paragon

TAKE OFF
ANNUAL REPORT 2020

Key Figures paragon Group [1]

€ '000 / as indicated	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019	Change
Revenue	144,981	192,188	-24.6%
EBITDA [2]	-10,485	-8,373	-25.2%
EBITDA-margin in %	-7.2	-4.4	n. a.
EBIT	-49,154	-119,947	59.0%
EBIT-margin in %	-33.9	-62.4	n. a.
Consolidated net income	-44,673	-123,524	63.8%
Earnings per share in €	-6.14	-18.29	12.15
Investments (CAPEX) [3]	12,811	41,277	-69.0%
Operating cash flow	18,755	-10,412	n.a.
Free Cashflow [4]	5,944	-51,689	n.a.
€ '000 / as indicated	**Dec. 31, 2020**	**Dec. 31, 2019**	**Change**
Total assets	200,495	274,056	-26.8%
Equity	13,231	52,607	-74.8%
Equity ratio in %	6.6	19.2	n. a.
Cash and cash equivalents	5,664	9,456	-40.1%
Interest-bearing liabilities	135,620	148,974	-9.0%
Employees [5]	996	991	0.5%

1 The paragon Group comprises the Electronics and Mechanics operating segments (paragon Automotive) plus the Electromobility operating segment, which is represented by the fully consolidated Voltabox AG. paragon plans to sell its shares in Voltabox.
2 For information on the calculation of EBITDA, please refer to the explanations in the management report on the financial performance indicators.
3 CAPEX = investments in property, plant and equipment + investment in intangible assets.
4 Free cash flow = operating cash flow – investments (CAPEX).
5 Plus 82 temporary workers (December 31, 2019: 46)

Share

	Dec. 31, 2020	Dec. 31, 2019	Change	Dec. 31, 2020	Sept. 31, 2019	Change
Closing price in Xetra in €	9.78	14.50	-32.6%	9.78	9.30	5,2%
Number of shares issued	4,526,266	4,526,266	0.0%	4,526,266	4,526,266	0,0%
Market capitalization in € millions	44.3	65.6	-21.3	44.3	42.1	2,2

At a Glance

Highlights from Fiscal Year 2020

- Revenue in the Electronics and Mechanics operating segments (paragon Automotive) recovered significantly in the second half of the year after interim coronavirus-related plant closures in spring

- Slight decline in sales compared with the industry as a whole of 6.4% to € 127.2 million (prior year: € 135.9 million)

- paragon Automotive EBITDA increases to € 13.8 million (prior year: € 9.2 million) – margin at 10.8% (prior year: 6.8%) and has thus significantly improved

- Operative cash flow up compared to the prior year – cost-cutting measures proved sustainably effective

- paragon Automotive to use FSD license from Voltabox for automotive applications – sale of Voltabox shares (Electromobility operating segment) needs several weeks more than initially expected

- Forecast for 2021: Approximately € 145 million in automotive revenue at 12 to 15% EBITDA margin and € 10 to 12 million free cash flow expected

Key Figures paragon Automotive [6]

€ '000 / as indicated	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019	Change
Revenue	127,179	135,874	-6.4%
EBITDA [7]	13,792	9,186	50.1%
EBITDA margin in %	10,8	6,8	n. a.
EBIT	-10,646	-15,469	31.2%
EBIT margin in %	-8.4	-11.4	n. a.
Investments (CAPEX) [8]	7,663	26,621	-71.2%
Operating cash flow	14,639	455	3,183.3
Free cash flow [9]	6,976	-26,190	n. a.

6 paragon Automotive comprises the Electronics and Mechanics operating segments, i.e., the business with automotive OEMs as customers. The Electromobility operating segment is represented by the fully consolidated Voltabox AG. paragon plans to sell its shares in Voltabox AG.
7 For information on the calculation of EBITDA, please refer to the explanations in the management report on the financial performance indicators.
8 CAPEX = investments in property, plant and equipment + investment in intangible assets.
9 Free cash flow = operating cash flow – investments (CAPEX).

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Content

Letter From the Management

Dear Shareholders, Customers, Business Partners and Employees,

Abrupt and bitter but at least short-lived in terms of business: This is a concise description of the impact that the outbreak of the coronavirus pandemic had on paragon. Abrupt because in March last year, we – like our competitors and customers – were suddenly confronted with a standstill that we had previously never even considered possible. Bitter because the slump was indeed massive and brought with it a high level of uncertainty and corresponding precautionary measures. But this was also only temporary, because it was clear to us that demand and therefore orders would pick up again.

Our expectations for the second half of the year were cautious in this market situation, which was difficult to assess. However, an increasingly clear market recovery became noticeable in the third quarter. As a result, the second half of 2020 was paragon Automotive's best half-year in the company's history. With organic growth of 7.3% to € 77.1 million, we were also able to clearly stand out from the market average during this period. In 2020 as a whole, we achieved proceeds of € 145 million in the Group; in the Automotive division alone, we generated € 127.1 million in sales revenues despite plant closures that lasted several weeks. This also exceeded the highest expectations on business performance last set as part of the Q3 report. We are very proud of this success!

The measures we introduced to safeguard earnings and liquidity were very tough in some cases – but obviously also absolutely right. These include, in particular, the strategic use of our inventories and the active management approach with respect to trade receivables. We also made resolute adjustments to our receivables management. Having achieved an EBITDA margin of 6.8% with our Automotive business in the first six months, we considerably increased earnings in the second half of the year and demonstrated the potential of paragon: We were able to generate an EBITDA of € 10.4 million, which translates into a margin of 13.5%. paragon Automotive reported an EBITDA margin of 10.8% for the year as a whole, therefore completely fulfilling the forecast for this business segment. The intensification of our efficiency improvement program, the consistent review of costs and the prudent approach to investments also had an impact on the development of cash flow. In this respect, we were able to generate a monthly free cash flow of approximately € 1 million. We have the explicit target of confirming this trend in 2021.

The strong organic development of paragon can be mainly attributed to two operating segments. Our Sensors business saw highly satisfactory development with growth of 6.2% as a result of multiple product start-ups in 2020. In this respect, the bold product start-up of our particle sensor Dustdetect® represents a key driver of this increase in revenue. The most recent start of series production will also boost this operating segment's growth considerably into the double-digit range. The second highlight is provided by our new Digital Assistance operating segment. With year-on-year growth of 88.8%, the growth momentum could be further expanded – and this potential is far from being exhausted. We can clearly see that our technological superiority in the area of AI solutions is increasingly establishing us as a software provider with vehicle manufacturers. The supply and successful marketing of our geni:OS platform plays a decisive role here.

It goes without saying that we want to preserve the momentum of our operating segments in 2021. In addition to the enduring effects from the initiated product start-ups in the Sensors unit, the Digital Assistance operating segment will also grow by more than 50% in the current year. The development of the Kinematics operating segment also gives us a very optimistic outlook. In the current fiscal year, we expect revenue to increase by around 30% compared to the prior year. As a result, we clearly aim to return to the pre-coronavirus growth trajectory. According to plans, paragon Automotive will generate revenue of around € 145 million with an EBITDA margin between 12% and 15% in 2021 – therefore exceeding the level from 2019. Our earnings in the second half of 2020 confirm that this is in fact a realistic goal. Free cash flow will be around € 12 million in the current year.

In addition to the goal of pursuing these promising growth prospects in 2021, we will also continue to strengthen paragon's position for the future. To achieve this, we intend to continue systematically reducing liabilities.

With the decision to sell paragon's shares in Voltabox AG, we made a clear commitment to consistently focusing on the core automotive business. Even though the process of negotiating with the buyer is still ongoing, the pursued adjustments to the structure of the transaction promise significant advantages for all parties. From our perspective, it is key that the interests of paragon are represented to the best possible extent when selling this valuable asset. This goal is a top priority for us. The sales and earnings contribution of Voltabox to paragon Group's consolidated financial statement in 2021 is of course dependent on the realization of the sale. For the current fiscal year, the Voltabox Management Board expects sales of around € 15 million with an EBITDA margin of approximately –15%. The free cash flow of the Voltabox Group is expected to be around € –5 million.

