA does not present changes in accounting that have no impact on the company. There were no significant changes to existing IFRS standards in the reporting period in the area of application with the activities of paragon GmbH & Co KGaA.

In the 2023 financial year, paragon GmbH & Co. KGaA applied the following standards, interpretations and amendments to existing standards that were adopted for mandatory application for the first time:

IAS 1 – (amended, effective from January 1, 2023)

Disclosures on accounting policies.

IAS 8 – (amended, effective from January 1, 2023)

Definition of accounting estimates.

IAS 12 – (amended, effective from January 1, 2023)

Deferred taxes relating to assets and liabilities from a single transaction.

IFRS 17 and amendments to IFRS 17 – (amended, effective from January 1, 2023)

Insurance contracts and first-time application of IFRS 17 and IFRS 9

The listed amendments and adjustments to the standards have no material impact on the consolidated financial statements.

The following amended standards are only applicable in the future and have not been applied early in the current consolidated financial statements.

IFRS 16 – (amended, effective from January 1, 2024)

Lease liability for sale and leaseback.

IFRS 18 (amended, effective from Januar 1, 2027)

Presentation and information

IFRS 7/IAS 7 – (amended, effective from January 1, 2024)

Information on supplier relationships and agreements

IAS 1 (amended, effective from January 1, 2024)
- Classification of debt as current or non-current
- Non-current liabilities with covenants

IAS 21 (amended, effective from January 1, 2025)

Lack of interchangeability

The amendments and adjustments to the standards are not expected to have any material effects or impact on the consolidated financial statements of paragon GmbH & Co.

(7) Scope of consolidation

In addition to the parent company paragon GmbH & Co. KGaA, Delbrück, all material subsidiaries are fully consolidated. The balance sheet date for all companies is December 31, 2023. The scope of consolidation and shareholdings are shown in the following table.

Name and registered office of the company	Shareholdings	Consolidation
Germany		
paragon GmbH & Co. KGaA, Delbrück	n. a.	n. a.
paragon electronic GmbH, Delbrück	100%	Fully consolidated subsidiary
Nordhagen Immobilien GmbH, Delbrück	100%	Fully consolidated subsidiary
paragon movasys GmbH, Delbrück	100%	Fully consolidated subsidiary
ETON Soundsysteme GmbH GmbH (formerly: paragon electroacoustic GmH)[1]	100%	Fully consolidated subsidiary
paragon electrodrive GmbH, Delbrück	100%	Fully consolidated subsidiary
India		
Paravox Automotive Ltd, India	99%	Fully consolidated subsidiary
China		
paragon Automotive Technology (Shanghai), Co., Ltd.	100%	Fully consolidated subsidiary
paragon Automotive (Kunshan), Co. Ltd.	100%	Fully consolidated subsidiary
Shareholding		
Hepa GmbH	50%	at equity Consolidation
The following companies are not consolidated:		
paragon semvox GmbH, Limbach		deconsolidated in 2023
paragon Automotive LLC, Delaware	100%	No inclusion, as immaterial
paragon movasys d.o.o.; Croatia	100%	No inclusion, as immaterial

1 The former ETON Soundsysteme GmbH was merged with the former paragon electroacoustic GmbH in the reporting year. paragon electroacoustic GmbH was renamed ETON Soundsysteme GmbH in the reporting year.

The scope of consolidation has changed significantly due to the deconsolidation of paragon semvox GmbH. paragon GmbH & Co. KGaA sold its shares in paragon semvox GmbH to CARIAD SE by notarized agreement dated December 1, 2022. The closing took place on May 12, 2023. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiaries.

Due to the current minor significance of the companies paragon movasys d.o.o., Croatia, and paragon Automotive LLC, USA, these companies were not consolidated in the 2023 financial year.

Company	Share	Turnover 2023 €'000	Equity capital 2023	Net profit/loss for the year 2023
Parent company				
paragon GmbH & Co. KGaA, Delbrück	n.a.			
Consolidated subsidiaries				
Nordhagen Immobilien GmbH, Delbrück	100.00%	0	–1,467	–151
paragon Automotive Co., Ltd., Kunshan	100.00%	12,859	3,410	2,715
paragon Automotive Technology (Shanghai) Co. Ltd., China	100.00%	139	41	2
ETON Soundsysteme GmbH, Delbrück (formerly: paragon electroacoustic GmbH)	100.00%	112	–440	617
paragon electrodrive GmbH, Delbrück	100.00%	42	–2,379	–30
paragon electronic GmbH, Delbrück	100.00%	75,715	7,819	0
paragon movasys GmbH, Landsberg am Lech	100.00%	54,205	–16,852	–3,973
paravox Automotive Ltd., Indien	100,00%	462	80	–34
The following companies are not consolidated:				
paragon movasys d.o.o., Kroatien	100,00%	644	73	28
paragon Auotomotive LLC, USA	100.00%	0	0	0
Shareholdings and joint ventures				
Hepa GmbH[1]	50,00%	24	3.025	1
Bilster Berg Drive Resort GmbH & Co. KG[2]	0,60%	4.770	20.006	–292

1 Proportionate consolidation in accordance with Section 310 HGB – preliminary figures as of December 31, 2023
2 Financial figures as of December 31, 2022.

Hepa GmbH, based in Münster, is a joint venture between Hengst SE (Münster) and paragon GmbH & Co. KGaA. Both shareholders each hold EUR 12,500 of the subscribed capital of Hepa GmbH totaling EUR 25,000. Hengst SE and paragon GmbH & Co. KGaA have combined their activities to develop and market an electric filter and a customized high-voltage source and particle charging unit. Hepa GmbH was founded in order to be flexibly positioned for various sales situations during the utilization phase of the results and at the same time to allow both parties to participate in the sales success.

Hepa GmbH's capital reserves amount to EUR 3,000 thousand and liabilities are insignificant. Hepa's main assets are intangible assets in the form of patents, utility models and copyrights amounting to EUR 3,000 thousand. Hepa GmbH's sales revenues are still insignificant, as customer orders are still being initiated or before the start of production.

Hepa GmbH is accounted for using the equity method. Significant financial obligations to Hepa GmbH will only arise in the future depending on realized sales revenues from jointly developed products in the form of annual license payments.

The share of profit or loss of Hepa GmbH is not reported separately in the income statement due to immateriality.

The carrying amount of the investment is unchanged from the previous year (Bilster Berg Drive Resort GmbH & Co. KG: EUR 120 thousand).

Company	Share	Turnover 2022 €'000	Equity capital 2022	Net profit/loss for the year 2022
Parent company	n.a.			
paragon GmbH & Co. KGaA, Delbrück				
Consolidated subsidiaries				
ETON Soundsysteme GmbH, Neu-Ulm	100,00%	0	709	-37
Nordhagen Immobilien GmbH, Delbrück	100,00%	0	-1.316	-75
paragon Automotive Co., Ltd., KunShan	100,00%	8.486	840	1.877
paragon Automotive Technology (Shanghai) Co. Ltd., China	100,00%	135	43	0
paragon electroacoustic GmbH, Neu-Ulm	100,00%	0	-1.057	-215
paragon electrodrive GmbH, Delbrück	100,00%	974	-2.349	-1.187
paragon electronic GmbH, Delbrück	100,00%	74.132	7.819	0
paragon movasys GmbH, Landsberg am Lech	100,00%	52.038	-12.858	-6.333
paragon semvox GmbH, Saarbrücken	100,00%	12.780	5.360	5.311
paravox Automotive Ltd., India	100,00%	549	113	84
The following companies are not consolidated:				
paragon movasys d.o.o., Croatia	100,00%	644	73	28
Shareholdings and joint ventures				
Hepa GmbH	50,00%	2	3.025	-1
Bilster Berg Drive Resort GmbH & Co. KG[1]	0,60%	4.770	20.006	-292

1 Key financial figures for the investments are not yet available at the time of preparing the annual financial statements.

Consolidation methods

The consolidated financial statements are based on the annual financial statements of the companies included in the Group prepared in accordance with uniform rules applying IFRS as of December 31, 2023. The financial statements are included in the consolidated financial statements from the date on which control is obtained until the date on which control ceases. The starting point for the IFRS adjusting entries for paragon GmbH & Co. KGaA was the audited annual financial statements of paragon GmbH & Co. KGaA under commercial law as of December 31, 2023.

The scope of consolidation is defined in accordance with IFRS 10. Capital consolidation is carried out using the purchase method in accordance with IFRS 3. The recognition of shares in affiliated companies at their carrying amount at the parent company is replaced by the assets and liabilities of the consolidated companies recognized at their fair value. The equity of the subsidiaries is thus compared with the carrying amount of the shares in the parent company. Any positive difference is recognized as goodwill under non-current assets and tested for impairment annually in accordance with IFRS 3 in conjunction with IAS 36. IAS 36, it is subjected to an annual impairment test.

In addition, debt consolidation, elimination of intercompany profits and losses and consolidation of income and expenses were carried out. The differences arising from the consolidation of income and expenses were offset in profit or loss. Assets from intercompany deliveries included in fixed assets and inventories were adjusted for intercompany profits.

The investment in Hepa GmbH was accounted for using the equity method in accordance with IAS 28.

(8) Currency conversion

In paragon's consolidated financial statements, foreign currency receivables and liabilities are measured on initial recognition at the transaction rate applicable at that time and adjusted to the exchange rate applicable on the balance sheet date. Exchange rate gains and losses are recognized in the income statement under other operating income or expenses. The translation of financial statements in foreign currencies is carried out in accordance with IAS 21.39 ff.

In the consolidated statement of comprehensive income, exchange rate losses and gains from the operating business are included in other operating expenses and other operating income. Expenses from the valuation of Swiss franc derivatives that are not in a hedging relationship with underlying transactions amounted to EUR 39 thousand (previous year: EUR 41 thousand).

The currency differences resulting from the translation of the financial statements prepared in foreign currencies and from consolidation were offset against equity in accordance with IAS 21.

The exchange rates of the currencies relevant to the paragon Group developed as follows:

Foreign currency for 1 EUR	Balance sheet mid-market price on Dec. 31, 2023	P&L average rate 2023	Balance sheet mid-market price on Dec. 31, 2022	P&L average rate 2022
US dollar (USD)	1.1037	1.0916	1.0704	1.0586
Swiss franc (CHF)	0.9288	0.9435	0.9899	0.9873
Chinese renminbi yuan (RMB)	7.8142	7.7731	7.3836	7.3849
Indian rupee (INR)	91.8142	90.8782	88.5689	87.3031

The functional currency of the Chinese subsidiaries is RMB, for the Indian subsidiary is INR as the companies mainly generate and spend cash in this currency.

(9) Explanations of the accounting and valuation methods

The consolidated financial statements were prepared in euros (EUR). The reporting currency is the euro. Unless otherwise stated, all amounts are shown in thousands of euros (EUR thousand). In these financial statements, the reporting period at paragon comprises the period from January 1 to December 31, 2023. Individual items in the statement of financial position and the consolidated statement of comprehensive income have been combined to improve the clarity and transparency of the presentation. In this case, the items are explained separately in the notes. The consolidated statement of comprehensive income is still structured according to the nature of expense method. A distinction is made in the balance sheet between current and non-current assets and liabilities, which are classified in detail in the notes according to their maturity. Assets and liabilities are considered current if they are due within a period of twelve months.

The consolidated financial statements comprise the consolidated balance sheet, the consolidated statement of comprehensive income, the notes to the consolidated financial statements, the consolidated cash flow statement and the consolidated statement of changes in equity. A Group management report has also been prepared.

Accounting for acquisitions

Goodwill is recognized in the Group's balance sheet as a result of acquisitions. When an acquisition is consolidated for the first time, all identifiable assets, liabilities and contingent liabilities are recognized at fair value on the acquisition date. One of the most important estimates relates to the determination of the fair value of these assets and liabilities on the acquisition date. Land, buildings and office equipment are generally valued on the basis of independent appraisals, while marketable securities are recognized at market price. If intangible assets are identified, the fair value is determined internally using an appropriate valuation technique, which is usually based on the forecast of total expected future cash flows. These valuations are closely linked to the assumptions made by management regarding the future development of the value of the respective assets and the assumed changes in the discount rate to be applied.

Intangible assets

Purchased intangible assets are recognized at cost, taking into account incidental costs and purchase price reductions.

Research costs are recognized as an expense in the period in which they are incurred. Costs in connection with the development of patent and specific customer solutions are only capitalized as intangible assets at production cost if the clear allocation of expenses required by IAS 38 “Intangible Assets” is possible, technical feasibility and marketability/usability are ensured and the probable generation of future economic benefits has been demonstrated. Production costs include all costs directly and indirectly attributable to the development process as well as necessary portions of project-related overheads. If the capitalization criteria are not met, the development costs are recognized immediately in profit or loss under other operating expenses in the year in which they are incurred. After initial recognition, development costs are carried at cost less accumulated amortization and accumulated impairment losses.

If intangible assets are subject to a finite useful life, they are generally amortized on a straight-line basis over their useful economic life. Amortization begins as soon as the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Intangible assets with an indefinite useful life are tested annually for impairment. For this purpose, the carrying amounts of intangible assets are examined on each balance sheet date to determine whether there are any indications of impairment. If there were such indications, an impairment test was carried out in accordance with IAS 36 “Impairment of Assets”. The residual values, useful lives and amortization methods are reviewed at the end of each financial year and adjusted if necessary.

The useful lives for internal development costs correspond to the expected product life cycles and are generally 7 years. paragon GmbH & Co. KGaA assesses the useful life of products individually and reviews the useful life annually. The useful lives of licenses, patents and software are between 3 and 12 years.

Goodwill is recognized at cost and tested for impairment annually and additionally if there are indications of possible impairment at other times. Impairment losses are recognized as a separate item in the income statement.

Property, plant and equipment

Additions to property, plant and equipment are measured at cost plus incidental acquisition costs and less any purchase price reductions. If the acquisition or production costs of certain components of an item of property, plant and equipment are significant in relation to the total acquisition or production costs, these components are recognized and depreciated individually. Depreciation is generally calculated using the straight-line method. The depreciation period is 33 to 50 years for buildings, between 5 and 10 years for technical equipment and 3 to 10 years for other equipment, fixtures and fittings.

Fully depreciated fixed assets are reported under acquisition and production costs and accumulated depreciation until the assets are decommissioned. Amortized cost and accumulated depreciation are deducted from the proceeds from the disposal of fixed assets. Earnings contributions from asset disposals (disposal proceeds less residual carrying amounts) are reported in the consolidated statement of comprehensive income under other operating income or other operating expenses. All residual values, useful lives and depreciation methods are reviewed annually and adjusted if necessary.

At each balance sheet date, the carrying amounts of property, plant and equipment, which are depreciated over their useful lives, are reviewed to determine whether there are any indications of impairment. If such indications exist, an impairment test is carried out.

Leases

At the inception of each lease, paragon GmbH & Co. KGaA assesses whether the contract is or contains a lease. This is the case if the contract entitles the lessee to control the use of an identified asset for a certain period of time in return for payment of a fee. If a contract is amended, paragon GmbH & Co. KGaA reassesses whether a contract constitutes a lease.

In accordance with the option in IFRS 16.5 to 16.8, the Group has decided not to recognize leases if the lease has a term of up to 12 months or the determined right-of-use asset does not exceed a value of EUR 5,000. In these cases, the expense from the lease is recognized on a straight-line basis over its specific term and presented as other operating expenses.

The individual lease components and non-lease components are recognized separately. If a lease exists, this contract is allocated to the individual lease components on the basis of the contractually agreed consideration based on the contractually agreed relative stand-alone selling prices of the lease components and the aggregated stand-alone selling price of the non-lease components. In doing so, paragon GmbH & Co. KGaA determines the relative stand-alone selling price on the basis of the price that a lessor or a similar supplier of paragon GmbH & Co. KGaA would charge separately for these or comparable components. In the absence of an observable market, paragon GmbH & Co. KGaA uses estimates.

When determining the term of the lease, paragon GmbH & Co. KGaA takes the non-cancellable basic term and an optional extension period as a basis, provided that the company is reasonably certain to exercise this option. If there is a termination option, this is taken into account accordingly when determining the term, provided that the exercise of the option is sufficiently certain. paragon GmbH & Co. KGaA regularly reviews whether the exercise of an option is sufficiently certain.

On the provision date, paragon GmbH & Co. KGaA recognizes a right-of-use asset and a lease liability. On the provision date, the right-of-use asset is measured at cost. The acquisition costs include

- Present value of lease payments not yet made at the provision date
- Lease payments made on or before provision
- Initial direct costs
- Estimated costs for dismantling and removal

The lease liability comprises the present value of the lease payments not yet made as of the provision date. Discounting is based on the underlying constant interest rate. If this is not available, paragon uses an incremental borrowing rate that is used for comparable lease financing. Lease payments not made include

- all fixed payments less leasing incentives received,
- variable leasing payments,
- Amounts that will probably have to be paid at the end of the term as part of residual value guarantees,
- the exercise price of a call option, provided the exercise is reasonably certain, and
- Penalties for termination, provided that the exercise of the right is reasonably certain.

The right-of-use asset is amortized on a straight-line basis over the shorter of the lease term or its useful life, adjusted for the revaluation of the lease liability. Any impairment losses are measured in accordance with IAS 36.

The carrying amount of the lease liability is increased by the interest expense and reduced by payments made after provision as of the reporting date. A revaluation of the lease liability is recognized immediately.

Rights of use are not reported as separate balance sheet items in paragon's balance sheet. For this reason, they are shown separately in the notes to the consolidated statement of changes in non-current assets. Lease liabilities are reported as separate balance sheet items. In the case of sale and leaseback transactions, paragon GmbH & Co. KGaA assesses whether the transaction of the asset subsequently leased back meets the criteria of a sale in accordance with IFRS 15. The Group bases this assessment on the transfer of control of the underlying asset. If the transaction enables the lessor to direct the use of the underlying asset and obtain substantially all of the remaining economic benefits from it, it is a sale in accordance with IFRS 15. In this case, paragon recognizes the disposal of the underlying asset and realizes the gain on sale to the extent that it relates to the right-of-use asset actually transferred to the lessor. A right-of-use asset is recognized for the remaining portion. If there is no sale in accordance with IFRS 15, the transaction is recognized as a loan.

Impairment of non-financial assets

On each balance sheet date, it is determined whether there are any indications of impairment of non-financial assets (in particular intangible assets with finite useful lives). If there are indications of impairment, the recoverable amount of the asset in question is determined. In accordance with IAS 36.6 "Impairment of Assets", the recoverable amount corresponds to the higher of the fair value less costs to sell and the value in use of the asset or identifiable group of assets that generates cash from continuing use (cash-generating unit / CGU). If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is impaired and is written down to its recoverable amount.

Property, plant and equipment and intangible assets, with the exception of goodwill, are reviewed at each balance sheet date to determine whether there are any indications that a previously recognized impairment loss no longer exists or has decreased. If such indications exist, the recoverable amount of the asset or CGU is determined. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the recoverable amount since the last impairment loss was recognized. The reversal of impairment losses is limited to the extent that the carrying amount of an asset may not exceed either its recoverable amount or the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized for the asset in prior years.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one party and a financial liability or equity instrument of the other party. Primary financial instruments include, in particular, trade receivables, loans, cash and cash equivalents, financial liabilities and trade payables. Other financial assets and other financial liabilities also exclusively include financial instruments.

Equity instruments are measured at fair value. On initial recognition, there is an irrevocable option to present realized and unrealized changes in value in the statement of comprehensive income rather than in the income statement, provided that the equity instrument is not held for trading purposes. Amounts recognized in profit or loss may not subsequently be reclassified to the income statement.

Non-derivative financial instruments are recognized in the balance sheet on the settlement date in the case of regular way purchases or sales. Foreign currency receivables and liabilities are measured at the respective closing rates.

Financial assets and financial liabilities are reported gross at paragon. They are only offset if there is an enforceable right to offset the amounts at the present time and the intention is to settle on a net basis.

For accounting and measurement purposes, financial assets are allocated to one of the following categories in accordance with IFRS 9:

- measured at amortized cost (AC),
- measured at fair value through profit or loss (FVTPL),
- at fair value through other comprehensive income (FVOCI).

For accounting and measurement purposes, financial liabilities are allocated to one of the following categories in accordance with the provisions of IFRS 9:

- measured at amortized cost (AC),
- measured at fair value through profit or loss (FVTPL).

paragon classifies financial assets and financial liabilities in these categories at the time of addition.

Financial assets are classified as measured at amortized cost (AC) if the business model provides for the financial asset to be held for the purpose of collecting the contractual cash flows and the contractual terms of the instrument give rise solely to cash flows that are solely payments of principal and interest. If the business model provides for the financial asset to be held and sold and the contractual terms of the instrument result exclusively in cash flows representing interest payments and principal repayments, the financial asset is recognized at fair value, with changes in value recognized in other comprehensive income (FVOCI).

Financial assets held exclusively for trading purposes are classified at fair value through profit or loss, with changes in value recognized in profit or loss (FVTPL). Derivatives belong to this category. It is also possible to measure financial instruments carried at amortized cost at fair value through profit or loss using the fair value option if this significantly reduces or prevents a measurement or recognition inconsistency. paragon GmbH & Co. KGaA does not make use of the fair value option.

Non-current and current financial liabilities to banks, trade payables and other financial liabilities are classified as financial liabilities at amortized cost, with the exception of derivative financial instruments.

Financial liabilities are classified as at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near future. Directly attributable transaction costs are recognized in profit or loss as soon as they are incurred.

On initial recognition, financial instruments are measured at fair value, with the exception of trade receivables, which are recognized at their transaction price plus directly attributable transaction costs.

Financial liabilities are initially recognized at fair value less directly attributable transaction costs. Non-current liabilities are measured using the effective interest method less directly attributable transaction costs.

As part of subsequent measurement, financial assets measured at amortized cost are measured using the effective interest method. When applying the effective interest method, all directly attributable fees, fees paid or received, transaction costs and other premiums or discounts included in the calculation of the effective interest rate are amortized over the expected term of the financial instrument.

Interest income and expenses from the application of the effective interest method are recognized in the income statement under interest income or interest expense from financial instruments.

Non-interest-bearing and low-interest receivables with a term of more than twelve months are discounted at the interest rate appropriate to the term.

Financial assets, with the exception of financial assets measured at fair value through profit or loss, are tested for possible impairment indicators at each reporting date. Financial assets are considered impaired if there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, there has been a negative change in the expected future cash flows of the financial instrument. Objective evidence that an impairment loss has been incurred could be various facts such as delayed payment over a certain period of time, initiation of enforcement measures, imminent insolvency or over-indebtedness, application for or initiation of insolvency proceedings or failure of restructuring measures.

Impairment losses on contract assets and other financial assets measured at amortized cost are recognized using a forward-looking model taking into account expected credit losses. The consolidated financial statements do not include financial assets in the FVOCI category, as receivables intended for sale to a factoring bank are assigned directly at the time they arise. For this reason, the difference between the purchase price and the nominal value of the receivable is recognized in profit or loss.

Allowances for trade receivables, contract assets and lease receivables are calculated using the simplified approach with the lifetime expected credit loss.

paragon derecognizes a financial asset when the contractual rights to the cash flows from an asset expire or the rights to receive the cash flows are transferred in a transaction in which all significant risks and rewards of ownership of the financial asset are also transferred. Derecognition also takes place if paragon has transferred all significant risks and rewards of ownership and has not retained control of the transferred asset. Any interest in such transferred financial assets that arises or remains with paragon is recognized as a separate asset or liability.

Financial liabilities are derecognized when the contractual obligations have been fulfilled, canceled or have expired.

Fair value measurement

The measurement of assets and liabilities at fair value follows a three-level hierarchy and is based on the proximity of the valuation factors used to an active market. A market is designated as "active" if quoted prices are readily and regularly available and these prices are based on actual, regularly occurring market transactions at arm's length.

Level 1: Prices quoted on active markets (unchanged) for identical assets and liabilities.

Level 2: Input data that is either directly or indirectly observable for the asset or liability and does not represent quoted prices according to Level 1. The fair values of level 2 financial instruments are calculated on the basis of the conditions existing on the balance sheet date and using recognized models, e.g. discounted cash flow models.

Level 3: Input data used that is not based on observable market data for the measurement of the asset and liability (unobservable input data).

The fair values were determined on the basis of the market conditions available on the reporting date using actuarial valuation methods. They correspond to the prices that would be received between independent market participants for the sale of an asset or paid for the transfer of a liability.

Reclassifications between the levels of the fair value hierarchy are recognized as at the respective reporting dates. There were no reclassifications between Level 1, Level 2 or Level 3 in the 2023 and 2022 financial years.

Income taxes

Income taxes include both direct taxes on income and earnings and deferred taxes.

Income tax payable for the current and prior periods is measured at the amount expected to be refunded or paid by the tax authorities. The calculation of the amount is based on the tax law status and thus the tax rates that apply or have been announced on the balance sheet date.

Deferred taxes are recognized in accordance with IAS 12 "Income Taxes" using the balance sheet liability method. If there are temporary differences arising from the different treatment of certain balance sheet items between the IFRS consolidated financial statements and the tax accounts, these lead to the recognition of deferred tax assets and liabilities ("temporary concept"). In addition, deferred taxes are recognized for future tax reduction claims.

Deferred tax assets on deductible temporary differences and tax reduction claims are capitalized to the extent that it can be expected that these can be used in future periods through sufficient available taxable income.

The calculation of current and deferred taxes is based on judgments and estimates. If actual events deviate from these estimates, this can have both positive and negative effects on the net assets, financial position and results of operations. The decisive factor for the recoverability of deferred tax assets is the assessment of the probability of the reversal of the valuation differences and the usability of loss carryforwards or tax benefits that have led to the recognition of deferred tax assets. This depends on the generation of future taxable profits during the periods in which tax loss carry-forwards can be utilized. Deferred taxes are measured using the tax rates applicable at the time of realization based on the current legal situation on the balance sheet date.

Current income tax assets and liabilities as well as deferred tax assets and liabilities were only offset if statutory offsetting is possible and the deferred tax assets and liabilities relate to income taxes levied by the same tax authority and there is a legally enforceable right to offset current tax assets against current tax liabilities. Deferred taxes are recognized as non-current in accordance with IAS 1.70.

Inventories

Inventories are measured at the lower of cost or net realizable value. In accordance with IAS 2 “Inventories”, production costs include all expenses that are directly attributable to the products as well as all systematically attributable fixed and variable production overheads. In addition to production materials and production wages, they therefore include a proportionate share of material and production overheads. Administrative and social expenses are included to the extent that they are attributable to production. Financing costs are not recognized as part of acquisition or production costs, as the requirements for qualifying assets are not met. Inventory risks resulting from the storage period and reduced usability were taken into account by means of appropriate write-downs when determining the net realizable value. Lower values on the reporting date due to lower prices on the sales market were taken into account. Raw materials, consumables and supplies as well as merchandise are mainly valued using the moving average method.

Trade receivables and other current assets

Where possible and intended by the management, trade receivables are assigned as part of factoring. As a result, trade receivables are held as part of a business model whose objective is to hold the receivables in order to collect the cash flows resulting from the receivables. Accordingly, these receivables are measured at amortized cost (AC). On the other hand, trade receivables are held as part of the “factoring” business model, which is characterized by the fact that these receivables are exclusively intended for sale. These receivables are accordingly measured at fair value through profit or loss (FVTPL). Receivables in the AC category are initially recognized at their transaction price plus directly attributable transaction costs less any necessary impairments. Receivables in the FVTPL category are measured at fair value at the time of initial recognition. As part of subsequent measurement, impairments for receivables in the AC category are determined in the form of specific valuation allowances using the simplified approach with lifetime expected credit losses and take sufficient account of the expected default risks. Specific defaults lead to the derecognition of the receivables concerned. The calculation of allowances for doubtful receivables is essentially based on estimates and assessments of the creditworthiness and solvency of the respective customer. The subsequent measurement of receivables in the FVTPL category is recognized in profit or loss.

Other current assets are measured at amortized cost, taking into account necessary valuation allowances that adequately reflect the expected default risks. To the extent that receivables recognized under this item are asserted through legal action, paragon firmly expects the full enforceability of its recognized claims. If financial assets (financial instruments) are involved, they are allocated to the loans and receivables category.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and current account balances with banks and other financial institutions. These are only reported under cash and cash equivalents if they can be converted into cash amounts that can be determined in advance at any time, are only subject to insignificant value fluctuation risks and have a residual term of no more than three months from the date of acquisition.

Cash and cash equivalents correspond to cash and cash equivalents (cash on hand and bank balances).

Pension provisions

Pension provisions are calculated using the projected unit credit method in accordance with IAS 19 (revised) "Employee Benefits". The projected unit credit method takes into account not only the pensions and acquired entitlements known on the balance sheet date, but also expected future increases in pensions and salaries based on an assessment of the relevant influencing factors. The calculation is based on actuarial reports taking into account biometric calculation principles. The amounts not yet recognized in the balance sheet result from actuarial gains and losses from changes in the portfolio and differences between the assumptions made and the actual development. Actuarial gains and losses that occur in the reporting period are recognized in full in other comprehensive income in equity. The service cost is reported under personnel expenses. The interest expense included in pension expenses is recognized in net interest income.

The valuation as of December 31, 2023 was based on the expected long-term market interest rate development with a discount rate of 3.19 % to 3.50 % (previous year: 1.10 % to 3.26 %). The valuation of pension provisions is based in principle on the "2018 G mortality tables" by Prof. Dr. Klaus Heubeck.

In addition, the actuarial calculations are based on salary growth of 0.00% since 2009, unchanged from the previous year, and, as in the previous year, pension growth of 2.00%.

Other provisions

Other provisions are recognized in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" if there are legal or constructive obligations to third parties that are based on past transactions or events and are likely to lead to an outflow of resources. The amount of the provisions is determined by the best possible estimate of the expenses required to fulfill the obligation, without offsetting these against recourse claims. This means that the assessment of the probability that a pending case will be successful or the qualification of the possible amount of the payment obligations is based on the assessment of the respective situation. In each case, the most probable settlement amount was taken into account. Non-current provisions were measured at their discounted settlement amount as of the balance sheet date.

Due to the uncertainty associated with this assessment, the actual settlement obligations or the actual outflow of resources embodying economic benefits may differ from the original estimates and therefore from the provision amounts. In addition, estimates may change due to new information and may have a significant impact on the future earnings situation.

Government grants

Investment grants and subsidies granted by the government are recognized in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" and reported in the balance sheet under non-current liabilities. In accordance with IAS 20, these government grants are only recognized if there is reasonable assurance that the conditions attached to them will be met and the grants will be received. Government grants and subsidies are generally recognized in the form of a special item for investment grants and are released over the average useful life of the subsidized assets. They are released to other operating income in accordance with the assumed useful life of the asset in question.

In the 2022 financial year, the instrument of short-time working was only used in one specialist department. As a result of the utilization, the employees of the paragon Group received short-time work compensation from the Federal Employment Agency in the amount of EUR 10 thousand in the previous year. The instrument of short-time working was not used in the 2023 reporting year.

Recognition of income and expenses

Revenue is recognized when it is probable that the economic benefits will flow to paragon and the amount of revenue can be measured reliably(time-related). In addition customer-specific-orders are recorded based on time period. Income is measured at the fair value of the consideration received. Value added tax or other levies are not taken into account. If a declaration of acceptance by the purchaser is required for transactions, the relevant revenue is only recognized once such a declaration has been made. If sales of products and services contain several delivery and service components (multi-component contracts), such as different compensation agreements in the form of advance payments, milestone and similar payments, an assessment is made as to whether several separate realization dates for partial sales are to be taken into account. Contractually agreed advance payments and other one-off payments are deferred and recognized in profit or loss over the period in which the contractually agreed consideration is provided.

Revenue from the sale of products is recognized when the significant risks and rewards of ownership of the products sold have been transferred to the buyer. In accordance with the agreements concluded with customers, this generally occurs when the products are shipped. Sales are reported after deduction of discounts, rebates and returns.

The interest expenses of the bonds are measured using the effective interest method. Operating expenses are recognized in profit or loss when the services are utilized or at the time they are economically incurred.

Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred. They are capitalized if they meet the requirements of a qualifying asset within the meaning of IAS 23 "Borrowing Costs". When capitalizing borrowing costs, a weighted average of the borrowing costs for such loans of the company is used.