In the spring of this year, we announced the intention to repay the Swiss bond issued in 2019 ahead of schedule. We now expect to make the final payment in 2023. Until that point, we will gradually pay off the bond in multiple partial payments. In doing so, we are constantly addressing our debt structure and, at the same time, reshuffling the cards to use as a foundation to approach our future growth financing. We also consider a partial repurchase of the German bond due in 2022.

With the licensing of the new and innovative Voltabox Flow-Shape Design® (FSD) technology, we have set another path for the future. paragon establishes the new „Power" business unit after taking over the former Voltabox development site in Aachen, Germany, at the end of 2019. Since then, we have continued to develop the advanced 800 V power electronics. From our perspective, the FSD technology offers significant potential and stands out in particular through considerable weight savings relative to battery design, the optimal utilization of installation spaces and also through significant cost-saving potential. To achieve this, we are expanding the field of activity presented last year with the addition of "Drive & Electrify," which combines the existing business of power electronics for electric vehicles, starter batteries and batteries for electric cars. As you can imagine, this new perspective fills us with unbridled enthusiasm to now also finally drive forward the Electromobility megatrend in the automotive industry through our proven processes for automotive applications and our contacts in the sector. We expect initial revenue from this business for 2022 to be in the mid single-digit million range. This potential has not yet been factored into the order book of paragon Automotive.

Overall, paragon looks back at a successful year – especially because we were able to considerably increase our performance. This level of performance would not have been possible without our employees, who show their passionate commitment day after day. Therefore, we would like to take this opportunity to sincerely thank them. Through their positive attitude, we overcame the challenging phase in the first half of the past fiscal year and together rapidly changed the course toward the goals that we are pursuing for paragon and all of us. We also owe our gratitude to our customers and business partners, who demonstrated their collaborative spirit in 2020 and always approached challenges together with us in a solution-oriented manner. Last but not least, we would also like to thank our shareholders, who appreciate our robust business model and who recognized the potential of the measures we implemented for the attractive equity story of paragon.

Klaus Dieter Frers
Chairman of the Board,
CEO

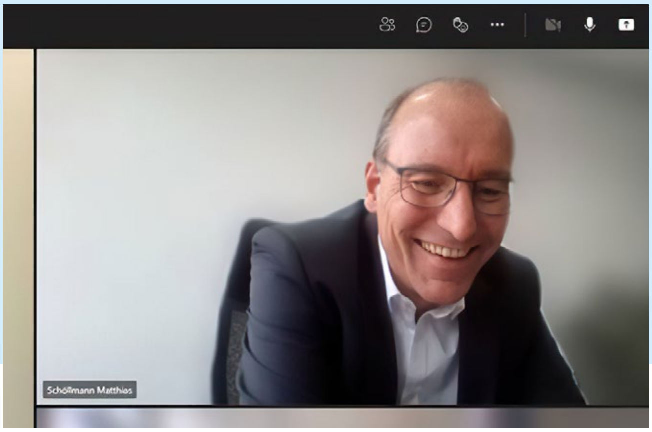
Dr. Matthias Schöllmann
Managing Director
of Automotive

→ We mastered the challenges confidently.

Interview

DR. JOACHIM DAMASKY,
MANAGING DIRECTOR GERMAN ASSOCIATION OF THE AUTOMOTIVE INDUSTRY (VDA)

KLAUS DIETER FRERS,
CHAIRMAN



DR. MATTHIAS SCHÖLLMANN,
MANAGING DIRECTOR AUTOMOTIVE

2020 held unprecedented challenges for manufacturers and suppliers to the automotive industry. For weeks and months, the medium- and long-term effects of the coronavirus pandemic were hard to predict, until the proverbial dust that had been raised by the widespread plant closures settled. Klaus Dieter Frers and Dr. Matthias Schöllmann participated in an interview with Dr. Joachim Damasky, Managing Director of the German Association of the Automotive Industry (VDA), on the insights that they gained over the past year. They also discussed the speed of the recovery and the trends that will drive the industry – and paragon – in the future. The conversation took place via video conference, as is currently usual.

Mr. Frers, please tell us what you were thinking in the middle of March last year, when plant closures by car manufacturers prompted paragon to likewise stop all production in a very short time.

Frers → Of course I watched the first television images and reports from China closely at an early stage to see how the situation was developing there. When the first cases appeared in Germany, I found myself hoping that we would be spared from these difficulties. We actually felt well prepared. We did everything we could to ensure that the supply chains, particularly in the Asian region, would not break down. This allowed us to supply our customers in the automotive industry continuously, and to the planned extent, until they closed The dynamics of our necessary reaction to the manufacturers' decision were unprecedented. In the situation, it was difficult yet vital to keep a cool head and act rationally. The real challenge, though, was not closing our manufacturing sites but rather reopening them six weeks later. I am very proud of the paragon team's achievement.

Dr. Damasky, as Managing Director of the VDA, you have an excellent overview of the automotive industry. How well prepared do you think manufacturers and suppliers were for the pandemic?

Dr. Damasky → It is hardly possible to be prepared for such an unprecedented situation. But I think we mastered the challenges well and confidently. The VDA provided guidance during the shutdown and the restart of production in Germany, working very closely and almost daily in joint routines with manufacturers and suppliers. In my view, that was a fantastic achievement. One factor that proved to be crucial was the critical situation in northern Italy, where the supply of parts broke off relatively early. More than 2,000 suppliers to our industry are located in that region alone. By contrast, only 20 to 25 percent of the parts that are installed on assembly lines come from Germany. The precise timing and organization of these deliveries is what distinguishes our high-performance industry – so does the fact that we deal with such challenges extremely professionally and thus successfully.

What special insights in the sense of "lessons learned" do you think the past few months have brought for the supply industry in particular?

Dr. Damasky → It is clear that the coordination of suppliers plays an essential role. The aim is not only to closely integrate Tier1 suppliers – who deliver directly to the assembly line – into the logistics processes. It is also to more strongly consider Tier2 and Tier3 suppliers. Manufacturers often change their orders up to a week before the specific component is needed on the assembly line. That is hardly consistent with the requirements of such a complex supply chain – electronic components are the best example. New, better processes are needed to better balance out volatilities and to prevent component shortages. In my view, that's the key lesson. And this is only possible if suppliers and manufacturers also work closely together to manage the supply chain.

The situation today is completely different from that in late March 2020. paragon was able to close the past fiscal year with a strong result. What was the deciding factor for the speedy recovery?

Dr. Schöllmann → From my point of view, three things made the difference for us. First, consistent liquidity management, whereby we scrutinized expenditures and investments, utilized inventories and significantly tightened our receivables management. Some of the measures were certainly not easy – but in the end it turned out that we were right on target. Second, we sharpened our campaign of continuous improvement at paragon even more significantly, and pursued all aspects of it more intensively. We also tackled technical aspects such as the optimization of production processes. The situation last year was thus an incitement to pursue our global production network relocations more consistently and quickly. Third, I believe that our attractive product portfolio made a significant contribution to last year's strong performance. We have moved away from thinking in terms of operating segments and released synergy potential in all product areas by defining our fields of activity. It also became apparent in the second half of the year that our new products are having a significant impact and that they can make a particularly strong contribution due to their lasting competitive ability.

A key factor in the rapid recovery of global vehicle sales was the rapid recovery of business in China. paragon also benefited significantly from this. How is the company positioned in this respect, Mr. Frers? And Dr. Damasky, what kind of momentum can the German automotive industry expect in the short and medium term?

Frers → We have continuously increased our footprint in China in recent years. As a result of the upturn in demand last year, direct and indirect deliveries to China now account for around 40 percent of our revenue. We have built up our local presence continuously; in particular, our products in the Sensors unit have been hitting the mark for years. To meet the increasing demand for our solutions, our production in Kunshan has recently been expanded to include development expertise. We are now developing artificial intelligence applications directly on-site for local customers. Kunshan is thus becoming more and more of a complete production facility. I am convinced that we have correctly positioned ourselves here, and that our recent sales offensive will increasingly bear fruit.

Dr. Damasky → China is and remains one of the most important sales and production markets for our vehicle manufacturers. But there are definitely signs that the Chinese economy will increasingly attempt to be self-sufficient and thus independent of foreign technology in the long term. A number of previously made decisions clearly

support this conclusion. At the same time, tensions are increasing at the geopolitical level. Europe should clearly position itself in this regard. We must ensure that the political framework does not change to the detriment of German companies in China. The only goal must be to maintain economic stability.

Mr. Frers has already addressed the stable demand for products from the Sensors unit. You are now once again showing significant growth rates here. What significance does this almost traditional business have for paragon compared with the newer operating segments, Dr. Schöllmann?

Dr. Schöllmann → Indeed, sensor technology is closely linked to the entire history of paragon. The paragon principle that still characterizes the company today – active product development – can essentially be traced back to the activities in this unit. We know that our sensor technology solutions will continue to be an important pillar for paragon's success in the future. Innovative products such as the Dustprotect fine dust filter, which we will see launched in the first customer vehicles this year, are the best proof of this. We see similar potential in our newest operating segment, Digital Assistance. We are particularly proud of our success and growth in this field. We are working hard to roll out the software skills and artificial intelligence applications that we have built up across the entire product portfolio. This opens up an extremely exciting development perspective for us, which is relevant for the entire Group.

Dr. Damasky, in your function as VDA Managing Director, you are also intensively involved with the changes in the value chain. How do you think the added value of software in the automotive industry will develop in the future?

Dr. Damasky → There is no doubt that the share of software in cars – and thus its importance – will continue to increase in the future. Vehicles increasingly differ in terms of their functionality. Not without reason did VW, for example, set up a separate unit to look into the possibilities of integrating software across all its group brands. Numerous players are currently asking themselves whether it is the right strategy to rely on a common open source operating system. The human-machine interface will also continue to change significantly. Vehicles that are already available today show where this journey will lead. They consist more of electronics than mechanics and are characterized by comprehensive screen components, for example. And with all this, we haven't even factored in automated driving. In short, we expect the importance of software to continue to grow exponentially – together with quality and security requirements.

In terms of its own positioning, paragon has always seen itself as a technology company. You have already touched on your plan to use software in all products, Dr. Schöllmann. What can we expect in the future with regard to this?

Dr. Schöllmann → As Dr. Damasky has already explained, software is a key driver for product development and continued development for us as well. Even today, all relevant paragon products have a portion of software that is partly substantial. We also invested very heavily in software skills during the pandemic last year and built up expertise worldwide. In addition to the example of China mentioned by Mr. Frers, we now also have a development site for AI-based software products in India. We will be investing here even more in the current year and further expanding the team. Moreover, product developers in the other business units will also become familiar with AI approaches. We are constantly identifying projects for which we can use AI logic to achieve a functional improvement or one that cannot currently be represented. For example, with AI we are able to build more cost-effective sensors; in the future we will be able to offer functionalities that are not yet possible.

In addition to software, e-mobility is an extremely dynamic driver for the entire industry. It initially seemed that many people saw this megatrend as a threat to the leading role of German manufacturers. In the meantime this view has changed, in part because of massive investments. What opportunities do you see for Germany's automotive industry, Dr. Damasky?

Dr. Damasky → My view is that e-mobility has never been a real threat to us, or been perceived as such. On the contrary, we have been working intensively on the topic for more than ten years with the National Platform for Electric Mobility. As an industry, we have always emphasized that the focus cannot only be on the drive. The infrastructure is key. The German government and the European Union have now recognized this and are providing funding to support the expansion of charging infrastructure. Nearly 100,000 vehicles with fully electric or hybrid-electric drives are now being registered each month. Germany now has the highest registration rates in Europe. The dynamic development accounts for this. I am convinced that the topic of fleet-wide emission targets, which are set by the European Commission, will occupy us for a long time. The Green New Deal envisions that around 60 percent of new registrations in Germany in 2030 will have to be of battery-electric or hybrid-electric vehicles to meet its targets. In two years at the latest, German manufacturers will have launched more than 100 electric vehicles designed for everyday use. This shows that past investments have been well spent and demonstrates the innovative strength of the German automotive industry. As a result, the German automobile industry and its associated Group brands are now among the global market leaders in the field of e-mobility.

Mr. Frers, by now it is known that you want to separate from the former Electromobility segment in the paragon Group and sell the stake in Voltabox AG. Now, however, paragon Automotive is also acting as a licensee for the new Voltabox FSD technology. How did this come about?

Frers → IFlow-Shape Design technology is in fact very exciting because it represents a breakthrough in battery technology The use of molded foam instead of heavy metal housings will allow batteries to be shaped in almost any way in the future, making them significantly lighter and thus also more affordable. Voltabox's strengths lie in industrial applications and it will continue to work on these sub-markets. At paragon, however, we clearly see the opportunities presented by FSD in our automotive focus market. We have received numerous inquiries, and the first pilot projects are being worked through. As a licensee, we can use our established processes and the close relationship we already have with our customers to serve the automotive market. This is a win-win situation for everyone involved. That is why we are bundling our activities in e-mobility for automotive applications in the new Power operating segment.

What specifically are you focusing on with paragon Automotive?

Dr. Schöllmann → We have two perspectives in particular in mind. On the one hand, we will use the FSD concept described by Mr. Frers for automotive applications. Using it in cars, trucks or motorcycles suggests itself because the weight savings, lower costs, significantly improved assembly space efficiency, and clear advantages with regard to vibration properties will address key challenges faced by e-mobility in automotive applications. We want to permanently establish ourselves in this market as a supplier, and increasingly also as a system provider. On the other hand, we would like to make the superb know-how in the field of power electronics that is bundled at our Aachen site as well our test bed expertise even more accessible to the market. We are especially targeting component manufacturers, who we can help with the development of e-machines, for example. The new Power operating segment is part of our sixth field of activity, "Drive & Electrify." Our plan is to develop the business unit to a scale similar to that which the other business units will also have in two to three years. We are thus pursuing the ambitious goal of rapidly establishing e-mobility in automotive applications as paragon's fifth pillar.

paragon began preparing for the future at an early stage – and invested a lot of money to do so. Now you have announced that you will reduce paragon's liabilities faster than expected, by repaying bonds ahead of schedule in addition to other things. What debt ratio are you aiming for in the medium term? And what refinancing options do you have in mind?

Frers → We have already stated that we would not have weathered the slump in the spring so well without such good and frequently unique products in our portfolio. We are thus clearly benefiting from the investments we made in the recent past. In the next phase, we would like to repay the debts that were necessary for this. In 2019, we already started to make processes more efficient and to improve our liquidity and receivables management. The positive development of free cash flow in recent quarters shows that our measures are having the intended effect. This is a form of support that will make it possible for us to repay the Swiss bond issued in 2019 one year earlier, as announced. We also see this as a signal to the capital market that we are acting from a position of strength. In parallel, we are continuing to drive forward the sale of Voltabox. We are happy to say that we are quite far along in the negotiations. Once the final steps have been implemented and there are no objections from the authorities, the resulting proceeds will naturally help us continue to consistently reduce our liabilities. However, we have also worked out a large number of additional measures that provide us with sufficient room to implement our plan to repay the bond early. In principle, we are pursuing the goal of rapidly reducing debt in the coming years to such an extent that activities on the capital market will once again be possible. .

You mention that paragon has repeatedly confirmed its significantly improved internal financing capability. How are you ensuring that you can maintain this level?

Frers → The same teams and processes that have helped us become more agile and efficient since 2019 are currently helping us to continuously improve our earnings situation. We continue to identify optimization potential. We are scrutinizing costs and developing more affordable alternatives. Our finance department, where we have significantly strengthened various positions, is making a major contribution to this. We have already taken a very close look at our individual sites and are examining detailed processes intensively. We are certain that we will not only be able to maintain this level but even increase it point by point.

You already raised the revenue forecast early this year and are aiming for a very solid result. What plans have you set for the current year aside from performance indicators?

Frers → Right, we are actually quite optimistic about our expectations for the fiscal year. In 2021, we aim to exceed the revenue level of 2019. Following the best half-year in the company's history as well as a promising first quarter of 2021, in which we grew eight percent more than planned, we have every reason to be confident. The revenue forecast of € 145 million in the automotive business is even a conservative estimate. We were already able to confidently achieve our targeted EBITDA margin in the second half of 2020, and we impressively demonstrated the efficiency of paragon Automotive in the first three months of the current fiscal year. Our free cash flow target is also presentable based on the level achieved in the prior year. However, expanding our customer base is at least as important to us. We would like to continue establishing international contacts. I'm thinking of China in particular, along with other countries. There are definitely still one or two open spots on the map where we can increase our footprint. We have already started to expand our sales base. In the current year, we are thus in the very good position of being able to focus on preparing the organization for further growth.