(10) Use of estimates and assumptions

The preparation of the consolidated financial statements in accordance with IFRS requires assumptions and estimates to be made that affect the recognized assets and liabilities, the disclosure of contingent liabilities on the balance sheet date and the recognition of income and expenses during the reporting period. If actual events deviate from these estimates, this could have both positive and negative effects on the net assets, financial position and results of operations. For paragon GmbH & Co. KGaA, estimates and assumptions were made in particular in the impairment tests for capitalized development costs, goodwill, disclosed hidden reserves from capital consolidation and contractual assets in accordance with IFRS 15. Should these assumptions and estimates prove to be incorrect, this would have an impact on the net assets and results of operations.

In applying the accounting and valuation methods, the following estimates and assumptions were made which have a material effect on the amounts in the financial statements:

Determination of the fair values of assets acquired and liabilities assumed in business combinations

The fair values and the allocation of the acquisition costs to the assets acquired and liabilities assumed were determined based on past experience and estimates of future cash inflows. The actual cash inflows may differ from the expected amounts.

Goodwill

As described in the accounting principles, the Group tests goodwill for impairment annually and if there is any indication that it may be impaired. The recoverable amount of the cash-generating unit is then estimated. This corresponds to the higher of the fair value less costs to sell and the value in use. Determining the value in use involves making adjustments and estimates relating to the forecast and discounting of future cash flows. Although the management assumes that the assumptions used to calculate the recoverable amount are appropriate, any unforeseeable changes in these assumptions could lead to an impairment loss that could have a negative impact on the net assets, financial position and results of operations.

Capitalized development costs

In order to measure capitalized development costs, assumptions were made about the amount of the expected future cash inflows from assets, the discount rates to be applied and the period of the inflow of expected future cash that these assets will generate. The assumptions about the period and the amount of future cash inflows are based on expectations about the future development of the order backlog with those customers with whom these development projects are carried out. The period of normal use corresponds to the estimated economic useful life.

Transfer of assets and leased assets

The question of when substantially all the significant risks and rewards incidental to ownership of the financial assets and leased assets are transferred to other companies is regularly subject to discretionary decisions.

Leasing relationships

paragon GmbH & Co. KGaA recognizes individual lease components and non-lease components separately. If a lease exists, this contract is allocated to the individual lease components on the basis of the contractually agreed consideration based on the contractually agreed relative stand-alone selling prices of the lease components and the aggregated stand-alone selling prices of the non-lease components. In doing so, paragon GmbH & Co. KGaA determines the relative stand-alone selling price on the basis of the price that a lessor or similar supplier would charge paragon GmbH & Co. KGaA separately for these or comparable components. In the absence of an observable market, paragon GmbH & Co. KGaA uses estimates.

paragon GmbH & Co. KGaA makes assumptions about the amount of the incremental borrowing rate as part of the replacement approach for leases and uses a readily observable interest rate based on the same payment profile as the lease. Otherwise, discounting is based on the lessee's incremental borrowing rate, i.e. the interest rate that the lessee would have to pay if it had to borrow funds to acquire an asset of comparable value for a comparable term with comparable collateral under comparable conditions in a comparable economic environment. Where possible, the individual lessee's financing arrangements with third parties are used as a starting point. If necessary, these are adjusted to take account of changes in conditions since the financing was obtained. If there is no recent financing with third parties, the Group uses a risk-free interest rate as the starting point and adjusts this to the lessee's credit risk. Other adjustments also relate to the term of the lease, the economic environment, the currency of the lease and the collateral.

Inventories

In individual cases, inventories are measured on the basis of the expected proceeds less the estimated costs to completion and the estimated necessary selling costs. The actual proceeds and the costs still to be incurred may differ from the expected amounts.

With regard to the valuation discounts, please refer to the comments on inventories in the previous note.

Estimates are required to recognize income from the provision of services according to the stage of completion on the balance sheet date. The main measurement parameter is the stage of completion, which is determined on the basis of a careful estimate of the total contract costs, the costs to be incurred until completion, the total contract revenue, the contract risks and other assumptions.

Other assets and liabilities

Assumptions and estimates are generally required for allowances for doubtful receivables, contingent liabilities and other provisions, as well as when determining the fair value of long-lived property, plant and equipment and intangible assets.

In individual cases, the actual values may deviate from the assumptions and estimates made, meaning that the carrying amount of the assets or liabilities concerned must be adjusted.

Deferred tax assets

Deferred tax assets are only recognized to the extent that a positive tax result is expected in future periods or corresponding deferred tax liabilities exist that can be offset and their realization appears sufficiently certain. In addition, there are estimation uncertainties with regard to the reversal effects in accordance with IAS 12.29 a (ii). The actual taxable income situation in future periods may differ from the estimate at the time the deferred taxes are capitalized.

Pension provisions

The expense from defined benefit plans is determined on the basis of actuarial calculations. The actuarial valuation is based on assumptions relating to discount rates, expected income from plan assets, future wage and salary increases, mortality and future pension increases. These estimates are subject to significant uncertainties due to the long-term nature of these plans.

Other provisions

Other provisions are recognized and measured on the basis of an estimate of the probability of the future outflow of resources and on the basis of past experience and the circumstances known at the balance sheet date. The actual future outflow of benefits may therefore differ from the other provisions recognized as of the balance sheet date.

Contingent liabilities

The recognition of an identified contingent liability as part of a purchase price allocation is based on assumptions derived by the management on the basis of the information available at the time of acquisition.

Legal risks

In principle, paragon Group companies may be parties to legal disputes. Management regularly analyzes the latest information on these cases and, where necessary, creates provisions for probable obligations, including estimated legal costs. External lawyers are used for the assessment. When deciding whether a provision is necessary, the management takes into account the probability of an unfavorable outcome and the ability to estimate the amount of the obligation with sufficient reliability. The filing of a lawsuit, the formal assertion of a claim or the disclosure of a legal dispute in the notes do not automatically mean that a provision for the risk in question is appropriate.

Sales revenue

Discretionary decisions are made by the management with regard to the allocation of the transaction price to the performance obligations. The transaction prices are allocated to the performance obligations on the basis of the relative stand-alone selling prices.
For sales with rights of return, the company makes an estimate of the probability that the customer will return the goods.

(11) Sales revenue

Sales include sales of products and services, less sales deductions. Of the revenue of EUR 161,647 thousand (previous year: EUR 160,677 thousand) in the reporting period, EUR 103,091 thousand (previous year: EUR 106.683 thousand) was generated in Germany and EUR 58,556 thousand (previous year: EUR 53.994 thousand) abroad.

Revenue is broken down by operating segment and recognition over time or at a point in time. paragon has the strategic segments Electronics and Mechanics.

2023

€'000	Electronics	Mechanics	Total
Time-related realization	62,095	6,801	68,896
Period-related realization	41,916	50,835	92,751
Total segments	**104,011**	**57,636**	**161,647**

2022

€'000	Electronics	Mechanics	Total
Time-related realization	64,546	6,202	70,748
Period-related realization	43,572	46,357	89,929
Total segments	**108,118**	**52,559**	**160,677**

In the Electronics segment, paragon generates revenue as a direct supplier to the automotive industry. The Electronics segment's portfolio includes innovative air quality management, modern display systems, connectivity solutions and high-end acoustic systems. Sales in this segment were recognized at a point in time and over time in the financial year. Industry-standard payment terms without significant financing components are used. Variable consideration is not regularly provided.

In the Mechanics segment, paragon also acts as a direct supplier to the automotive industry. paragon generates revenue from individually developed mechanics as part of long-term series supply contracts. Revenue in this segment was recognized at a point in time and over time in the financial year. Standard industry payment terms without significant financing components are used. Variable consideration is not regularly provided.

As at December 31, 2023, there were trade receivables in the amount of EUR 6,646 thousand (December 31, 2022: EUR 7,660 thousand).

In the reporting period, other revenue of EUR 8,570 thousand (previous year: EUR 7,894 thousand) was realized in connection with development services.

(12) Other operating income

Other operating income is mainly attributable to the following items:

Other operating income	Jan. 1– Dec. 31, 2023	Jan. 1– Dec. 31, 2022
Income from the sale of fixed assets	6,587	299
Exchange rate differences	1,744	1,468
Reversal of provisions and valuation allowances	1,567	1,574
Waiver of tax liabilities	470	0
Provision of vehicles to employees	259	306
Other	1.437	995
Total	**12,064**	**4,642**

(13) Other own work capitalized

If development projects meet the requirements of IAS 38.21 and IAS 38.57 and are capitalized in the reporting period, project-related development costs are reported under other own work capitalized. The capitalized amounts are reported under intangible assets. Own work capitalized also includes production costs for testing facilities.

€'000	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
Project-related development costs	3,569	4,743
Manufacturing costs of test systems	314	321
Other own work capitalized	**3,883**	**5,063**

(14) Cost of materials

€'000	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
Raw materials and supplies	88,506	88,813
Expenses for purchased services	3,022	5,777
Cost of materials	**91,529**	**94,590**

(15) Personnel expenses

Personnel expenses break down as follows:

€'000	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
Wages and salaries	33,123	29,809
Social security contributions / pension expenses	6,519	5,653
Personnel leasing	4,589	5,521
Personnel expenses	**44,231**	**40,983**

The average number of employees in continuing operations, including temporary employees, developed as follows compared to the previous year:

	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
Employees	400	379
Commercial employees	379	460
Headcount	**779**	**839**

(16) Depreciation and amortization

A breakdown of amortization, depreciation and impairment losses on intangible assets, property, plant and equipment and financial assets can be found in the statement of changes in non-current assets.

(17) Other operating expenses

Other operating expenses are mainly attributable to the following items:

Other operating expenses

€'000	Jan. 1– Dec. 31, 2023	Jan. 1– Dec. 31, 2022
Compensation and value adjustments	4,135	3,080
EDP and telephone	2,396	2,041
Remuneration of the general partner	1,548	1,499
Energy and water costs	1,409	1,779
Freight and packaging costs	1,206	1,817
Legal, consulting and auditing costs	1,156	3,084
External services	1,131	1,800
Maintenance	982	913
Losses on receivables	834	424
Insurance	677	891
Currency losses	636	1,641
Vehicle and travel expenses	509	858
Building costs	458	647
Recruitment and other personnel costs	215	287
Other	5,377	3,957
Total	**22,669**	**24,718**

(18) Financial result

€'000	Jan. 1– Dec. 31, 2023	Jan. 1– Dec. 31, 2022
Financial income	**142**	**42**
Interest income	142	42
Financing expenses	**–12,654**	**–7,585**
Other financial and interest expenses	–12,654	–7,585
Financial result	**–12,513**	**–7,544**

Interest expenses to banks amounting to EUR 676 thousand (previous year: EUR 1,610 thousand) are reported under other financial and interest expenses. Interest expenses for bond liabilities amounted to EUR 4,488 thousand (previous year: EUR 4,400 thousand). This item also includes interest expenses for leases, interest expenses from the discounting of pension provisions and bank charges in connection with financial assets and liabilities.

The increase in the 2023 financial year is due to the costs of interim financing in the amount of EUR 3.5 million to ensure the timely repayment of the CHF bond in April 2023.

The following overview summarizes the net results from financial instruments broken down by measurement category. The carrying amounts of the measurement categories are shown in the separate note "Additional information on financial instruments".

€'000	Jan. 1– Dec. 31, 2023	Jan. 1– Dec. 31, 2022
Financial assets		
Measured at amortized cost	103	3
Measured at fair value through profit or loss	39	39
	142	**42**
Financial liabilities		
Measured at amortized cost	–12,654	–6,711
Measured at fair value through profit or loss	0	–874
	–12,654	**–7,585**

Interest expenses of EUR 1,214 thousand were incurred for IFRS 16 leases in the reporting year (previous year: EUR 903 thousand). The net results from other financial instruments include net income and expenses from interest, fair value measurements, currency translation, impairments and disposal effects.

(19) Income taxes

The calculation of domestic deferred taxes as of December 31, 2023 was based on a combined income tax rate of 30.0% (previous year: 30.0%). On the one hand, this includes a corporation tax rate of 15% and a solidarity surcharge of 5.5%. On the other hand, this income tax rate includes trade tax, taking into account the allocation of the trade tax assessment amount to the municipalities in which the company's branches are located. A combined income tax rate of 34.6% (previous year: 34.6%) was applied in China.

€'000	Jan. 1– Dec. 31, 2023	Jan. 1– Dec. 31, 2022
Current taxes	**51**	**–156**
Domestic current taxes	51	–156
Current taxes abroad	0	0
Deferred taxes	**–941**	**–2,292**
Domestic deferred taxes	–1,051	–2,292
Deferred taxes abroad	110	0
Income taxes (income)	**–890**	**–2,448**

Deferred tax assets and liabilities were recognized in connection with the following items and circumstances:

	31.12.2023		31.12.2022	
€'000	Aktivische latente Steuern	Passivische latente Steuern	Aktivische latente Steuern	Passivische latente Steuern
Intangible assets	0	6,446	0	8,122
Property, plant and equipment and leasing	698	0	982	0
Receivables and other assets	0	387	0	289
Pension provisions	222	0	296	
Bonds	0	57	0	185
Loss carryforwards	5,678	0	6.107	0
Deferred tax assets and liabilities before offsetting	**6,598**	**6,890**	**7,385**	**8,597**
Balancing	–6,598	–6,598	–7,385	–7,385
Deferred tax assets and liabilities after netting	**0**	**292**	**0**	**1,211**

Deferred tax assets amounted to EUR 0 thousand in the reporting year (previous year: EUR 0 thousand). At the end of the reporting period, deferred tax liabilities amounting to EUR 292 thousand (previous year: EUR 1,211 thousand) relate to Germany in the amount of EUR 182 thousand (previous year: EUR 1,211 thousand) and abroad in the amount of EUR 110 thousand (previous year: EUR 0 thousand).

In the reporting period, deferred taxes from pension provisions amounting to EUR 22 thousand (previous year: EUR –299 thousand) were recognized directly in equity in the revaluation reserve. This also corresponds to the amount of deferred taxes in connection with the component of other comprehensive income.

Future dividends to be paid in Germany by paragon GmbH & Co. KGaA have no influence on the tax burden of paragon GmbH & Co. KGaA.

In accordance with IAS 12.81 (c), the actual tax expense must be compared with the tax expense that would theoretically result if the tax rates to be applied to the reported earnings before tax were used. The following reconciliation shows the reconciliation of the calculated tax expense to the actual tax expense.

€'000	Jan. 1– Dec. 31, 2023	Jan. 1– Dec. 31, 2022
Earnings before taxes	**–11.463**	**–11.951**
Calculated tax income at a tax rate of 30.0% (previous year: 30.0%)	3.439	3.585
Effect from the utilization or non-recognition of deferred tax assets	–2.250	–1.346
Actual taxes relating to other periods	0	156
Miscellaneous	–298	53
Actual tax income	**890**	**2.448**

The tax income is calculated by multiplying the tax rate by the result determined for tax purposes. Deferred tax assets on loss carryforwards were only recognized in order to offset existing deferred tax liabilities. No deferred tax assets were recognized on the domestic loss carryforwards existing at paragon movasys GmbH.

(20) Result from discontinued operations

paragon GmbH & Co. KGaA sold its shares in paragon semvox GmbH to CARIAD SE by notarized agreement dated December 1, 2022. The closing took place on May 12, 2023. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiaries. For this reason, paragon semvox GmbH is accounted for as a discontinued operation in accordance with IFRS 5. Within the paragon Group, paragon semvox GmbH represented the Digital Assistance division. The result from discontinued operations is reported in total in a separate line. It is not necessary to adjust the previous year's figures for 2022 as they were already accounted for in accordance with IFRS 5 in 2022. The Digital Assistance division was allocated to the "Electronics" segment in accordance with IFRS 8.

The result of the Digital Assistance division (for the full year 2022 and for 2023 from January 1, 2023 to May 12, 2023) is made up as follows The profit from the discontinued operation is fully attributable to the owners of the parent company.

€'000	2023	2022
Sales revenue	**3,077**	**12,780**
Other operating income	86	321
Increase or decrease in inventories of finished goods and work in progress	2,152	77
Other own work capitalized	1,728	4,400
Cost of materials	–96	–255
Personnel expenses	–4,816	–10,165
Depreciation, amortization and impairment	0	–1,992
Other operating expenses	–498	–2,421
Financial result	–59	–56
Earnings before taxes (EBT)	**1,575**	**2,689**
Income taxes	–510	2,621
Result from operating activities of the discontinued operation	**1,064**	**5,309**
Profit before taxes from the sale of the discontinued operation	5,928	n.a.
Income taxes on the profit from the sale of the discontinued operation	–234	n.a.
Profit from discontinued operations after taxes	**6,759**	**5,309**

paragon GmbH & Co. KGaA received a total of EUR 38,845 thousand from the seller in two purchase price installments. Transaction costs of EUR 1,307 thousand were incurred. The gain on disposal is calculated as follows, taking into account the net assets and liabilities disposed of:

€'000	May 12. 2023	Dec. 31. 2022
Intangible assets	15,488	13,759
Goodwill	16,130	16,130
Property, plant and equipment	134	62
Financial assets	1	1
Inventories	2,244	91
Trade receivables	2,259	5,287
Other assets	578	438
Cash and cash equivalents	8	3
Net assets	**36,841**	**35,771**
Long-term loans	–2,845	–3,000
Deferred taxes	–524	–
Liabilities from deliveries and services	–204	–193
Other provisions	–952	–78
Income tax liabilities	–99	–230
Other current liabilities	–607	–1,725
Net debt	**–5,231**	**–5,226**
Balance of net assets and liabilities	31,610	30,545
Consideration received in cash (less transaction costs)	37,538	
Profit before taxes from the sale of the discontinued operation	**5,928**	
Income taxes on the profit from the sale of the discontinued operation	–234	
Profit after tax from the sale of the discontinued operation	**5,694**	

(21) Earnings per share

Basic earnings per share are calculated by dividing the result for the reporting period by the weighted average number of shares issued. The weighted average number of shares issued in the reporting period amounted to 4,526,266 (previous year: 4,526,266).

With earnings attributable to the owners of the paragon Group for the reporting period amounting to EUR –3,812 thousand (previous year: EUR –4,194 thousand), basic earnings per share (continuing and discontinued operations) amounted to EUR –0.84 (previous year: EUR –0.93). Earnings per share for the continuing operations amounted to EUR –2.34 (previous year: EUR –2.10). This is calculated by dividing the result from continuing operations of EUR –10,571 thousand by the 4,526,266 shares in circulation. Earnings per share from discontinued operations amounted to EUR 1.49 (previous year: EUR 1.17).

For the calculation of diluted earnings per share, the weighted average number of shares issued is adjusted by the number of all potentially dilutive shares.

Share option plans generally lead to such a potential dilution of earnings per share. There were no option rights to subscribe to shares in paragon GmbH & Co. KGaA during the financial year from January 1 to December 31, 2023. There are therefore currently no dilutive effects.

(22) Intangible assets

The development and breakdown of intangible assets, property, plant and equipment and financial assets is shown in the consolidated statement of changes in fixed assets in the section “Changes in consolidated fixed assets”. Amortization of intangible assets is included in the income statement item “Depreciation of property, plant and equipment and amortization of intangible assets”. Explanations on investments can be found in the management report.

Capitalized development costs

Development costs of EUR 18,526 thousand (previous year: EUR 23,436 thousand) were capitalized under intangible assets. Total development expenses for the period amounted to EUR 12,788 thousand (previous year: EUR 14,654 thousand). Of this amount, internal development expenses of EUR 3,569 thousand (previous year: EUR 4,743 thousand) were capitalized as intangible assets in the reporting period.

Amortization of these internal development expenses amounted to EUR 6,519 thousand in the reporting period (previous year: EUR 5,014 thousand). The amortization period for development projects is generally 7 years from the date on which they are ready for use.

The capitalized development costs were subjected to an impairment test in accordance with IAS 36. The respective recoverable amount corresponds to the fair value of the development projects, which was determined on the basis of more recent findings on the saleability of the development projects. Impairment losses in accordance with IAS 36 amounted to EUR 187 thousand in the reporting year (previous year: EUR 318 thousand).

The recoverable amount of internally generated intangible assets is determined on the basis of a value in use calculation using cash flow forecasts based on sales planning approved by the management. The sales planning includes a planning period of five years; growth is determined for each product according to the available market analyses. The risk-adjusted discount factor used for the cash flow forecasts is 9.39% (previous year: 9.39%).

(23) Goodwill

Goodwill is composed as follows:

€'000	Dec. 31. 2023	Dec. 31. 2022	Impairment loss 2023
SphereDesign GmbH (merged into paragon GmbH & Co. KGaA in 2022)	343	343	0
paragon movasys GmbH	5,067	5,067	0
ETON Soundsysteme GmbH (formerly: paragon electroacoustic GmbH)	335	335	0
Total	**5,745**	**5,745**	**0**

Goodwill and internally generated intangible assets whose production has not yet been completed are subject to regular impairment tests.

Goodwill and internally generated intangible assets whose production has not yet been completed are tested annually for possible impairment. If events or changes in circumstances occur that indicate a possible impairment, the impairment test must also be carried out more frequently.

As part of the impairment test, the paragon Group compares the residual carrying amounts of the individual cash-generating units (CGUs) with their respective recoverable amount, i.e. the higher of the fair value less costs to sell and its value in use. In cases where the carrying amount of the cash-generating unit is higher than its recoverable amount, an impairment loss is recognized for the difference. The recoverable amount is determined by calculating the value in use using the discounted cash flow method. The cash flows for determining the value in use were determined on the basis of the management's medium-term planning. These plans are based on past experience and expectations of future market developments, taking into account strategic and operational measures already initiated to manage the business segment. The period for the detailed planning horizon is generally five years.

The cost of capital is calculated as the weighted average cost of equity and debt (WACC = weighted average cost of capital). The cost of equity is derived from a peer group analysis of the relevant market and thus from available capital market information. In order to take account of the different risk/return profiles of the Group's main areas of activity, paragon calculates individual cost of capital rates for its companies (CGUs) depending on the main area of activity. The weighted average cost of capital (WACC before tax) used to discount the cash flows is generally 9.00% (previous year: 9.39%). The growth rate after the detailed planning period is 1.00% (previous year: 1.00%).

No need for impairment was identified during the impairment test.

In addition to the impairment test, three sensitivity analyses were carried out for each group of cash-generating units. In the first sensitivity analysis, the capitalization interest rate was increased by 2% for each group. In the second sensitivity analysis, a 1 percentage point lower growth rate was assumed. In the third sensitivity analysis, a flat-rate discount of 10.0% was applied to the EBITDA assumed in perpetuity. These changes would not result in an impairment for any of the groups of cash-generating units.

(24) Property, plant and equipment

The development and breakdown of property, plant and equipment is shown in the consolidated statement of changes in fixed assets in the section “Development of Group fixed assets”. Depreciation in the reporting period (excluding right-of-use assets in accordance with IFRS 16) amounted to EUR 2,303 thousand . Land and buildings are encumbered by mortgages to secure long-term bank loans. Depreciation of right-of-use assets in accordance with IFRS 16 amounted to EUR 3,890 thousand .

In the reporting year, the parts of movable fixed assets financed via leasing agreements were reclassified to right-of-use assets to improve presentation. The carrying amount of the right-of-use assets is EUR 8,836 thousand (previous year: EUR 11,773 thousand).

Advance payments for machinery and equipment amounted to EUR 2, 585 thousand in the reporting year (previous year: EUR 1,875 thousand).

In the reporting year, expenses and income from the disposal of property, plant and equipment (disposal of acquisition/production costs less accumulated depreciation) amounted to EUR 0 thousand in expenses (previous year: EUR 2,529 thousand) and EUR 6,587 thousand in income (previous year: EUR 299 thousand).

(25) Inventories

Inventories are made up as follows:

€'000	Dec. 31. 2023	Dec. 31. 2022
Raw materials and supplies	16.003	17.633
Work in progress/finished goods and services and merchandise	4.510	5.540
Payments on account for inventories	128	836
Inventories	**20.641**	**24.008**

Accumulated impairment losses on inventories, mainly due to blocked stock and spare parts inventories, amounted to EUR 4,438 thousand at the end of the reporting period (previous year: EUR 4,331 thousand). As in the previous year, no reversals of impairment losses were recognized in the reporting period. As at the balance sheet date, inventories amounting to EUR 0 thousand (previous year: EUR 0 thousand) served as collateral for liabilities.

(26) Trade receivables

The carrying amount of trade receivables is derived as follows:

€'000	Dec. 31. 2023	Dec. 31. 2022
Trade receivables Gross	7,836	10,280
Less value adjustments	-1,190	-2,620
Trade receivables	**6,646**	**7,660**

As at the reporting date, there are no receivables that will be assigned as part of factoring in the following reporting year. In the financial year, uncollectible receivables amounting to EUR 834 thousand (previous year: EUR 424 thousand) were derecognized through other operating expenses.

The age structure of trade receivables as of the balance sheet date is as follows:

€'000	Book value	0 – 30 Tage sowie noch nicht fällig	30 – 60 Tage	60 – 90 Tage	> 90 Tage
Dec. 31. 2023					
Gross trade receivables	**7,836**	5,829	862	122	1,023
Trade receivables	**-1,190**	-58	-216	-66	-850
Gross trade receivables	6,646				

€'000	Buchwert	0 – 30	30 - 60 Tage	60 – 90 Tage	> 90 Tage
Dec. 31. 2022					
Gross trade receivables	**10,280**	4,894	672	158	4,557
Value adjustments	**-2,620**	-79	-202	-106	-2,233
Trade receivables	7,660				

With regard to receivables that were neither impaired nor overdue, there were no indications as of the balance sheet date that the debtors would not meet their payment obligations.

Expenses from value adjustments and write-offs of trade receivables are reported under other operating expenses. Income from the receipt of derecognized receivables is reported under other operating income.

(27) Other current assets

Other current financial assets include

		Dec. 31, 2023		
€'000	AC	FVPL	FVOCI	Summe
Other current financial assets				
Purchase price retention from factoring	1,600	0	0	1,600
Creditors with debit balances	973	0	0	973
CHF-Devisentermin	0	925	0	925
Receivables from related parties	1,195	0	0	1,195
Purchase price receivables	500	0	0	500
Other current financial assets	**4,268**	**925**	**0**	**5,193**

		Dec. 31, 2023		
€'000	AC	FVPL	FVOCI	
Other current financial assets				
Purchase price retention from factoring	724	0	0	724
Creditors with debit balances	1,888	0	0	1,888
Receivables from related parties	1,294	0	0	1,294
Outstanding payment into the capital reserve	319	0	0	319
CHF-Devisentermin	0	964	0	964
Other current financial assets	**4,225**	**964**	**0**	**5,189**

The overdue amounts of other current financial assets were as follows as of the balance sheet date:

€'000 Book value of which neither impaired nor past due of which overdue but not impaired as follows

€'000	Book value	of which neither impaired nor past due	of which overdue but not impaired as follows			
Dec. 31. 2023			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
Other current financial assets	**5,193**	5,193	0	0	0	0
Dec. 31. 2022			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
Other current financial assets	**5,189**	5,189	0	0	0	0

DieOther current financial assets include a loan receivable of EUR 1,195 thousand from Frers GmbH & Co KG (formerly: Frers Grundstücksverwaltungs GmbH & Co. KG) (related party). For further information, please refer to the section "Related party disclosures". With regard to CHF forward exchange transactions, please refer to the information in the section "Management of risks from financial instruments – foreign currency risks".

With regard to other current financial and non-financial assets, there were no indications as of December 31, 2023 that significant payment defaults would occur.

(28) Contract assets

The contract assets result from customer-specific products already manufactured by paragon. Contract assets are reclassified to trade receivables if the claim to payment is unconditional. This is essentially the case when the company has delivered the products to the customer.

(29) Cash and cash equivalents

Cash in hand and bank balances are recognized at their carrying amount. Cash and cash equivalents include EUR 5 thousand (previous year: EUR 8 thousand) in cash on hand and EUR 3,204 thousand (previous year: EUR 18,098 thousand) in bank balances. The development of cash and cash equivalents is shown in the consolidated cash flow statement. There are no restrictions on disposal within the meaning of IAS 7.48.

(30) Equity

The development of the individual components of equity for the financial year from January 1 to December 31, 2022 and for the reporting period from January 1 to December 31, 2023 is shown in the consolidated statement of changes in equity.

Share capital

The share capital of paragon GmbH & Co. KGaA amounted to EUR 4,526 thousand as of December 31, 2023 (previous year: EUR 4,526 thousand) and is divided into 4,526,266 no-par value bearer shares with a notional interest in the share capital of EUR 1.00 each. There is no change compared to the previous year. No treasury shares are held.

Conditional capital

Conditional Capital 2021/I in accordance with the resolution of the Annual General Meeting on August 31, 2021

By resolution of the Annual General Meeting on 31 August 2021, the general partner was authorized, with the approval of the Supervisory Board, to issue bearer or registered bonds with warrants and/or convertible bonds or a combination of these instruments (hereinafter also referred to collectively as "bonds") on one or more occasions up to and including 30 August 2026 in a total nominal amount of up to EUR 150.000,000.00 with a maximum term of 10 years and to grant the holders or creditors (hereinafter collectively referred to as "holders") of convertible bonds or bonds with warrants conversion or option rights to up to a total of 2,263,133 new no-par value bearer shares in the company in accordance with the terms and conditions of the bonds. The bonds can be issued against cash contributions, but also against contributions in kind, in particular investments in other companies. In the case of bonds with warrants, they may also be issued against non-cash contributions if the terms and conditions of the warrants provide for the option price per company share to be paid in full in cash upon exercise. The respective terms and conditions of the bonds may also establish a conversion or option obligation for the holders at the end of the term or at another time or provide for the right of the company to grant the holders of the bonds shares in the company in whole or in part instead of payment of the cash amount due upon maturity of the bonds associated with a conversion or option right (this also includes maturity due to termination).

In the reporting period, there was no increase in share capital due to the exercise of option rights from the company's share option plan.

Authorized capital

Authorized capital 2021/I in accordance with the resolution of the Annual General Meeting on August 31, 2021

By resolution of the Annual General Meeting on 31 August 2021, the general partner was authorized, with the approval of the Supervisory Board, to increase the company's share capital on one or more occasions up to and including 30 August 2026 by up to a total of EUR 2,263,133.00 by issuing up to 2,263,133 new no-par value ordinary bearer shares (Authorized Capital 2021/I) in return for cash and/or non-cash contributions. The shareholders must generally be granted subscription rights. The statutory subscription right can also be granted if the new shares are underwritten by a syndicate of banks with the obligation to offer them indirectly to shareholders for subscription within the meaning of Section 186 (5) AktG. However, the Executive Board or management is authorized, with the approval of the Supervisory Board, to exclude shareholders' statutory subscription rights in defined cases.

Capital reserve

The capital reserve remained unchanged at EUR 15,485 thousand as of December 31, 2023 (previous year: EUR 15,485 thousand).

In order to comply with the requirement to recognize actuarial gains and losses from pension provisions directly in equity in accordance with IAS 19 "Employee Benefits", the actuarial gains are reclassified to the revaluation reserve.

Dividend

No dividend was distributed by paragon GmbH & Co. KGaA in the financial year. No dividend will be proposed to the Annual General Meeting for the reporting period ending December 31, 2023.

(31) Leasing liabilities

The recognition of the lease liability comprises the present value of the lease payments not yet made as of the provision date. Discounting is based on the underlying constant interest rate. If this is not available, paragon GmbH & Co. KGaA uses an incremental borrowing rate, which is used as the basis for comparable lease financing. The range of interest rates is 4.86% to 8.79% for operating and office equipment. The interest expense from lease liabilities for the 2023 financial year amounts to EUR 1,214 thousand (previous year: EUR 903 thousand). The rental expenses from unrecognized low-value and short-term leases recognized in other expenses are insignificant.

The carrying amount of the lease liability is increased by the interest expense and reduced by payments made as of the reporting date. A revaluation of the lease liability is recognized immediately. In the reporting year, cash outflows for leases amounted to EUR 4,379 thousand (previous year: EUR 4,072 thousand).

€'000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2023	Dec. 31, 2022
Minimum lease payments	3,588	7,366	3,308	14,262	17,017
of which future interest payments	–630	–1.481	–506	–2,617	–2,928
Liabilities from leases (repayment portion)	**2,958**	**5,885**	**2,802**	**11,645**	**14,089**
of which reported under non-current liabilities				8,687	9.710
of which reported under current liabilities				2,958	4,379

The development of right-of-use assets can be found in the section "Development of Group fixed assets".

(32) Loans

Current and non-current liabilities to banks total EUR 13,873 thousand (previous year: EUR 37,864 thousand).