That brings us to the final question, Dr. Damasky. Which end-of-the-year summary would you like to see for 2021 – including with a view to the German automotive supply industry?

Dr. Damasky → If I could imagine a headline for the end of the year, it would be that the coronavirus is under control and normal business is possible again. I would be delighted to see the automotive supplier industry build a resilient future strategy by then, to ideally provide it with security with regard to powertrain replacement. This would make it possible to tackle challenges relating to both financing and new product development in a way that is reasonably stable. Perhaps I'm a bit too optimistic, but a summary of the year that looked like this would be clearly desirable. It would mean we had taken a big step forward.

Dr. Damasky, Mr. Frers, Dr. Schöllmann, thank you very much for your time and this interesting discussion!

→ **Profile of Dr. Joachim Damasky**

Dr. Joachim Damasky (born 1961 in Giessen) studied electrical engineering at the Technical University of Darmstadt. After completing a PhD in 1995, he took on management positions at Hella KGaA in Lippstadt and was later the commercial director of Behr Hella Service GmbH (Schwäbisch Hall). In August 2008, Dr. Damasky was appointed to the Management Board of Webasto SE (formerly Webasto AG). Since May 2016, Dr. Damasky has been Managing Director at the VDA with responsibility for the Products & Value Creation business unit.

paragon | Investor Relations

Capital Market Environment

The German stock market continued seamlessly onward from its dynamic year-end spurt in 2019 and built up gradually to a new all-time high in January of this year. This development was fueled by various economic and trade policy signals. At the same time, the news surrounding the spread of the novel coronavirus built up a powerful counterweight that increasingly depressed the mood of market participants in the course of the first quarter. According to the Frankfurt Sentiment Index, the bearish camp of institutional investors increased by 20 percentage points in the first half of February, reaching 39%. As the spread of the disease reached pandemic proportions, German and U.S. stock markets ultimately responded with dramatic fluctuations. Governments and central banks were compelled to react to the strongly pessimistic mood by announcing extensive countermeasures, which led to a significant recovery in share prices.

In mid-April, however, the sentiment index ultimately fell to -40 points, its lowest level since it was first collected in 2002. The behavior of market participants was determined primarily by the negative outlook for the global economy. This sentiment was supported by Bank of America's "Bull & Bear" Index, which showed a value of 0.0 on a scale of 0 to 10 – in short: extreme pessimism. In the meantime, however, the U.S. Federal Reserve bank had announced its new bond purchase program in the amount of an additional USD 2.3 trillion, thus providing an economic stimulus. The gradual relaxation of restrictions due to the COVID-19 pandemic subsequently served to reassure the markets, and the DAX rallied towards recovery in April and May. The fragility of this trend was shown by the dramatic counter-reaction in mid-June following concerns of a repeated flare-up of the COVID-19 pandemic against the backdrop of increasing infection rates, which led to a temporary 10% drop in the index.

Although the sentiment index for both private and institutional investors stood in negative terrain at the end of June, the ostensibly pessimistic mood was moderated when assessed in regard to three- and six-month time horizons. This was particularly the case for institutional investors, whose sentiment index actually registered significantly higher than the three-month average.

Though the development of the COVID-19 crisis also kept the stock markets in suspense at the beginning of the second half of the year, it did not prevent the market from surging. However, a significant number of the national investors surveyed as part of the Frankfurt Sentiment Index did not trust the stable situation on the stock market and remained pessimistic despite the upturn in prices in July and August. Meanwhile, international investors in particular drove the recovery of the leading German indices. The EU special summit on a comprehensive reconstruction package sent an important signal of agreement. This led to an initial noticeable improvement in the outlook of market participants in this country, before pessimism returned in mid-August. In the meantime, the international stock markets became more dynamic once again. In particular, the broad-based S&P 500 index and the Nasdaq technology exchange reached new all-time highs. As a result of the change in strategy by the U.S. Federal Reserve and a strong rise in the euro against the dollar, the market sentiment as depicted by the Frankfurt Sentiment Index improved steadily at the end of August and the beginning of September. The sentiment barometer reached its highest value since March 25. This development was supported by the Bank of America (BofA) fund manager survey, which found that a net 84% of respondents believed in September that global growth would improve over the next twelve months. In addition, a net 40% of the participants – more than ever since the start of the survey – assume there will be a strong surge in growth. Institutional investors with medium-term orientations were also inspired by such assessments. By the end of September, the Frankfurt Sentiment Index had risen to its highest level since March 18 of this year, defying interim setbacks caused by negative news as well as disappointing economic and fiscal stimuli.

From the fourth quarter of the year onwards, the stock markets were dominated by the issues from the U.S. in particular, in addition to the impacts of the COVID-19 pandemic that were once again becoming increasingly severe. According to a survey conducted by Bank of America on October 8, uncertainty over the outcome of the U.S. stimulus package, which lasted several weeks, and the uncertain outcome of the U.S. presidential election were the next risk factors for managers after the COVID-19 situation. However, it was not only the situation in the United States that influenced stock market activity. Discussions about an imminent lockdown in Germany also led to significant sell-offs, particularly of eurozone shares, at the end of October. Hopes associated with a change of power as a result of the U.S. elections fueled expectations of upcoming stock market rallies in the first half of November. The announcements made by the pharmaceutical companies Biontech and Pfizer, and later by the U.S. Biotech company Moderna, regarding a vaccine against the COVID-19 virus also generated high hopes on the stock markets here in Germany. But the stock markets abroad also boomed, with the Dow Jones topping the 30,000-point mark for the first time in its history on November 24, 2020. This generally positive development in vaccines, as well as the associated good prospects for an economically successful year in 2021, also caused the Frankfurt Sentiment Index to rise to +33, its highest level in almost two years. At the beginning of December, the DAX was rather sluggish in contrast to the three major U.S. indices (S&P 500, Dow Jones and Nasdaq). Neither the tough negotiations regarding an agreement on Brexit nor the stalled negotiations on a financial stimulus program in the U.S. and Japan's announced economic stimulus program amounting to the equivalent of USD 700 million were able to have a major impact on German stock market prices. However, this sluggishness also diminished in mid-December with the increasing availability of vaccines, with the result that international investors were very optimistic and local investors optimistic about the development of share prices. Toward the end of the year, the DAX finally reached a new all-time high of 13,790 thanks to the consistently positive mood for shares.

As a result, the most important German stock indices completely compensated for the interim losses in 2020 (DAX 3.55%, SDAX 18.01%, TecDAX 6.56%). The DAXSector Technology, which comprises the technology stocks, closed 2020 with a gain of 45.3%.

Share: Price Performance and Trading Volumes

In the past fiscal year, the price of the paragon share was unable to escape the factors weighing on the capital markets, such as the coronavirus crisis in particular. After a hopeful start to the year, the share price fell sharply in the first quarter. Although the share price recovered in the following quarters, there was no correlation between the comparatively good operational performance of the company in the second half of the year and the share price performance, with the result that the most important German stock indices outperformed the paragon share. However, in a decisive comparison with the STOXX Europe 600 Automobile & Parts (SXAP), which comprises the most important shares in the automotive sector, the paragon share performed better.

With an Xetra closing price of € 9.78 as of the reporting date (prior year: € 14.50), the share price fell by -32.6% over the course of the year (prior year: price loss of -17.0%). This corresponds to a decrease in the company's stock market value of around € -21.3 million (prior year: loss of € -13.5 million).

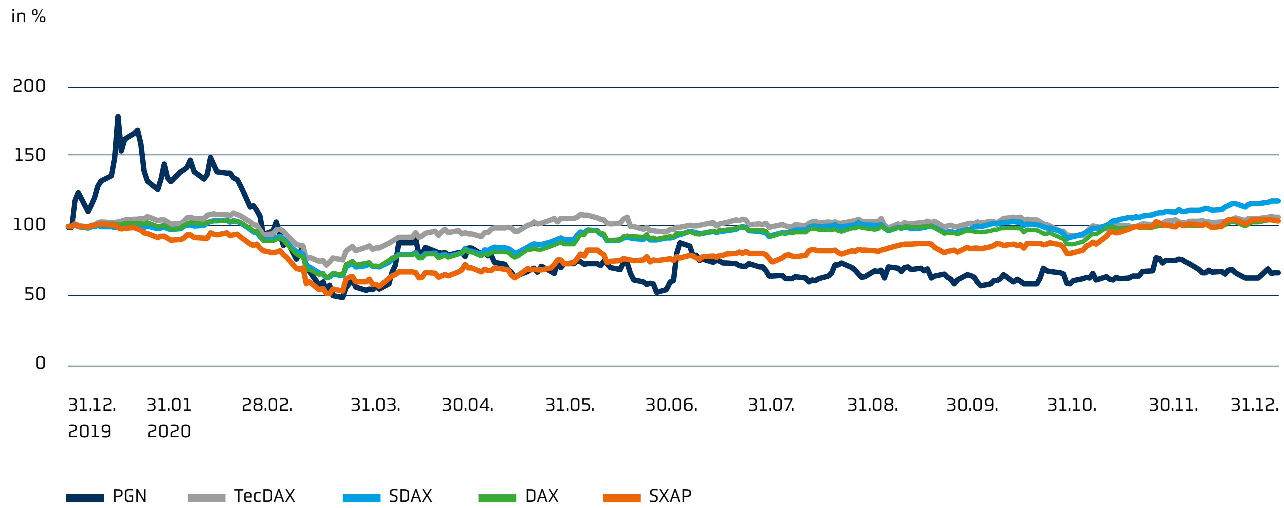
The most important German stock indices concluded the first quarter with clear decreases (DAX -25.0%, SDAX -26.1%, TecDAX -13.8%). The STOXX Europe 600 Automobiles & Parts recorded a loss of -37.5%. The paragon share suffered a loss in value of -44.1% in the same period. Starting from an initial price of € 14.50, the paragon share saw positive development in the first few trading days of the year and rose rapidly to its high of € 25.95 in mid-January. In the weeks that followed, the share was able to maintain this high level in relation to the previous quarter until, from the second half of February onwards, the increasing spread of the coronavirus caused nervousness on the markets. The paragon share came under additional pressure following announcements by automobile manufacturers that they would temporarily suspend production, resulting in paragon plant closures. The share reached its low of € 7.20 on March 23, 2020. The closing price for the first quarter was € 8.10. Accordingly, the market value of paragon at this time came to € 36.7 million, which corresponds to a drop in value in the first quarter of € -28.9 million.

In the second quarter, the most important German stock indices partially compensated for the losses of the first quarter (DAX 29.0%, SDAX 27.9%, TecDAX 16.4%, SXAP 30.7%). Although the paragon share also recorded an increase in value, this was lower than for the major indices. Starting from an initial price of € 8.00, the paragon share gained momentum again in the first half of April in line with the general mood on the stock markets, reaching a high of € 13.36 on April 14. Subsequently, the share recorded sideways movement. Shortly before the reporting date, the share came under pressure again and was then unable to maintain its level. After an interim low of € 7.75 on June 26, the paragon share closed the quarter at € 8.85. The market value of paragon at this time came to € 40.1 million, which corresponds to an increase in value in the second quarter of € 3.8 million.

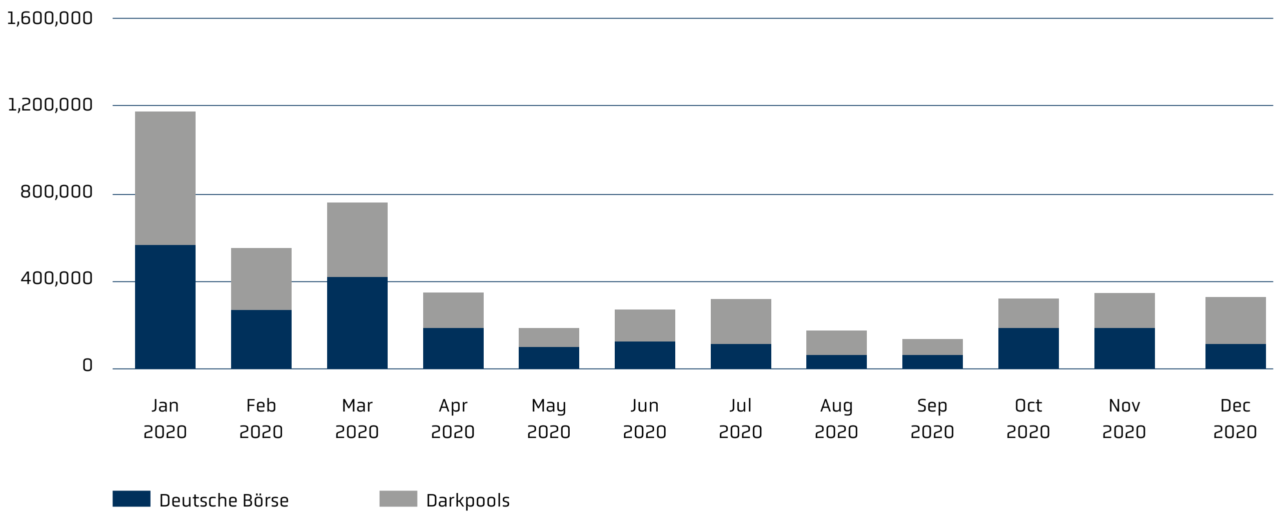
In the third quarter, the recovery of the main German stock indices was somewhat less pronounced. While the DAX rose by 4.1% and the TecDAX by 3.6%, the SDAX (8.0%) and the stocks included in the STOXX Europe 600 Automobiles & Parts (SXAP) (11.1%) were the main performers. The paragon share joined this development with a slight increase in price of 3.6% compared to the previous quarter. Starting from an initial price of € 8.98, the share price rose rapidly at the beginning of July to € 12.86, which represented the highest price in this quarter. Subsequently, however, the stock did not receive any further momentum and remained in the range of € 9 to 10 for an extended period. The low of € 8.60 was reached on September 24 before the share ended the quarter on September 30 at a closing price of € 9.30. Accordingly, the market value of paragon at this time came to € 42.1 million, which corresponds to an increase in value in the third quarter of € 2.0 million.

In the fourth quarter, the main German stock indices once again boosted their performance on the basis of positive momentum and the hopeful outlook for short and medium-term recovery from economic data. In particular, the SDAX (17.7%) and also the European automotive stocks (SXAP 22.7%) continued to recover during this phase, while the DAX (7.8%) and TecDAX (3.2%) were somewhat less dynamic. In this environment, the paragon share increased in value by 11.6%. Starting from an opening price of € 8.76 and a low of € 8.42 for this quarter on the following day, October 2, the share experienced little impetus for upward momentum in the following weeks. The share price made a significant leap on November 24 when it rose to € 11.34, which was

Performance of paragon share



Trading volume of paragon share



ultimately the highest price in the fourth quarter. By the reporting date, however, the paragon share was no longer able to maintain the level from the end of November, so a closing price of € 9.78 was registered on the last trading day of the year. This corresponds to a stock market value for the company of around € 44.3 million as of this reporting date and a fourth-quarter increase in its stock market value of roughly € 2.2 million.

Over the year as a whole, the volume traded each month averaged around 399 thousand shares (prior year: 274 thousand shares). Deutsche Börse AG's trading platforms accounted for around 49.1% of this volume (prior year: 57.1%). Trading via dark pools (i.e., internal bank and stock exchange trading) thus increased slightly in the past fiscal year.

In the first quarter, the monthly trading volume was by far the highest for the year at around 824 thousand shares. This was due to the above-average level of trading activity in January with around 1.2 million shares. In the second quarter, trading volumes declined significantly to around 263 thousand shares per month, followed by an increase in trading activity to 208 thousand shares per month in the third quarter in line with the usual seasonal effects for this period. Finally, the final quarter of 2020 was marked by a noticeable increase in trading volume to 304 thousand shares.

Corporate Bond 2017/22

The corporate bond (ISIN DE000A2GSB86; WKN A2GSB8) that was placed on June 27, 2017, with a total volume of € 50 million has an interest coupon of 4.5% p.a. (as of July 5 each year). The bond is listed on the open market (free trade) of the Frankfurt Stock Exchange in Deutsche Börse AG's Scale segment for corporate bonds. This bond matures on July 5, 2022. It closed the year trading in Frankfurt at 54.0% of the issue price. On average over the year as a whole, the bond traded at 51.7%. A company rating is not planned for this bond.