Liabilities to banks are secured by non-financial assets in the form of land charges for liabilities from loans in the amount of EUR 8,500 thousand (previous year: EUR 7,309 thousand) and by the assignment of property, plant and equipment as security in the amount of EUR 573 thousand (previous year: EUR 2,092 thousand).

Liabilities to banks have a term of:

€'000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2023	Dec. 31, 2022
Liabilities to banks, etc.	**7,872**	**2,863**	**3,138**	**13,873**	**37,864**
of which reported under non-current liabilities				6,001	7,313
of which reported under current liabilities				7,872	30,550

There is no interest rate risk for the fixed loans (see section "Financial result").

The liabilities are allocated to the IFRS 9 measurement category AC.

(33) Bonds

On June 28, 2017, the company issued an unsubordinated and unsecured bearer bond with a nominal volume of EUR 50,000 thousand. The bond is listed and traded on the OTC market of the Frankfurt Stock Exchange (WKN: A2GSB8). The bond has an interest coupon of 6.75% in 2023 (plus a PIK component of 2.5%) and a basic term until July 5, 2027. In 2023, the nominal amount was reduced by EUR 4,789 thousand from EUR 50,000 thousand to EUR 45,211 thousand. This means that the outstanding nominal volume amounts to EUR 45,211 thousand as of December 31, 2023.

The treasury stock at the end of the previous year amounted to EUR 3.1 million and was deducted from the repayment amount. The same applies to the treasury stock in the amount of EUR 0.1 million as of December 31, 2023. The carrying amount of the bond as of the balance sheet date was EUR 46,987 thousand (previous year: EUR 49,003 thousand) including the accrued interest liability for the 2023 financial year in the amount of EUR 2,090 thousand (previous year: EUR 2,332 thousand).

On April 23, 2019, the company issued a bearer bond traded on the SIX Swiss Exchange with a nominal volume of CHF 35.0 million (WKN: A2TR8X). The interest coupon was 4.0% and the term of the bond was 4 years until 23 April 2023. A partial repayment of CHF 5.25 million was made in 2021 and a partial repayment of CHF 8.75 million in 2022. The nominal volume thus amounted to CHF 21.00 million as of the balance sheet date of 31 December 2022. The treasury stock of CHF 2.9 million was deducted from the repayment amount at the end of the prior-year period. This financial instrument was measured at the repayment amount of EUR 18,563 thousand in the previous year's financial statements and reported under current bonds in liabilities. Interest expenses of EUR 502 thousand were accrued as of the previouss year's balance sheet date and reported under bond liabilities. The bond was repaid in full in April 2023 and was therefore valued at zero as of the balance sheet date.

The bonds are allocated to the IFRS 9 measurement category AC.

(34) Provisions for pensions

In accordance with IAS 19 (revised) "Employee Benefits", a provision was recognized at paragon for a defined benefit plan. The paragon Group has pension commitments to two persons. The pension provisions exist for pension commitments to the management member Klaus Dieter Frers in the amount of EUR 1,832 thousand (previous year: EUR 1,876 thousand) and a further commitment to a former managing director of a subsidiary in the amount of EUR 525 thousand (previous year: EUR 507 thousand).

The commitment to Klaus Dieter Frers is, on the one hand, an individual fixed amount commitment based on the age of 65, which was defined in individual contracts. In addition to this existing pension agreement, a new commitment was made in the 2005 financial year. This is an individual contractual commitment based on the age of 65, which is based on length of service and salary level. Based on a resolution by the Supervisory Board on August 31, 2009, pension obligations of EUR 794 thousand and the corresponding plan assets of EUR 1,425 thousand were partially transferred to the HDI Gerling pension fund in the 2010 financial year. By resolution of the Supervisory Board on December 10, 2013, a further partial spin-off of pension obligations in the amount of EUR 1,453 thousand to Allianz Pensionsfonds AG took place in the 2013 financial year. With these partial outsourcings, paragon's liability for the outsourced obligations expires.

The former managing director of a subsidiary received ongoing pension payments from a subsidiary of paragon in 2023. There was a reinsurance policy to secure the pension commitment. As at the balance sheet date, there is a claim of EUR 436 thousand against a leading German insurance company corresponding to the amount of the maturity benefit of the insurance. This claim is recognized as plan assets in the amount of EUR 436 thousand. In the previous year, this claim war reported under other current assets.

The actuarial calculations are based on the following assumptions:

in %	Dec. 31, 2023	Dec. 31, 2022
Discount rates	3.19–3.50	1.10–4.15
Pension dynamics	2.00	2.00

Increases or decreases in the present value of defined benefit obligations may result in actuarial gains or losses that affect the amount of equity and whose causes may include changes in the calculation parameters and changes in estimates regarding the risk experience of the pension obligations. The net value of the provisions for pensions can be derived as follows:

Present value of the defined benefit obligation:

€'000	Dec. 31, 2023	Dec. 31, 2022
Present value of the benefit obligation at the beginning of the year	2,385	3,382
Interest expense	78	33
Payments	–32	–32
Actuarial gains (–), losses (+)	–73	–997
Due to the change in financial assumptions: **Present value of the defined benefit obligation as of the reporting date**	**2,357**	**2,385**

The actuarial gains incurred in the 2023 financial year were recognized directly in equity in the revaluation reserve in accordance with IAS 19. Changes in demographic assumptions did not affect the amount of actuarial gains or losses in the reporting year.

Net value of the recognized benefit obligation:

€'000	Dec. 31, 2023	Dec. 31, 2022
Present value of the defined benefit obligation	2,357	2,383
Less fair value of plan assets	–436	0
Unfunded benefit obligation as of the reporting date	**1,921**	**2,383**

The net value developed as follows:

€'000	Dec. 31, 2023	Dec. 31, 2022
Unfunded benefit obligation at the beginning of the year	2,383	2,931
Pension expense	47	449
Actuarial gains (–), losses (+)	–73	**–997**
Unfunded benefit obligation as of the reporting date	**2,357**	**2,383**

The following amounts were recognized in the consolidated statement of comprehensive income:

€'000	Dec. 31, 2023	Dec. 31, 2022
Interest expense	79	33
Losses from settlements	14	417
Actuarial gains (–), losses (+)	–73	–997
Pension expense/income	**21**	**–547**

The actuarial gains and losses for the reporting year and previous years were recognized in full in other comprehensive income.

The pension obligations to the Managing Director Klaus Dieter Frers are still in the vesting phase. Significant changes in the value of pension provisions generally only result from changes in the interest rate.

Information on sensitivities and risks:

The sensitivity analysis for the pension provision by Klaus Dieter Frers provides the following values:

€'000	Dec. 31, 2023	Dec. 31, 2022
DBO as of Dec. 31, 2023 Interest rate 2.94 % (previous year interest rate 3.01 %)	1,887	1,933
DBO as of Dec. 31, 2023 Interest rate 3.44 % (previous year interest rate 3.51 %)	1,780	1,821
DBO as of Dec. 31, 2023 Pension dynamics 1.75 % (previous year: pension dynamics 1.75 %)	1,781	1,822
DBO as of Dec. 31, 2023 Pension dynamics 2.25 % (previous year: pension dynamics 2.25 %)	1,886	1,932

The sensitivity analysis for the pension provision for the former managing director of a subsidiary provides the following values:

€'000	Dec. 31, 2023	Dec. 31, 2022
DBO as of Dec. 31, 2023 Interest rate 3.00 % (previous year interest rate 3.65 %)	499	534
DBO as of Dec. 31, 2022 Interest rate 4.00 % (previous year interest rate 4.65 %)	553	482

Sensitivities to salary dynamics are not shown, as there have been no salary dynamics since the 2010 service year. There are no significant extraordinary or company-specific risks in relation to the reported pension provisions.

(35) Other provisions

Other provisions are only due within one year and developed as follows:

€'000	Jan. 01, 2023	Utilization	Resolution	Feed	Dec. 31, 2023
Guarantees, goodwill and warranty	273	273	0	453	453
Other remaining provisions	0	0	0	35	35
Other provisions	**273**	**273**	**0**	**453**	**488**

(36) Income tax liabilities

This relates to trade tax and corporation tax for previous reporting periods in the amount of EUR 236 thousand (previous year: EUR 288 thousand) and trade tax and corporation tax for the current period in the amount of EUR 378 thousand (previous year: EUR 0 thousand).

(37) Other financial liabilities

To improve the presentation of other liabilities, these were broken down into other financial liabilities and other non-financial liabilities in the reporting year.

Other financial liabilities developed as follows:

€'000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2023	Dec. 31, 2022
Other financial liabilities	**2.632**	**2.205**	**0**	**4.837**	**3.004**
of which reported under non-current liabilities				2.205	1.375
of which reported under current liabilities				2.632	1.629

These are liabilities from sale and lease back agreements. However, the transfer of the assets did not result in a sale in accordance with IFRS 15, meaning that the liability is recognized in accordance with IFRS 9.

(38) Other non-financial liabilities

To improve the presentation of other liabilities, these were broken down into other financial liabilities and other non-financial liabilities in the reporting year.

€'000	Dec. 31, 2023	Dec. 31, 2022
Other non-financial liabilities		
Liablities to employees (vacation not taken, overtime and bonuses)	4,161	2,699
Liabilities to social security funds	871	599
Liabilities from other taxes	382	11,275
Other liabilities	2,160	1,351
Other non-financial liabilities	**7,575**	**15,924**

Other non-financial liabilities are mainly current liabilities from taxes, vacation and provisions for bonus payments. Other current liabilities also include social security liabilities and debtors with credit balances.

The other non-financial liabilities have a term of:

€'000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2023	Dec. 31, 2022
Other financial liabilities	**7,575**	**0**	**0**	**7,575**	**15,924**
of which reported under non-current liabilities				0	0
of which reported under current liabilities				7,575	15,924

Partial retirement provision

As at the reporting date, there were partial retirement obligations to two employees of paragon GmbH & Co. KGaA in accordance with individual agreements on the basis of the German Partial Retirement Act (AltTZG) as a block model. An actuarial interest rate of 3.3% (previous year: 3.7%) was used for the calculation. Salary growth and fluctuation were assumed to remain unchanged from the previous year at 0.0%. Pension growth of 2.50 % (previous year: 2.50 %) was taken into account. This results in a benefit obligation of EUR 604 thousand as of the reporting date (previous year: EUR 355 thousand).

(39) Additional information on financial instruments

This section provides a summarized overview of paragon's financial instruments.

The following overview summarizes the carrying amounts of the financial instruments included in the consolidated financial statements according to the measurement categories of IFRS 9:

€'000	Dec. 31, 2023	Dec. 31, 2022
Financial assets		
Measured at amortized cost	14,580	30,459
Measured at fair value through profit or loss	925	964
Measured at fair value through other comprehensive income	**0**	**0**
	15,505	**31,423**
Financial liabilities		
Measured at amortized cost	90,069	133,384
Erfolgswirksam zum beizulegenden Zeitwert bewertet	0	0
	90,069	**133,384**

paragon did not carry out any reclassifications between these categories in the 2023 financial year. The carrying amounts and fair values of current and non-current financial assets and financial liabilities as of the reporting date were as follows

Dec. 31, 2023	AC		FVPL		FVOCI	
€'000	BW	FV	BW	FV	BW	FV
Assets						
Cash and cash equivalents	3,209	3,209	0	0	0	0
Trade receivables	6,646	6,646	0	0	0	0
Other non-current financial assets	456	456	0	0	0	0
Other current financial assets (without derivates)	4,268	4,268	0	0	0	0
Derivates	0	0	925	925	0	0
Total assets	**14,580**	**14,580**	**925**	**925**	**0**	**0**
Liabilities						
Loans	13,873	13,873	0	0	0	0
Bonds	46,987	33,370	0	0	0	0
Liabilities from deliveries and services	24,374	24,374	0	0	0	0
Other financial liabilities	4,836	4,836	0	0	0	0
Total liabilities	**90,069**	**76,453**	**0**	**0**	**0**	**0**

Dec. 31, 2022	AC		FVPL		FVOCI	
€'000	BW	FV	BW	FV	BW	FV
Assets						
Cash and cash equivalents	18,106	18,106	0	0	0	0
Trade receivables	7,660	7,660	0	0	0	0
Other non-current financial assets	468	468	0	0	0	0
Other current financial assets (without derivates)	4,225	4,225	0	0	0	0
Derivates			964	964	0	0
Total assets	**30,459**	**30,459**	**964**	**964**	**0**	**0**
Liabilities						
Liabilities to banks (loans)	37,864	37,864	0	0	0	0
Bonds	67,566	40,011	0	0	0	0
Liabilities from deliveries and services	24,950	24,950	0	0	0	0
Other financial liabilities	3,004	3,004	0	0	0	0
Total liabilities	**133,384**	**105,828**	**0**	**0**	**0**	**0**

Cash and cash equivalents, trade receivables measured at amortized cost, purchase price retentions from factoring, creditors with debit balances, contract assets, purchase price receivables, trade payables and the remaining other financial assets and liabilities mainly have short residual terms. For these financial instruments with short maturities, the carrying amount represents a reasonable approximation of the fair value. The same applies to loans to banks. These are either short-term in nature or secured by first-ranking collateral (land charges). The level used to determine the fair value of these financial instruments is not disclosed separately.

The fair value of the derivatives and the bond is a level 2 fair value.

paragon does not hold any cash collateral. Credit balances and liabilities to banks are reported gross in the consolidated balance sheet. Other account balances with banks can be offset against all existing balances and liabilities between the relevant counterparties in the event of insolvency. At present, paragon has neither a legal claim to offsetting nor does it intend to settle on a net basis.

There is no significant potential for offsetting by the parties involved in the event of insolvency.

paragon does not hold any collateral with regard to financial assets.

paragon distinguishes between recoverable and doubtful or non-performing and uncollectible financial assets. Recoverable financial assets are written down according to the expected 12-month credit loss. Doubtful or non-performing financial assets are written down in the amount of the expected credit loss until final maturity. Irrecoverable receivables are recognized as disposals. A receivable is considered to be non-performing (definition of default) if there are significant reasons to believe that a debtor will not meet its payment obligations to paragon.

The following overview summarizes the credit quality and the maximum default risk of the financial assets measured at amortized cost according to the aforementioned categories:

Dec. 31, 2023 €'000	Credit quality	Treatment	Gross carrying amount	Value adjustment	Net book value
Other financial assets	recoverable	12-month ECL	5.649	0	5.649
	recoverable	lifetime ECL	0	0	0
	distressed	lifetime ECL	0	0	0
			5.649	**0**	**5.649**
Trade receivables	lifetime ECL	simplified approach	5.829	-58	5.771
	lifetime ECL	simplified approach[1]	2.007	-1.132	875
	notleidend	lifetime ECL	0	0	0
			7.836	**-1.190**	**6.646**
Cash and cash equivalents	recoverable	12-month ECL	3.209	0	3.209
	recoverable	lifetime ECL	0	0	0
	distressed	lifetime ECL	**0**	**0**	**0**
			3.209	**0**	**3.209**

Dec. 31, 2022 €'000	Credit quality	Treatment	Gross carrying amount	Value adjustment	Net book value
Other financial assets	recoverable	12-month ECL	5.657	0	5.657
	recoverable	lifetime ECL	0	0	0
	distressed	lifetime ECL	0	0	0
			5.657	**0**	**5.657**
Trade receivables	lifetime ECL	simplified approach	4.894	-79	4.815
	lifetime ECL	simplified approach[1]	5.386	-2.541	2.845
	notleidend	lifetime ECL	0	0	0
			10.280	**-2.620**	**7.660**
Cash and cash equivalents	recoverable	12-month ECL	18.106	0	18.106
	recoverable	lifetime ECL	0	0	0
	distressed	lifetime ECL	**0**	**0**	**0**
			18.106	**0**	**18.106**

1 Category 2 requirements

paragon recognizes valuation allowances on receivables taking into account past events and expectations regarding the future development of credit risk. The balance of the valuation allowances developed as follows:

€'000		
Jan. 01, 2023		2,620
Adjustments due to changes in credit rating parameters	Increase from revaluation of receivables	0
	Reduction due to reversal of impairment losses	165
Adjustments due to changes in the gross amount of assets	Reduction due to derecognition of assets	–1.595
	Increase due to capitalization of assets	0
Dec. 31, 2023		1,190

€'000		
Jan. 01, 2022		2,813
Adjustments due to changes in credit rating parameters	Increase from revaluation of receivables	0
	Reduction due to reversal of impairment losses	0
Adjustments due to changes in the gross amount of assets	Reduction due to derecognition of assets	–193
	Increase due to capitalization of assets	
Dec. 31, 2022		2,620

Cash and cash equivalents consist of cash on hand and bank balances. paragon invests cash and cash equivalents exclusively with banks with the highest credit ratings and probabilities of default close to zero. For reasons of materiality, no valuation allowance was recognized. In the event of a significant increase in the probability of default, the Group companies are instructed to withdraw cash and cash equivalents immediately. For this reason, cash and cash equivalents are either classified as recoverable (12-month ECL) or irrecoverable (lifetime ECL).