Corporate Bond 2019/24

On April 4, 2019, paragon issued a bond under the leadership of Helvetische Bank AG for CHF 35 million with a coupon of 4.00% and a fixed term of five years. The bond has been listed on the SIX Swiss Exchange under the ISIN CH0419041105 since April 23, 2019, and has been interest-bearing since that date, first payable on April 23, 2020. The smallest tradable unit is CHF 5,000. The bond closed the year trading at 41.0% of the issue price. On average over the year as a whole, the bond traded at 49.0%. After the end of fiscal year 2020, on April 7, 2021, the term of the bond was shortened to four 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.

Investment in Voltabox AG

At the end of the reporting year, the company had an approximately 54.5% investment in its subsidiary Voltabox AG, which is listed in the Prime Standard segment of the Frankfurt Stock Exchange with the symbol VBX, the ISIN DE000A2E4LE9 and the WKN A2E4LE. At that time, this investment had a stock exchange valuation of around € 32.5 million. Voltabox AG is fully consolidated in the consolidated financial statements. Minority interests are indicated separately in the Group's statement of comprehensive income.

In 2020, the Management of paragon decided to initiate a sales process for the investment in Voltabox AG. The options range from a partial sale to a complete sale of the subsidiary. In fiscal year 2020, over-the-counter reallocations of smaller share blocks totaling 880,000 shares were made. Accordingly, paragon's shareholding in Voltabox AG decreased from around 60.0% to around 54.5% over the course of the year.

As a result of the sale, paragon GmbH & Co. KGaA will lose control over the subsidiaries Voltabox AG, Voltabox of Texas, Inc., Voltabox of North America, Inc. and Voltabox Kunshan Co., Ltd. In the interim financial reports for 2020, the company accounted for the subsidiaries in accordance with IFRS 5 and reported the Voltabox subgroup as a discontinued operation, in anticipation of the conditions for full consolidation no longer being met in the future. In accordance with the auditor's statement, the company is fully consolidating the Voltabox subgroup in its annual financial statements as of December 31, 2020.

Financial Communications

paragon GmbH & Co. KGaA informed all capital market participants as promptly as possible and in parallel about the economic situation of the company despite the difficult circumstances and the temporarily low visibility as a result of the coronavirus crisis. The continuous reporting included the annual report for fiscal year 2019 (published on August 20, 2020), the interim report as of March 31, 2020 – 1st quarter (published on August 20, 2020), the interim report as of June 30, 2020 – 1st half-year (published on September 4, 2020) and the interim report as of September 30 2020 – 9 months (published on October 30, 2020), among others. In addition to these reporting dates, paragon GmbH & Co. KGaA published financial notices, which also included the Management's assessment of further business development.

The Management's revenue and earnings forecast for fiscal year 2020 dated November 13, 2019, was withdrawn by Management on March 27, 2020, under the impact of nationwide plant closures due to the spread of the COVID-19 pandemic. In a corporate news release published on July 15, 2020, Management announced its new forecast for fiscal year 2020. This was presented in the Group management report published on August 20, 2020, as an interval forecast, including the main assumptions on which the forecasts are based. In the half-year report published on September 4, 2020, the company was already able to raise its revenue forecast due to the better-than-expected development of capacity utilization.

In view of the restrictions on direct and personal communication with institutional and private investors in the past fiscal year, the Company made particular efforts to maintain the best possible interaction with capital market stakeholders and to provide transparent information on business developments.

The company sees effective financial communication as the targeted reduction in the asymmetric flow of information between Management and shareholders on the current economic situation and specific future potential of paragon GmbH & Co. KGaA. Accordingly, the ongoing dialog with professional capital market participants is given a high priority. Furthermore, the company aims to provide the broader public with up-to-date and relevant information 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

The Management and Supervisory Board of paragon GmbH & Co. KGaA uphold the obligation highlighted in the German Corporate Governance Code (GCGC) of ensuring the continued viability of the company and its sustained value creation (corporate interests) in conformity with the principles of the "social market economy." There were no conflicts of interest among the Management or Supervisory Board members in fiscal year 2020. The mandates of the Supervisory Board members are listed in the notes (note (45)).

The Supervisory Board of paragon GmbH & Co. KGaA fulfilled the consulting and monitoring obligations incumbent upon it according to law, the Articles of Association, German Corporate Governance Code and rules of procedure with great care in fiscal year 2020. Here, the Supervisory Board supervised the company's Management on an ongoing basis and made sure of its legal and regulatory compliance, appropriateness and effectiveness. Furthermore, the Supervisory Board was available to the Management for consultation and was involved in discussions and decisions regarding issues of material importance. Thanks to the good cooperation between the Supervisory Board members, even time-sensitive decisions were resolved quickly.

In February 2021, the Management and Supervisory Board updated the company's Declaration of Compliance according to Section 161 of the German Stock Corporation Act (AktG) and made it publicly available on the Investor Relations page of the paragon GmbH & Co. KGaA website. The deviations from the recommendations of the GCGC and additional information on corporate governance at paragon GmbH & Co. KGaA are also provided here.

Prof. Dr.-Ing. Lutz Eckstein

The Management comprehensively informed the Supervisory Board in written and oral form in the Supervisory Board meetings on all proceedings of material importance, the Company's general performance and its current situation. In the year under review, the main focus was of course on the impact of the coronavirus crisis on the company. The Supervisory Board together with the Management focused in particular on the topics of strategy, planning, business development, the risk situation and risk management. In addition, the Supervisory Board members intensively reviewed the Management's reports and discussed them at its meetings. In addition to the Supervisory Board meetings and conference calls involving all of the members of the Management and the Supervisory Board, the Supervisory Board Chairman and the Management discussed important matters when necessary. The Supervisory Board was comprehensively informed about exceptional instances that were of material importance for assessing the year's results.

Supervisory Board Meetings

In fiscal year 2020, the Supervisory Board convened at four ordinary plenary meetings and held four conference calls. By agreement between the Supervisory board and the Management, the ordinary plenary meetings were postponed to the second half of the year due to the coronavirus crisis. All Supervisory Board meetings were held with the participation of the Management. The Supervisory Board was present for every meeting.

In a conference call on April 9, 2020, the Management informed the Supervisory Board about measures taken by the company to manage the coronavirus crisis, in particular with regard to liquidity management as a result of the loss of production due to the forced plant closures.

In another conference call on April 23, 2020, the Management briefed the Supervisory Board on the various options for ensuring the company's liquidity as a result of the revenue shortfalls. Furthermore, the Management provided an overview of the discussions with the main customers regarding the restart of vehicle production.

On May 26, 2020, the Supervisory Board and the Management held another conference call. In the call, the Management explained the progress of the sale process for Voltabox and gave insight into the discussions with customers regarding a reduction of the financial consequences through the coronavirus crisis.

In the conference call on June 10, 2020, the Management described the current status of the promised temporary support from the automotive manufacturers and further measures to ensure liquidity. At the same time, the Management was able to report positive signs in the development of revenue. In addition, the conference call dealt with the sale process for the stake in Voltabox.

The focus of the first ordinary meeting of the Supervisory Board in Delbrück on August 20, 2020, was the assessment and verification of the annual financial statements for fiscal year 2019 as well as the assessment and acknowledgement of the consolidated financial statements for fiscal year 2019. For this purpose, the Supervisory Board Chairman and the auditors were connected by telephone. The Management also explained the revenue and asset situation of the year under review and the main factors influencing it. Furthermore, the Supervisory Board also dealt with the nomination of the auditor of the annual and consolidated financial statements for fiscal year 2020 and recommended Baker Tilly GmbH & Co. KG Wirtschaftsprufungsgesellschaft, Düsseldorf, as the auditor of the annual and consolidated financial statements. During this meeting, the Supervisory Board also discussed the agenda of the Annual General Meeting and approved the invitation proposed by the Management. In addition, the Supervisory Board was informed about current business development in the first half of the year and, in particular, the effects of the coronavirus crisis.

At its second ordinary meeting in Delbrück on September 15, 2020, the Supervisory Board learned about the business development and in particular the current capacity utilization and the recovery of revenue generation. Among other things, the focus was on the specific measures taken to overcome the crisis, such as active working capital management. The Management also provided an outlook on the medium-term future of the company and outlined various courses of action for paragon's Automotive business.