In accordance with the simplified approach under IFRS 9.5.5.15, allowances for trade receivables are consistently measured at the expected credit loss until final maturity. When determining the value adjustment, the receivables are divided into risk categories and assigned different impairment rates. Receivables are written off if a debtor is in serious financial difficulties and there is no prospect of recovery. Impairment is carried out in three different categories. Category 1 comprises receivables that are not due and receivables with a maturity of 0–30 days. These receivables are generally written down by 1%. Category 2 comprises receivables with a maturity of 31–60 days and these receivables are impaired by up to 25%. Receivables with a maturity of 61–90 days are impaired by up to 50%. Receivables with a due date of more than 90 days are impaired by up to 75%. Category 3 comprises irrecoverable receivables, which are generally written down by up to 100%.

Companies in the paragon Group determine the default risk according to individual approaches, taking into account country- and business unit-specific risks. In doing so, the companies draw on data from Schufa, historical default rates and customer-specific forward-looking credit risk analyses, among other things.

(40) Management of risks from financial instruments

Market price fluctuations can lead to considerable cash flow and profit risks for paragon. Changes in exchange rates and interest rates affect both the operating business and investment and financing activities. In order to optimize the financial resources within the Group, the risks arising from the development of interest rates and exchange rates are continuously analyzed and thus the ongoing business and financial market activities are managed and monitored.

Price fluctuations in currencies and interest rates can result in significant profit and cash flow risks. For this reason, paragon centralizes these risks as far as possible and then manages them proactively, possibly also through the use of derivative financial instruments. As part of the overall risk management system, the management of these risks is a central task of the management of paragon GmbH & Co.

From various methods of risk analysis and risk management, paragon has implemented an internal system of sensitivity analysis. Sensitivity analysis enables the Group to identify risk positions in the business units. The sensitivity analysis quantifies the risk that can be realized within the given assumptions if certain parameters are changed to a defined extent. This is based on the following assumptions:

- an appreciation of the euro against all foreign currencies by 10 percentage points
- a parallel shift of the yield curves by 100 basis points (1 percentage point)

The potential effects from the sensitivity analysis are estimates and are based on the assumption that the assumed negative market changes will occur. The actual effects may differ significantly due to deviating market developments.

Foreign currency risks

paragon is exposed to foreign currency risks as part of its ongoing business activities. The company can use derivative financial instruments in individual cases to limit foreign currency risks. Exchange rate fluctuations can lead to undesirable fluctuations in earnings and liquidity. For paragon, the currency risk arises from foreign currency positions and possible changes in the corresponding exchange rates. The uncertainty of future developments is referred to as exchange rate risk. paragon limits the risk by invoicing purchases and sales of goods and services primarily in the respective local currency.

paragon determines the sensitivity to fluctuations in foreign currencies by aggregating the net currency position of the operating business that is not presented in the Group's functional currency. The sensitivity is calculated by simulating a 10% devaluation of the euro against the foreign currencies. If future purchases are not hedged against currency risks, a devaluation of the euro against other currencies would have a negative impact on the Group's financial and earnings position, as foreign currency outflows exceed foreign currency inflows.

The following table provides an overview of the net foreign currency risk on trade payables by the individual main currencies:

	Dec. 31, 2023		Dec. 31, 2022	
€'000	USD	Other	USD	Other
Transaction-related foreign currency risk	**4,617**	**842**	**4,137**	**254**
Foreign currency risk from balance sheet items	4,617	842	4,137	254
Foreign currency risk from pending transactions	0	0	0	0
Net exposure foreign currency positions	**4,617**	**842**	**4,137**	**254**
Change in foreign currency positions due to 10% appreciation of the euro	462	84	414	25

In the previous year, there was a foreign currency risk from the issue of the CHF-denominated bond with a nominal volume of CHF 18.04 million. In the previous year, the Swiss franc liabilities were translated at an exchange rate of CHF 1.01018/EUR. Accumulated over the term of the bond, TCHF 18.50 was outstanding (converted at the closing rate of EUR 18,692 thousand). If the Swiss franc had appreciated by 10% to CHF 1.11120/EUR, this would have led to an additional expense of EUR 1,869 thousand. In addition to the public buyback offer in January 2023, the final repayment of the outstanding amount including the interest payment was made in April 2023.

As at December 31, 2023, the company had four derivative financial instruments (Swiss franc forwards) with a nominal volume of CHF 72,800 thousand. There is no hedge relationship with the bond; accordingly, the derivatives are measured at fair value through profit or loss (positive market value) in the total amount of EUR 925 thousand (previous year: EUR 964 thousand). Of these, two derivatives have a positive market value of EUR 6,705 thousand (previous year: EUR 5,103 thousand) and three offsetting derivatives have a market value of EUR -5,781 thousand (previous year: EUR -4,140 thousand). Derivatives with the same remaining term are reported on a net basis. However, the strict requirements of a hedging relationship in the sense of hedge accounting are not met.

Interest rate risks

Interest rate risk comprises any impact of a change in interest rates on earnings and equity. Interest rate risk mainly exists in connection with financial liabilities.

Interest-bearing financial liabilities are mainly liabilities for which a fixed interest rate has been agreed. Changes in the interest rate would only have an effect here if these financial instruments were recognized at fair value. As this is not the case, the financial instruments with fixed interest rates are not subject to interest rate risks within the meaning of IFRS 7.

For financial liabilities with variable interest rates, the interest rate risk is generally measured using cash flow sensitivity. At the end of the reporting period on December 31, 2023, the paragon Group held EUR 0 thousand (previous year: EUR 0 thousand) in financial liabilities with variable interest rates. A sensitivity analysis is not necessary.

Liquidity risks

The liquidity risk, i.e. the risk that paragon may not be able to meet its financial obligations, is limited by flexible cash management and continuous cash flow planning. The most important objective is to ensure a minimum level of liquidity in order to guarantee solvency at all times. As at December 31, 2023, cash and cash equivalents amounting to EUR 3,209 thousand (previous year: EUR 18,106 thousand) were available. Free overdraft facilities of EUR 146 thousand (previous year: EUR 127 thousand) were available as of December 31, 2023. In addition to the above-mentioned instruments for securing liquidity, the Group continuously monitors developments on the financial markets in order to take advantage of any favorable financing opportunities that arise.

The following table shows the maturity structure of the non-derivative financial liabilities recognized as of 31 December 2023

€'000	2024	2025-2028	2029 and afterwards
Non-derivative financial liabilities (without lease liabilities)			
Liabilities from bonds	22.162	24.825	0
Liabilities to banks	7.872	2.863	3138
Liabilities from deliveries and services	24.374	0	0
Other financial liabilities	2.632	2.205	0
Non-derivative financial liabilities	**57.040**	**30.542**	**2.488**

€'000	2023	2024–2027	2028 and afterwards
Non-derivative financial liabilities (without lease liabilities)			
Liabilities from bonds	22,566	45,000	0
Liabilities to banks	30,550	3,644	3,670
Liabilities from deliveries and services	24,950	0	0
Other financial liabilities	3,004	0	0
Non-derivative financial liabilities	**81,070**	**48,644**	**3,670**

Net liquidity or net debt results from the sum of cash and cash equivalents less liabilities to banks and lease liabilities as reported in the balance sheet.

€'000	Dec. 31, 2023	Dec. 31, 2022
Cash and cash equivalents	3,209	18,106
Total liquidity	**3,209**	**18,106**
Current and non-current bonds	46.987	67,566
Current and non-current loans	13.873	37,864
Total financial liabilities	**60.859**	**105,430**
Net debt in accordance with terms and conditions of EUR bond	**-57.650**	**87,324**

This value is the numerator for determining the net leverage ratio in accordance with Section 3 (a) ii) of the terms and conditions of the bond as amended by the resolutions of the bondholders' meeting on March 10, 2022. The net gearing ratio is calculated from the sum of the issuer's interest-bearing liabilities to banks and bondholders plus the bond interest accrued as of the balance sheet date less cash and cash equivalents, the sum thus calculated divided by EBITDA.

Credit risks

A credit risk is defined as a financial loss that arises if a contractual partner fails to meet its payment obligations. The maximum default risk is therefore equal to the book value. The effective monitoring and management of credit risks is a key task of the risk management system. paragon carries out credit checks for all customers with credit requirements that exceed certain defined limits. The Group monitors the credit risk on an ongoing basis.

(41) Capital management

The primary objective of capital management is to maintain an appropriate equity ratio. The capital structure is managed and adjusted in line with changes in the economic environment. No fundamental changes were made to the objectives, methods and processes of capital management in the financial year to December 31, 2023.

Capital management relates exclusively to the equity of paragon GmbH & Co. KGaA shown in the balance sheet. Please refer to the statement of changes in equity for information on changes in equity.

As part of the financing provided by lending banks, paragon is not obliged to comply with financial covenants in the reporting period until December 31, 2023.

As part of the CHF bond issue, paragon GmbH & Co. KGaA had undertaken to comply with an equity ratio of 10% (IFRS consolidated financial statements). This was not met as of the previouss year's reporting date (December 31, 2022). The CHF bond was repaid in full as scheduled in April 2023.

(42) Contingent liabilities, contingent assets and liabilities and other financial obligations

As at December 31, 2023, there were no contingent liabilities or unrecognised contingent assets or contingent liabilities. Other financial obligations are as follows:

€'000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2023	Dec. 31, 2022
Order commitment	68,486	129	0	68,615	87,387
Obligations from tenancies	498	1,004	0	1,502	247
Other obligations	508	0	0	508	665
Other financial obligations	**69,492**	**1,133**	**0**	**70,626**	**88,299**

Purchase commitments comprise purchase order items from fixed assets and inventories.

(43) Development of Group fixed assets

Consolidated statement of changes in fixed assets as of December 31, 2023

	Acquisition costs				
€'000	Jan. 01, 2023	Exchange rate change	Additions	Disposals	Dec. 31, 2023
Intangible assets	46,502	0	5,032	57	51,478
Licenses, patents, software, customer list	45,760	0	3,569	1,773	47,557
Capitalized development expenses	7,745	0	0	0	7,745
Goodwill	7	0	0	0	7
Advance payments for intangible assets	100,015	0	8,601	1,830	106,786
Total intangible assets					
Rights of use					
Land and buildings	9,554	0	70	25	9,599
Technical equipment and machinery	8,645	0	607	1,131	8,121
Other equipment, operating and office equipment	852	0	278	327	803
Total rights of use	**19,051**	**0**	**956**	**1,483**	**18,523**
Property, plant and equipment					
Land and buildings	13,925	0	36	0	13,961
Technical equipment and machinery	37,742	0	469	325	37,886
Other equipment, operating and office equipment	16,154	–83	291	119	16,243
Advance payments made	2,596	0	920	210	3,306
Total property, plant and equipment	**70,417**	**–83**	**1,717**	**654**	**71,396**
Financial assets					
Investments accounted for using the equity method	1,522	0	0	0	1,522
Shares in associated companies	120	0	0	0	120
Total financial assets	1,642	0	0	0	1,642
Total	**191,126**	**–83**	**11,274**	**3,967**	**198,348**

Depreciation and Amortization					Carrying amounts	
Jan. 01, 2023	Additions	Impairment acc. IAS 36/38	Disposals	Dec. 31, 2023	Dec. 31, 2023	Dec. 31, 2022
32,585	3,719	0	6	36,299	15,179	13,917
22,324	6,519	187	0	29,031	18,526	23,436
2,000	0	0	0	2,000	5,745	5,745
0	0	0	0	0	7	7
56,910	10,238	187	6	67,330	39,457	43,105
1,873	1,627	0	25	3,473	6,126	7,682
4,946	1,997	0	1,131	5,810	2,311	3,699
462	266	0	323	404	399	390
7,281	**3,890**	**0**	**1,480**	**9,688**	**8,836**	**11,771**
1,937	352	0	0	2,289	11,672	11,988
34,960	1,232	0	140	36,052	1,834	2,782
13,742	720	0	11	14,451	1,793	2,412
721	0	0	0	721	2,585	1,875
51,360	**2,303**	**0**	**149**	**53,512**	**17,883**	**19,057**
0	0	0	0	0	1,522	1,522
0	0	0	0	0	120	120
0	0	0	0	0	1,642	1,642
115,551	**16,432**	**187**	**1,635**	**130,530**	**67,818**	**75,577**

Consolidated statement of changes[1] in fixed assets as of December 31, 2022

	Acquisition costs			
€'000	Jan. 01, 2022	IFRS 5	Currency change	Additions
Intangible assets				
Licenses, patents, software, customer list	57,771	11,167	0	306
Capitalized development expenses	52,140	8,123	0	4,742
Goodwill	23,875	16,130	0	0
Advance payments for intangible assets	6	0	0	0
Total intangible assets	**133,793**	**35,420**	**0**	**5,048**
Rights of use				
Land and buildings	2,780	0	0	3,027
Technical equipment and machinery	2,642	0	0	904
Other equipment, operating and office equipment	1,585	0	0	1,413
Total rights of use	**7,007**	**0**	**0**	**5,344**
Property, plant and equipment				
Land and buildings	25,820	0	14	0
Technical equipment and machinery	42,172	7	0	495
Other equipment, operating and office equipment	16,095	277	34	1,089
Advance payments made	2,416	0	0	1,093
Total property, plant and equipment	**86,503**	**284**	**48**	**2,677**
Financial assets				
Investments accounted for using the equity method	0	0	0	0
Shares in associated companies and joint ventures	120	1	0	22
Total financial assets	120	1	0	22
Total	**227,423**	**35,705**	**48**	**13,090**

1 Own work capitalized cannot be directly reconciled with the statement of changes in non-current assets due to a reclassification from inventories to non-current assets.

Departures	Rebookings	Dec. 31, 2022	Reclassifications	Dec. 31, 2022
408	0	46,502	0	46,502
1,500	–1,500	45,759	1	45,760
0	0	7,745	0	7,745
0	0	6	1	7
1,908	**–1,500**	**100,012**	**2**	**100,015**
0	0	5,807	3,747	9,554
0	0	3,546	5,099	8,645
0	0	2,998	–2,146	852
0	**0**	**12,351**	**6,700**	**19,051**
8,422	0	17,412	–3,487	13,925
2,510	743	40,893	–3,151	37,742
958	170	16,153	1	16,154
0	–913	2,596	0	2,596
11,890	**0**	**77,054**	**–6,637**	**70,417**
0	1,500	1,500	0	1,500
0	0	141	1	142
0	1,500	1,641	**1**	**1,642**
13,797	**0**	**191,058**	**66**	**191,126**

Consolidated statement of changes[1] in fixed assets as of December 31, 2022

	Acquisition costs				
€'000	Jan. 01, 2022	IFRS 5	Currency change	Additions	Impairment in accordance with IAS 36/38
Intangible assets					
Licenses, patents, software, customer list	35,629	5,187	0	2,527	0
Capitalized development expenses	19,756	2,764	0	5,014	318
Goodwill	2,000	0	0	0	0
Advance payments for intangible assets	0	0	0	0	0
Total intangible assets	**57,385**	**7,951**	**0**	**7,541**	**318**
Rights of use					
Land and buildings	2,172	0	0	766	0
Technical equipment and machinery	1,625	0	0	705	0
Other equipment, operating and office equipment	1,410	0	0	539	0
Total rights of use	**5,207**	**0**	**0**	**2,010**	**0**
Property, plant and equipment					
Land and buildings	2,889	0	7	644	0
Technical equipment and machinery	32,859	7	0	3,262	0
Other equipment, operating and office equipment	13,837	264	40	831	0
Advance payments made	721	0	0	0	0
Total property, plant and equipment	**50,305**	**271**	**47**	**4,737**	**0**
Financial assets					
Investments accounted for using the equity method	0	0	0	0	0
Shares in associated companies and joint ventures	-1	0	0	0	0
Total financial assets	-1	0	0	0	0
Total	**112,896**	**8,222**	**47**	**14,278**	**318**

1 Own work capitalized cannot be directly reconciled with the statement of changes in non-current assets due to a reclassification from inventories to non-current assets.