At the third ordinary meeting in Delbrück on November 10, 2020, the focus was again on current business developments. The Management showed the Supervisory Board the current customer structure and significant changes in the composition, among other things. The focus was also on the pleasing development of revenue and earnings at the EBITDA level in the third quarter and the associated increased forecast for fiscal year 2020.

In its fourth meeting in Delbrück on December 16, 2020, the Supervisory Board focused on the development of business during the first nine months of the year and the company's current prospects. It also discussed the planning for fiscal year 2021 as presented by the Management as well as the scheduling of the financial calendar for 2021.

Forming Committees

As in the past, the three-member Supervisory Board did not form any committees in fiscal year 2020 and dealt with all issues as a single body.

Audit of the Annual Financial Statements and Consolidated Financial Statements for Fiscal Year 2020

Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed by resolution of the Annual General Meeting on September 15, 2020, as auditor for the fiscal year from January 1 to December 31, 2020, and accordingly commissioned by the Supervisory Board Chairman. The Supervisory Board was provided a statement of independence from the auditor pursuant to No. 7.2.1 of the German Corporate Governance Code.

The scope of the audit included the annual financial statements of paragon GmbH & Co. KGaA prepared by the Management pursuant to the provisions of the German Commercial Code (HGB) for the fiscal year from January 1, 2020, to December 31, 2020, the consolidated financial statements prepared by the Management pursuant to Section 315a of the German Commercial Code and on the basis of the International Financial Reporting Standards (IFRS) for the fiscal year from January 1, 2020, to December 31, 2020, and the combined management report of the paragon Group and paragon GmbH & Co. KGaA.

Upon completion of the audit, Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, issued an unqualified audit certificate for 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 established by the Management meets the statutory requirements and is suitable for recognizing developments that could endanger the continued existence of the company at an early stage.

The auditor made the documents submitted for auditing concerning 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 available to every member of the Supervisory Board. The audit was reported on and discussed at the Supervisory Board meeting on July 19, 2021. The auditors participated in the discussions on the annual and consolidated financial statements. The auditors reported on the key audit results and were available to the Supervisory Board to answer any questions and provide additional information. Based on the final outcome of its examinations, the Supervisory Board acknowledged the annual and consolidated financial statements.

In a meeting on July 19, 2021, the Supervisory Board also followed the Management's proposal to refrain from distributing a dividend in light of the challenges posed by the global coronavirus pandemic and the negative earnings in the separate financial statements in accordance with the HGB. The Supervisory Board did not exercise its right to inspect the company's accounts and correspondence in the past fiscal year.

The Supervisory Board expresses its gratitude and appreciation to the members of Management and all of the Group's employees for their hard work and personal commitment in 2020.

Delbrück, Germany, July 19, 2021

For the Supervisory Board,

Prof. Dr.-Ing. Lutz Eckstein
Supervisory Board Chairman

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

Key Facts About the Group

Group Business Model

According to its Articles of Association, the business purpose of paragon GmbH & Co. KGaA (hereinafter also the “company”) is the research and development of microelectronics, the manufacture and sale of electronic devices, related peripherals and modules as well as the management of patents, licenses and utility models. paragon may establish or acquire other companies, hold interests in companies, establish branches and implement any other measures for the paragon Group and paragon GmbH & Co. KGaA and carry out legal transactions that are necessary or serve to achieve or promote the company’s aims.

The business model of the paragon Group (hereinafter also simply “paragon”) is based on the independent development of product innovations at its own expense. To achieve this, a proven innovation system is used to keep the current product portfolio at a very high level of innovation. With the overall vehicle expertise that has been built up over the last three decades in the paragon Group, developments and prototypes are characterized by a deep understanding of the entire automotive manufacturing process.

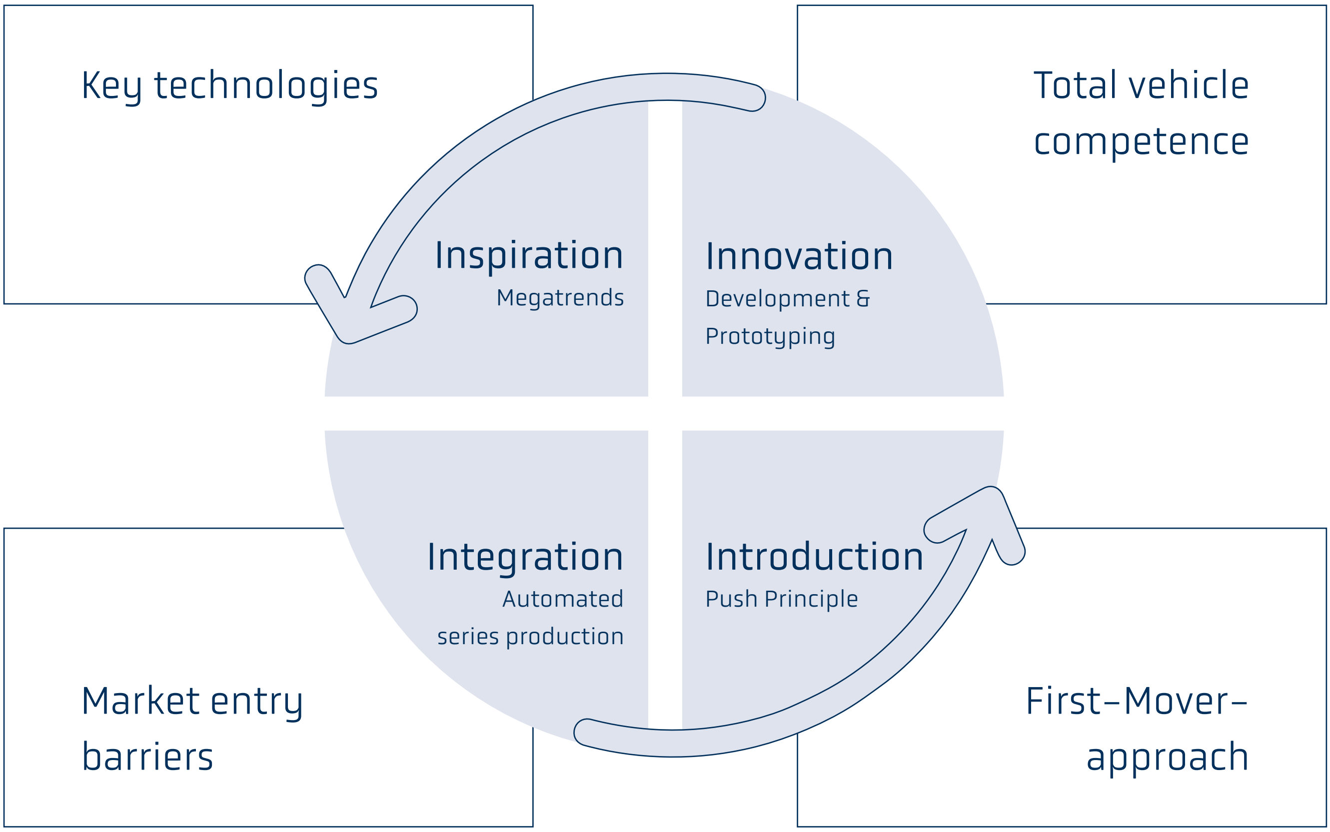
The product innovation process within the paragon Group is inspired by the core idea of enhancing the driving experience for modern car users (end customers).

Based on the global megatrends of climate change, digitalization and urbanization, paragon identifies the megatrends that are of relevance for the automotive value chain: digitalization, CO2 reduction, increased comfort and urbanization. The fields of innovation relevant for paragon’s business model are derived from these trends: shared mobility, connectivity, e-mobility, autonomous driving, digital assistance and emission control. These are systematically covered by its Sensors, Interior, Digital Assistance, Kinematics and (since 2021) Power units. This allows paragon to accurately anticipate the demands of end customers for modern features and characteristics in future models. In the recent past, paragon has increasingly built up skill sets in the area of software – initially in particular through the acquisition of what is now paragon semvox GmbH, which today forms the Digital Assistance unit.

The market launch of product innovations follows the “push principle,” where specific marketing with automotive manufacturers as direct customers only begins once functional prototypes (A-samples) and the corresponding patent applications have been established. This allows paragon to maintain a time advantage over its competitors even in shorter innovation cycles. With an optimized vertical range of manufacturing, paragon has also established itself as a reliable partner for automotive manufacturers.