				Carrying amounts	
Departures	Dec. 31, 2022	Reclassifications	Dec. 31, 2022	Dec. 31, 2022	Dec. 31, 2021
384	32,585	0	32,585	13,917	22,142
0	22,324	0	22,324	23,436	32,384
0	2,000	0	2,000	5,745	21,875
0	0	0	0	7	6
384	56,909	0	56,910	43,105	76,408
0	2,938	–1,064	1,873	7,682	607
0	2,330	2,616	4,946	3,699	1,017
0	1,949	–1,487	462	390	175
0	7,217	65	7,281	11,771	1,800
1,603	1,937	0	1,937	11,988	22,931
1,154	34,960	0	34,960	2,782	9,313
692	13,742	0	13,742	2,412	2,259
0	721	0	721	1,875	1,695
3,449	51,360	0	51,360	19,057	36,198
0	0	0	0	1,500	0
0	–1	1	0	142	121
0	–1	1	0	1,642	121
3,833	115,485	66	115,551	75,577	114,527

(44) Notes to the consolidated cash flow statement

In accordance with IAS 7 "Cash Flow Statements", the cash flows of a financial year are recorded in the consolidated cash flow statement in order to present information on the movements of the company's cash and cash equivalents. The consolidated cash flow statement was prepared using the indirect method in accordance with IAS 7.18b. Cash flows are broken down into operating, investing and financing activities.

The current cash inflows and outflows resulting from the factoring agreements concluded are allocated to cash flow from operating activities.

The cash and cash equivalents reported in the consolidated cash flow statement comprise all cash and cash equivalents reported in the balance sheet that are available at short notice.

€'000	Dec. 31, 2023	Dec. 31, 2022
Cash at banks	3,204	18,098
Cash in hand	5	8
Cash and cash equivalents	**3,209**	**18,106**

(45) Segment reporting

In accordance with IFRS 8, two segments are regularly formed and reported. The "Electronics" segment comprises the development and sale of sensors, loudspeakers, microphones, batteries and instruments, primarily for the automotive industry. The companies paragon GmbH & Co. KGaA, paragon electronic GmbH, ETON Soundsysteme GmbH, Hepa GmbH, paragon Automotive Technology Co. Ltd, paragon Automotive Kunshan Co. Ltd. and Nordhagen Immobilien GmbH are allocated to the Electronics segment.

The "Mechanics" segment comprises the development and sale of electromechanical components for the automotive industry and the mechanical production of paragon Group products by paragon movasys GmbH.

Intercompany transactions exist between the various legally independent companies within the paragon Group; they are invoiced to each other as between external third parties with a corresponding mark-up. Intercompany sales arise primarily for paragon GmbH & Co. KGaA, where development and central functions are located. These include functions such as central purchasing, human resources and commercial administration, insofar as these functions are not directly available in the individual companies, as well as Group management. It also includes the leasing of land and buildings held by paragon GmbH & Co. KGaA as well as machinery and equipment to the subsidiaries. The allocation between the segments is based on economic utilization. Segment assets and segment liabilities are reported using the same system.

The two segments are managed using the EBITDA indicator; depreciation, amortization and impairment losses are reported separately. Interest income, interest expenses and income tax expenses are therefore not reported by segment.

The asset reported below in the Electronics segment includes the investment in the joint venture Hepa GmbH in the amount of EUR 1,522 thousand (previous year: EUR 1,522 thousand).

	2023			
€'000	Electronics	Mechanics	Eliminations	Group
Revenues with third parties	104,011	57,636	0	161,647
Intersegment sales	1,236	1,357	–2,593	0
Segment sales revenue	**105,246**	**58,994**	**–2,593**	**161,647**
Changes in inventories, other operating income & capitalized development costs	13,735	1,209	–489	14,455
Expenses from intersegment allocation	–2,064	–1,017	3,082	0
Cost of materials, personnel expenses and other operating expenses	–101,056	–57,374	0	–158,430
Segment EBITDA	**15,861**	**1,811**	**0**	**17,672**
	15,1%	3,1%	0,0%	10,9%
Depreciation and amortization (incl. impairments)	–13,267	–3,353	0	–16,620
thereof depreciation and amortization	–12,017	–3,165	0	–15,182
of which impairments	–1,250	–187	0	–1,437
Segment EBIT	**2,594**	**–1,542**	**0**	**1,052**
	2,5%	–2,6%	0,0%	0,7%
Consolidated financial result	n, a,	n, a,	n, a,	–12,513
Consolidated earnings before taxes	**n, a,**	**n, a,**	**n, a,**	**–11,463**
Assets	142,548	15,410	–48,188	109,770
Investments (CAPEX)	5,073	1,137	0	6,210
Debts	–124,250	–35,615	56,240	–103,625

	2022			
€'000	Electronics	Mechanics	Eliminations	Group
Revenues with third parties	108,117	52,560	0	160,677
Intersegment sales	986	266	–1,252	0
Segment sales revenue	**109,103**	**52,826**	**–1,252**	**160,677**
Changes in inventories, other operating income & capitalized development costs	8,955	1,190	–321	9,824
Expenses from intersegment allocation	–266	–1,307	1,573	0
Cost of materials, personnel expenses and other operating expenses	–103,815	–56,475	0	–160,290
Segment EBITDA	**13,977**	**–3,766**	**0**	**10,211**
	12,8%	–7,1%	0,0%	6,4%
Depreciation and amortization (incl. impairments)	–11,751	–2,867	0	–14,618
thereof depreciation and amortization	–11,471	–2,830	0	–14,300
of which impairments	–280	–38	0	–318
Segment EBIT	**2,226**	**–6,634**	**0**	**–4,408**
	2,0%	–12,6%	0,0%	–2,7%
Consolidated financial result	n. a.	n. a.	n. a.	0
Consolidated earnings before taxes	**n. a.**	**n. a.**	**n. a.**	**0**
Assets	210,522	12,040	–50,020	172,542
Investments (CAPEX)	21,160	1,771	0	22,931
Debts	–190,513	–35,010	53,955	–171,567

Information on geographical areas

The following table contains information on sales revenue with external customers in the Group's geographical areas. The allocation of revenue from external customers to the individual geographical areas is based on the location of the external customer. The majority of assets are located in Germany. Only assets amounting to EUR 12.2 million (previous year: EUR 8.4 million) are located in China.

€'000	Domestic		EU		Third country		Total	
	Jan. 1– Dec. 31, 2023	Jan. 1– Dec. 31, 2022	Jan. 1– Dec. 31, 2023	Jan. 1– Dec. 31, 2022	Jan. 1– Dec. 31, 2023	Jan. 1– Dec. 31, 2022	Jan. 1– Dec. 31, 2023	Jan. 1– Dec. 31, 2022
Sales revenue	103,091	106,683	31,597	30,871	26,959	23,123	161,647	160,677

Information on business transactions with important customers

In the 2023 financial year, three groups of companies exceeded the 10% threshold in terms of the share of sales in accordance with IFRS 8.34 for the Automotive segment. Of these, one group of companies that are to be regarded as a single customer due to their joint control accounted for 55.0% of sales (previous year: 56.0%). Another group of companies that are to be regarded as one customer due to their joint control accounted for 12.5% of sales (previous year: 22.1%). In 2023, a third group exceeded the 10% threshold with a 14.0% share of sales.

(46) Bodies of the company

The management of paragon GmbH & Co. KGaA has been irrevocably exercised by the general partner paragon GmbH, Delbrück, since August 1, 2018. paragon GmbH has share capital of EUR 100 thousand. paragon GmbH, and therefore paragon GmbH & Co. KGaA, was managed by one managing director in the financial year:

- Klaus Dieter Frers, Delbrück

The company's Supervisory Board consisted of the following persons:

Name	Profession	Memberships of supervisory boards and other supervisory bodies
Prof. Dr. Iris Gräßler (Chairwoman as of 31.08.2021)	Univ.-Prof. Dr. Ing., Univ.-Prof. for product development at the faculty for Mechanical Engineering at the Heinz Nixdorf Institute of the University of Paderborn	Supervisory board mandates: • none Further mandates: • none
Hermann-Josef Börnemeier	Diplom Finanzwirt, and tax consultant, Managing Director of Börnemeier & Loh GmbH and HJB Grundstücks-verwaltungs GmbH	Supervisory Board mandate: • none Further mandates: • Börnemeier & Loh GmbH (Managing Director) • HJB Grundstücksverwaltungs GmbH (Managing Director since November 2023)
Walter Schäfers	Lawyer, Partner of the law firm Schäfers Rechtsanwälte und Notare	Supervisory Board mandate: • none

(47) Related party disclosures

Related parties within the meaning of IAS 24 "Related Party Disclosure" include the members of the Management Board and the Supervisory Board. Close family members of board members and persons with significant influence as well as affiliated companies are also considered related parties.

In the 2023 financial year, Treu-Union Treuhandgesellschaft mbH, Steuerberatungsgesellschaft, Paderborn, invoiced services under the existing contract in the amount of EUR 41 thousand (previous year: EUR 88 thousand). As at the balance sheet date, liabilities amounted to EUR 34 thousand (previous year: EUR 63 thousand). The member of the Supervisory Board of paragon GmbH & Co, KGaA, Hermann-Josef Börnemeier, was Managing Director of the aforementioned company until January 2022.

The law firm Schäfers, Rechtsanwälte & Notare, Paderborn, provided legal advice amounting to EUR 19 thousand in the 2023 financial year (previous year: EUR 2 thousand). As at the balance sheet date, there were still liabilities from this in the amount of EUR 16 thousand (previous year: EUR 0 thousand) The member of the Supervisory Board of paragon GmbH & Co. KGaA, Walter Schäfers, is also a partner in the aforementioned company.

Members of the Supervisory Board held 4,000 shares (previous year: 4,000 shares) out of a total of 4,526,266 shares on the balance sheet date.

Frers Family Office GmbH has held a total of 2,263,134 shares since December 21, 2023 and therefore owns 50% plus one share of the company's limited partnership capital. Mr. Klaus Dieter Frers holds 98.6% of the shares in Frers Family Office GmbH. He is the ultimate controlling party of the parent company.

Klaus Dieter Frers is the sole owner of Frers GmbH & Co. A loan granted to Frers GmbH & Co. KG, which is secured by land charges, amounted to EUR 1,195 thousand as of the balance sheet date (previous year: EUR 1,294 thousand). It bears interest at a rate of 1.5% p.a. and is repaid in monthly installments of EUR 10 thousand until December 2034. As it can be terminated within 6 months, this receivable is reported as current.

In the 2023 reporting period, Frers GmbH & Co. KG leased space to paragon GmbH & Co, KGaA in three buildings used by paragon GmbH & Co. KGaA. This resulted in rental expenses of EUR 515 thousand (previous year: EUR 523 thousand). The three existing rental agreements remain unchanged and total monthly rent amounting to EUR 42 thousand (previous year: EUR 42 thousand). Rents can be adjusted in line with the consumer index for 1 contract from December 31, 2023 and for the other two contracts from December 31, 2025. Prior to this, constant rents have been agreed.

All contracts can be terminated with a notice period of 6 months to the end of the year, whereby 1 contract can be terminated at the earliest on December 31, 2025 and another at the earliest on December 31, 2032. paragon GmbH & Co KGaA also has a unilateral extension option for a further 1 year for the contract terminable on "31.12.2025" and for a further 5 years for the contract terminable on "31.12.32".

Other receivables from Klaus Dieter Frers existing in the previous year no longer exist as of the balance sheet date (previous year: EUR 319 thousand).

Mr. Klaus Dieter Frers has received a pension commitment from the company. For further details, please refer to the section “Pension provisions”.

Brigitte Frers (wife of Klaus Dieter Frers) is employed as Head of Communications. The employment relationship is at standard market conditions. The annual remuneration amounts to EUR 162 thousand (previous year: EUR 163 thousand) and is comparable with adequate positions in the company. Niklas Frers (son of Klaus Dieter Frers) received EUR 7 thousand in the financial year (previous year: EUR 5 thousand) as part of a marginal employment relationship.

ElectricBrands AG held 29.94% of the voting rights in paragon GmbH & Co. KGaA in the period from November 2022 to September 2023. In the course of initiating a business transaction, ElectricBrands AG had been paid a cumulative amount of € 5.0 million as of the reporting date (31.12.2022: cumulative amount of € 2.7 million), which will be offset against expected future transactions included in the balance sheet item intangible assets. ElectricBrands AG has informed the company that it will no longer hold any shares in paragon GmbH & Co. KG aA from September 29, 2023. ElectricBrands AG is therefore no longer a related party as of the balance sheet date.

In the financial year, paragon GmbH received payments of EUR 1,006 thousand (previous year: EUR 2,236 thousand) for taking over the management of the company; the expenses were reported as other operating expenses.

(48) Remuneration of the members of the management

The following table shows the remuneration of the members of the Supervisory Board:

€'000	Prof. Dr.-Ing. Iris Gräßler Chairwoman of the Supervisory Board		Hermann Börnemeier		Walter Schäfers	
	2023	2022	2023	2022	2023	2022
Fixed remuneration	60	60	30	30	30	30
Total remuneration	**60**	**60**	**30**	**30**	**30**	**30**

The following table shows the benefits granted to members of the Management Board in the reporting year (expenses recognized in the financial year):

Granted benefits	Klaus Dieter Frers Chairman of the Management Board Date of joining: April 11, 1988[1]				Dr. Matthias Schöllmann Managing Director Entry date: September 1, 2018 Withdrawal date: May 31, 2022			
	2023		2022		2023		2022	
	in EUR	in %	in EUR	in %	in EUR	in %	in EUR	in %
Fixed remuneration	600,000.00	42,0	600,000.00	54.3	n.a.	n.a.	166,666.70	90.5
Fringe benefits	38,895.04	2,7	55,103.48	5.0	n.a.	n.a.	17,581.35	9.5
Total	**638,895.04**	44,7	**655,103.48**	59.3	n.a.	n.a.	**184,248.05**	100.0
One-year variable remuneration	**789,078.51**	55,3	**450,000.00**	40.7	n.a.	n.a.	**0.00**	0.0
Total	**1,427,973.55**	100,0	**1,105,103.48**	100.0	n.a.	n.a.	**184,248.05**	100.0
Total remuneration	**1,427,973.55**	100,0	**1,105,103.48**	100.0	n.a.	n.a.	**184,248.05**	100.0

1 This is the date of entry into the activities of the paragon Group as a whole. He only joined the management of paragon GmbH at a later date when this company was founded

(49) Share-based payments

The 2012 share option program expired in 2017. There are currently no share-based payment agreements.

(50) Auditor's fee

The total fee paid to the auditor Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft for the reporting period amounted to EUR 550 thousand (previous year: EUR 430 thousand). The fee is divided into EUR 540 thousand (previous year: EUR 265 thousand) for auditing services in the reporting year and EUR 0 thousand (previous year: EUR 165 thousand) for auditing services in the previous year, as well as an additional EUR 10 thousand (previous year: EUR 0 thousand) for other assurance services in connection with the remuneration report.

(51) Risk management

The company's risk management is explained in the combined management report.

(52) Application of the exemption provisions of Section 264 (3) HGB

The following fully consolidated domestic subsidiary makes use of parts of the exemption provision for the reporting year (disclosure and audit):

paragon electronic GmbH, Delbrück

(53) Declaration pursuant to Section 160 (1) No. 8 AktG

Voting rights notifications

In the reporting year, the following publications were made in accordance with Section 33 (1) WpHG, which are reportable to the company in accordance with Section 160 (1) No. 8 AktG:

- According to the voting rights notification dated 5.10.2023, Mr. Ralf Haller's total share of voting rights was reduced from 29.94% to 0.00% as of 29.09.2023. The attribution was based on the indirect shareholding in ElectricBrands AG in accordance with Section 34 para. 1 sentence 1 no. 1 WpHG.
- According to the voting rights notification dated October 5, 2023, Mr. Klaus Dieter Frers' total share of voting rights increased from 20.06% to 50.00% as of September 29, 2023. Mr. Klaus Dieter Frers also informed the company that, in a decision dated October 11, 2023, the German Federal Financial Supervisory Authority (BaFin) exempted him from the obligation to publish the acquisition of control of paragon GmbH & Co. KGaA, Delbrück, pursuant to Section 37 (1) Var. 4 WpÜG and pursuant to Section 35 (2) Sentence 1 in conjunction with Section 14 (2) Sentence 1 WpÜG. § Section 14 para. 2 sentence 1 WpÜG to publish a mandatory offer.
- In a voting rights notification dated 28.12.2023, the company was informed that Frers Family Office GmbH holds 50.0% of the voting rights. Mr. Klaus Dieter Frers controls Frers Family Office GmbH.

Directors' Dealings

In the reporting year, the company received the following notifications of managers' transactions in accordance with Art. 19 of the Market Abuse Regulation (EU) No. 596/2014 (MAR):

- Mr. Klaus Dieter Frers (Managing Director of the general partner) acquired a total of 1,355,000 limited partnership shares on 29.9.2023 for a price of EUR 4.53 per share. This results in a total purchase price of EUR 6,138,150.00.
- Mr. Klaus Dieter Frers sold a total of 2,232,263 shares on 21.12.2023 for a price of EUR 4.00 per share. This results in a total selling price of EUR 8,929,052.00.
- Mrs. Brigitte Frers (wife of Mr. Klaus Dieter Frers) sold a total of 30,871 shares on 21.12.2023 for a price of EUR 4.00 per share. This results in a total selling price of EUR 123,484.00.
- On December 21, 2023, Frers Family Office GmbH acquired a total of 2,263,134 shares at a price of EUR 4.00 per share. This results in a total purchase price of EUR 9,052,536.00.

Declaration on the German Corporate Governance Code

The Declaration of Conformity with the German Corporate Governance Code (GCGC) required by Section 161 AktG was last issued on February 28, 2024 and has been made permanently available to shareholders on the company's website (https://www.paragon.ag/).

Delbrück, 24. April 2024
Paragon GmbH & Co. KGaA

The management

Klaus Dieter Frers

Independent Auditor's Report

To paragon GmbH & Co. KGaA, Delbrück

Report on the Audit of the Consolidated Financial Statements and the Combined Management Report

Audit assessments

We have audited the consolidated financial statements of paragon GmbH & Co. KGaA, Delbrück, and its subsidiaries (the Group), which comprise the consolidated balance sheet as of December 31, 2023, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from January 1 to December 31, 2023, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of paragon GmbH & Co. KGaA, Delbrück, for the financial year from January 1 to December 31, 2023. In accordance with the German legal requirements, we have not audited the content of the components of the combined management report listed in the appendix.

In our opinion, based on the findings of our audit

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as of December 31, 2023 and of its financial performance for the financial year from January 1 to December 31, 2023, and
- the accompanying combined management report as a whole provides a suitable view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of those parts of the combined management report listed in the appendix.

Pursuant to § 322 Abs. 3 Satz 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW).

Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the Group companies in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Material uncertainty in connection with the continuation of business activities

We refer to the disclosures in the "Going concern risks" section of the notes to the consolidated financial statements and in the "Going concern risks" section of the combined management report, in which the legal representative describes that the Group's liquidity situation has not normalized and the willingness of lenders and equity providers to provide the paragon Group with additional funds is limited. As a result of the strained liquidity situation, deferral agreements were concluded with suppliers and service providers, among others. The legal representative of paragon GmbH & Co. KGaA assumes that a return to the usual payment terms with suppliers and service providers and the repayment of deferred liabilities will take place in the course of the 2024 financial year, taking into account the planned revenue and the forecast operating profitability. If the planned sales level and profitability are not achieved, a return to the usual payment terms would not be possible. If suppliers and service providers no longer accept the extended payment targets and deferrals, the Group's solvency would be at risk.

As described in the aforementioned sections of the notes to the consolidated financial statements and the combined management report, these events and circumstances indicate that a material uncertainty exists which may cast significant doubt on the Group's ability to continue as a going concern and which constitutes a going concern risk within the meaning of Section 322 (2) sentence 3 HGB.

In accordance with Article 10 (2) (c) (ii) of the EU Audit Regulation, we summarize our response to this risk as follows:

As part of our audit, we identified the appropriateness of the going concern basis of accounting and the appropriate presentation of the material uncertainty in connection with the going concern as a key risk and performed the following key audit procedures: We examined the Group-wide corporate and financial planning, including the current short-term liquidity planning and, in particular, the planned and initiated responses to the liquidity situation underlying these plans. Our audit procedures also included assessing the other estimates made by the executive directors and the processes and controls established for Group-wide corporate and financial planning. In doing so, we considered the extent to which the Group has succeeded in recent years in implementing the deferral agreements necessary for liquidity management and other measures to secure liquidity. We held discussions with the legal representative and inspected and critically assessed the relevant documents and agreements regarding measures that the management has already initiated or implemented to return the liquidity situation to normal, in particular the implementation of the bond buyback program (ISIN: DE000A2GSB86; WKN: A2GSB8) of up to EUR 20.2 million of the original total nominal amount of EUR 50.0 million in the period from 6 November 2023 to 5 July 2025 at the latest. We have examined whether the disclosures required to explain the material uncertainty in the notes to the consolidated financial statements and in the combined management report are appropriate and complete.

We have satisfied ourselves as to whether events or circumstances exist that indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Our audit opinions on the consolidated financial statements and the combined management report are not modified with regard to this matter.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material uncertainty related to going concern" section, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

1. Sale of the shares in paragon semvox GmbH

Reasons for designation as a key audit matter

The company sold all of its shares in paragon semvox GmbH to CARIAD SE by notarized agreement dated December

1, 2022. The closing was completed in May 2023. paragon semvox GmbH was the Digital Assistance division within the paragon Group. As a result of the sale, paragon semvox GmbH is accounted for as a discontinued operation in accordance with IFRS 5 and deconsolidated in the reporting year. The deconsolidation gain amounted to EUR 5.7 million and therefore made a significant contribution to the Group's net profit.

Our approach to the audit

As part of our audit of the financial statements, we dealt with the deconsolidation and determination of profit or loss of the discontinued operation. Our audit procedures included, among other things, a review of the contractual basis and the specific communication with the acquirer. Our audit procedures included in particular the audit of the completeness, mathematical accuracy and plausibility of the deconsolidation, as well as its disclosure and the associated determination of the deconsolidation effect from the disposal of paragon semvox GmbH from the scope of consolidation of paragon GmbH & Co KGaA.

Reference to related information

Please refer to the notes to the consolidated financial statements, sections "1 General information", "7 Scope of consolidation" and "20. Result from discontinued operations" for information on the accounting and valuation methods applied.

2. Recoverability of internally generated intangible assets

Reasons for designation as a key audit matter

Internally generated intangible assets amounting to EUR 18.7 million (previous year: EUR 23.8 million) are reported in the consolidated financial statements of paragon GmbH & Co.

The recoverability of internally generated intangible assets is primarily based on estimates and assessments of future cash inflows in the sense of a discounted contribution margin calculation. The result of the valuation is highly dependent on the estimates and expectations of the legal representative with regard to future income, the discount rate used and other assumptions and is therefore subject to considerable uncertainty. There is a risk that impairment losses on internally generated intangible assets may not be recognized or may not be recognized in sufficient amounts. Deferred tax liabilities arise from the capitalization of internally generated intangible assets.

Our approach to the audit

As part of our audit, we examined the company's internal methods, procedures and control mechanisms for project identification and evaluation. Our audit procedures included, among other things, a review of the contractual basis or specific communication with potential customers. Our audit procedures included, in particular, testing the completeness, mathematical accuracy and plausibility of the underlying planning assumptions and assessing the other estimates made by the executive directors, such as the underlying useful lives, as well as the processes and controls in place. We compared the procedure with the accounting policies applied by paragon.

Reference to related information

Please refer to sections "19 Income taxes" and "22 Intangible assets" in the notes to the consolidated financial statements for information on the accounting policies applied and disclosures on internally generated intangible assets.

3. Revenue recognition

Reasons for designation as a key audit matter

Revenue is a significant item in the consolidated financial statements and is used as a key performance indicator (KPI) for corporate management. The main revenue streams in the consolidated financial statements of paragon GmbH & Co. KGaA arise from the sale of customer-specific products to automotive manufacturers. In our view, the proper accounting of revenue is an area with a significant risk of material misstatement due to fraud or error (ultimately a potential risk of management override of controls) and therefore a key audit matter.

Our approach to the audit

As part of our audit of the financial statements, we examined the Company's internal methods, procedures and control mechanisms for revenue recognition. In addition, we assessed the design and effectiveness of the accounting-related internal controls by tracing specific business transactions from their origin to their presentation in the consolidated financial statements and by testing controls. Our audit procedures included, among other things, a review of the contractual basis. As part of our assessment of the estimates made by the executive directors regarding revenue recognition, we evaluated, in particular based on our understanding of the business model and the contractual arrangements, whether the requirements for revenue recognition were implemented correctly and on an accrual basis.

Reference to related information

Please refer to sections "5 Restatement of prior periods" and "11 Revenue" in the notes to the consolidated financial staements for information on the accounting policies applied and revenue.

Other information

The legal representative or the Supervisory Board is responsible for the other information. The other information comprises

- those parts of the combined management report listed in the appendix to the auditor's report that were not audited as to their content,
- the report of the Supervisory Board (section "Report of the Supervisory Board"),
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report,
- the assurance pursuant to Section 297 (2) sentence 4 HGB on the consolidated financial statements and the assurance pursuant to Section 315 (1) sentence 6 HGB on the combined management report.

The Supervisory Board is responsible for the report of the Supervisory Board. For the declaration in accordance with Section 161 AktG on the German Corporate Governance Code, which is part of the declaration of conformity in the section "Declaration on Corporate Governance in accordance with Section 315d in conjunction with Section 289f (1) HGB and

Declaration of Conformity of paragon GmbH & Co. KGaA with the German Corporate

Governance Code" of the combined management report is the responsibility of the legal representative and the Supervisory Board. In all other respects, the legal representative is responsible for the other information.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information referred to above and, in doing so, consider whether the other information

- are materially inconsistent with the consolidated financial statements, with the audited content of the combined management report or our knowledge obtained in the audit, or
- otherwise appear to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this context.

Responsibility of the legal representative and the Supervisory Board for the consolidated financial statements and the combined management report

The legal representative is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. Furthermore, the legal representatives are responsible for the internal controls that they have determined to be necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e. accounting fraud or fraudulent misrepresentation) or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. Furthermore, they are responsible for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representative is responsible for such arrangements and measures (systems) as he has considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the combined management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. In addition

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the legal representative's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to

continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We are solely responsible for our audit opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken or safeguards applied to address independence threats.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other statutory and other legal requirements

Report on the Audit of the Electronic Reproductions of the Consolidated Financial Statements and the Combined Management Report Prepared for Publication Purposes Pursuant to Section 317 (3a) HGB

Audit opinion

We have performed a reasonable assurance engagement in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance about whether the information contained in the file "pKGaA_KA_KLB_ESEF-2023-12-31-en.zip" (hash value: 655c64d1130bce5ec5c472f363f033563a521f6e-3d7ac45b5e06fa6f68dc4105) and the reproduction of the consolidated financial statements and the combined management report (hereinafter also referred to as "ESEF documents") prepared for publication purposes complies in all material re-spects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit only extends to the conversion of the information contained in the consolidated financial statements and the combined manage-ment report into the ESEF format and therefore does not extend to the information contained in these reproductions or any other information contained in the above-mentioned file.

In our opinion, the reproduction of the consolidated financial statements and the combined man-agement report contained in the above-mentioned provided file and prepared for publication pur-poses complies in all material respects with the requirements of Section 328 (1) HGB for the elec-tronic reporting format. Beyond this audit opinion and our audit opinions on the accompanying con-solidated financial statements and on the accompanying combined management report for the financial year from January 1 to December 31, 2023 contained in the "Report on the audit of the consolidated financial statements and of the combined management report" above, we do not ex-press any opinion on the information contained in these reproductions or on the other information contained in the above-mentioned file.

Basis for the audit opinion

We conducted our audit of the reproduction of the consolidated financial statements and of the combined management report contained in the above-mentioned file provided in accordance with Section 317 (3a) HGB and in compliance with IDW Auditing Standard: Audit of the Electronic Repro-duction of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW PS 410 (06.2022)). Our responsibilities under those requirements are further described in the "Auditor's responsibilities for the audit of the ESEF docu-ments" section. Our audit practice complies with the quality management system requirements of the IDW Quality Management Standard: Requirements for Quality Management in the Auditing Practice (IDW QMS 1 (09.2022)) have been applied.

Responsibility of the legal representative and the Supervisory Board for the ESEF documents

The legal representative of the company is responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the combined management report in accordance with section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements in accordance with section 328 (1) sentence 4 no. 2 HGB.

Furthermore, the company's management is responsible for such internal control as it determines is necessary to enable the preparation of ESEF documents that are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Auditor's responsibility for the audit of the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material – intentional or unintentional – non-compliance with the requirements of Section 328 (1) HGB. During the audit, we exercise professional judgment and maintain professional skepticism. In addition

- Identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit of the ESEF documentation in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these controls.

- we assess the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable at the reporting date for the technical specification for this file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited combined management re-port.
- we assess whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of the Delegated Regulation (EU) 2019/815 in the version ap-plicable at the reporting date provides an adequate and complete machine-readable XBRL copy of the XHTML reproduction.

Other Information pursuant to article 10 eu-aprvo

We were elected as auditor by the annual general meeting on June 30, 2023. We were engaged by the supervisory board on September 4, 2023. We have been the auditor of paragon GmbH & Co. KGaA, Delbrück, since the financial year 2023.

We declare that the audit opinions expressed in this auditor's report are consistent with the addi-tional report to the Supervisory Board pursuant to Article 11 of the EU Audit Regulation (audit re-port).

Other matters – use of the audit Opinion

Our audit opinion should always be read in conjunction with the audited consolidated financial statements and the audited combined management report as well as the audited ESEF documents. The consolidated financial statements and the combined management report converted into the ESEF format – including the versions to be filed in the company register – are merely electronic re-productions of the audited consolidated financial statements and the audited combined manage-ment report and do not replace them. In particular, the ESEF report and our audit opinion contained therein can only be used in conjunction with the audited ESEF documents provided in electronic form.

Note on supplementary audit

We issue this auditor's report on the consolidated financial statements and the combined manage-ment report as well as on the electronic reproduction of the consolidated financial statements and the combined management report included in the provided file "pKGaA_KA_KLB_ESEF-2023-12-31-en.zip" and prepared for disclosure purposes based on our statutory audit completed on April 24, 2024 and our supplementary audit completed on May 7, 2024, which related to the ESEF docu-ments submitted for the first time.

Responsible auditor

The German Public Auditor responsible for the engagement is Florian Wiethe.

Bielefeld, April 24, 2024,

limited to the review of the ESEF documents mentioned in the note on the supplementary audit: May 7, 2024

Rödl & Partner GmbH
Auditing company

signed. Schumacher Auditor	signed. Wiethe Auditor

Appendix to the auditor's report: Non-audited components of the combined management report

We have not audited the content of the following components of the combined management report:

- the declaration on corporate governance pursuant to section 289f and section 315d in conjunction with section 289f (1) HGB and the declaration of conformity of paragon GmbH & Co. KGaA with the German Corporate Governance Code contained in the section "Declaration on corporate governance pursuant to section 289f and section 315d HGB".

In addition, we have not audited the content of the following non-management report disclosures. Disclosures in the combined management report that are not part of the management report are disclosures that are not required pursuant to Sections 289, 289a or 289b to 289f HGB.

- the information contained in the "Quality and environment" section
- the information contained in the "Employees" section on the turnover rate, the rate of severely disabled employees and the average age of employees

Declaration by the Legal Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report 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.

Klaus Dieter Frers
Chairman

Financial calendar

April 25, 2024	Annual Report 2023
May 7, 2024	Interim Group report as of March 31, 2024 – 1st quarter
May 13, 2024	Equity Forum (spring conference), Frankfurt am Main
June 12, 2024	Annual General Meeting, Delbrück
August 21, 2024	Interim Group report as of June 30, 2024 – 1st half-year
September 2, 2024	Equity Forum (fall conference), Frankfurt am Main
November 12, 2024	Interim Group report as of September 30, 2024 – Nine months
November 25, 2024	Equity Forum (Deutsche Börse), Frankfurt am Main

Legal Notice

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