The level 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 way, the series production of a wide range of product variations represents its own field of innovation within the company.

Business Model



Group Structure

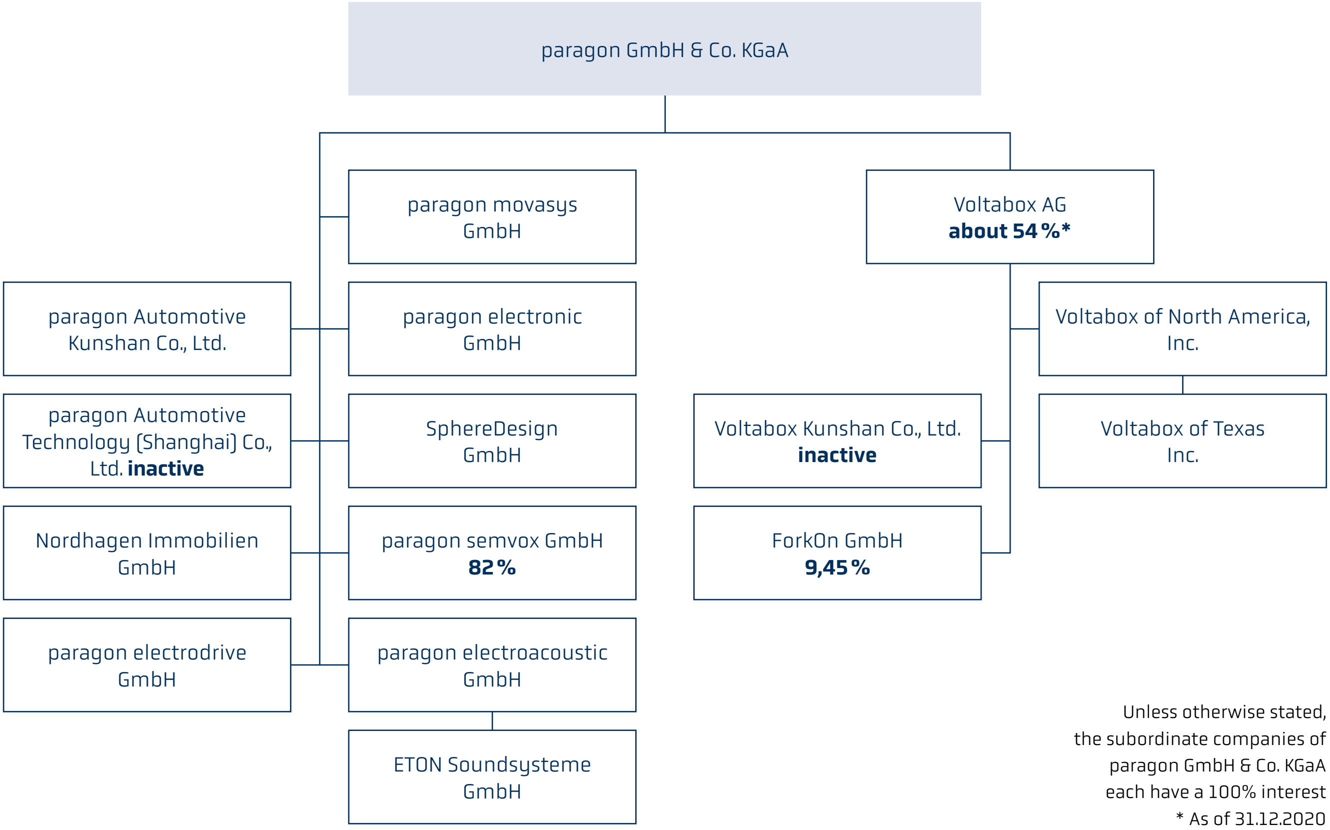
paragon GmbH & Co. KGaA is the parent company of the paragon Group. In addition to the company headquarters at 33129 Delbrück, Bösendamm 11 (North Rhine-Westphalia, Germany), paragon GmbH & Co. KGaA and its subsidiaries operate sites in Suhl (Thuringia, Germany), Landsberg am Lech, Neu-Ulm and Nuremberg (Bavaria, Germany), St. Georgen (Baden-Württemberg, Germany), Limbach (Saarland, Germany), Aachen (North Rhine-Westphalia, Germany) as well as in Austin (Texas, USA), Kunshan (China) and Oroslavje (Croatia).

In addition to the parent company, the scope of consolidation for the paragon Group includes the domestic subsidiaries paragon movasys GmbH, paragon semvox GmbH (share: 82%), paragon electronic GmbH, SphereDesign GmbH, paragon electroacoustic GmbH, ETON Soundsysteme GmbH, paragon electrodrive GmbH and Nordhagen Immobilien GmbH.

Furthermore, the foreign subsidiaries paragon Automotive Kunshan Co., Ltd, and paragon Automotive Technology (Shanghai) Co., Ltd. are also included in the scope of consolidation for the paragon Group. Unless otherwise stated, paragon holds 100% of the shares in each company.

The Group currently also includes Voltabox AG (share as of December 31, 2020: around 54.47%), which is also listed in the Prime Standard segment of the Frankfurt Stock Exchange, together with its foreign subsidiaries Voltabox of North America, Inc., Voltabox of Texas, Inc. and Voltabox Kunshan Co., Ltd. In 2020, the Management of paragon decided to initiate a sales process for the investment in Voltabox AG.

Group Structure



Unless otherwise stated, the subordinate companies of paragon GmbH & Co. KGaA each have a 100% interest
* As of 31.12.2020

Corporate Strategy

Through its corporate strategy, paragon pursues the goal of sustainable and stable growth in order to safeguard the company's long-term success. This strategy is developed as part of a revolving process at management level. paragon's sustainable strategy is based on the independent development of product innovations from the relevant fields – shared mobility, connectivity, e-mobility, autonomous driving and digital assistance – for the automotive industry, in order to achieve a sustained improvement in the driving experience for the company's end customers: modern car users.

Despite the decision by paragon's management to initiate the process for the complete or partial sale of its stake in Voltabox AG and to thereby refocus its operating activities more strongly on its core Automotive business, the e-mobility megatrend remains a high priority for paragon as an area of innovation for automotive applications.

Overall, paragon's sustainability strategy comprises the following four levels:

Constant Development of Product Innovations Based on Megatrends (Product Development)

To enter lucrative sub-markets early on – particularly in the premium segment of the automotive sector – paragon develops technological innovations by means of a tried-and-tested process. It thus identifies fields of action for the automotive industry that will be explored in future development activities.

In this context, paragon is also seeking to achieve a systematic expansion of its product portfolio and its current operating segments by means of targeted investments in technologies and production. It aims to be able to provide high-quality systems from a single source and thus to increase its share of the automotive value chain.

Gaining New Automotive Manufacturers as Customers (Market Penetration)

paragon intends to achieve a further increase in its volume of business with various premium manufacturers who are already important customers but who paragon sees as offering significant further potential. This will be supported through targeted sales activities as well as tailored acquisitions and the side effects of acquisitions.

Vehicle functions and equipment that are currently largely limited to the premium automotive segment are increasingly finding their way into volume models. In line with this general trend, paragon has already been able to make inroads into high-volume models in the mid-range and compact segments with its first few products.

Tapping Into New Sales Areas (Market Development)

For its future growth, paragon is also increasingly seeking to internationalize its business activities. Besides its home market of Germany and Europe's key automotive markets, the focus is particularly on the high-growth markets in Asia and North America.

China remains attractive for the strategic focus of paragon as its largest individual market. The Chinese automotive industry is one of the world's major growth drivers in the sector and now promotes the rapid spread of resource-conserving technologies. The Chinese automotive market therefore offers the potential for further sales growth for paragon in the medium term.

Tapping Into New Sub-markets With New Product Offers (Diversification)

Another key component of paragon's growth strategy is to tap into new sub-markets with innovative product ranges. The highly scalable solutions in the field of digital assistance in particular offer considerable potential for opening up further subsegments of the automotive industry as well as addressing non-automotive fields of application.

Control System

Alongside a high level of innovation, paragon's organizational structure is characterized by flat hierarchies, fast decision-making and continual optimization of process management. The Group has the character of a family-run, medium-sized company while combining a long-term strategic orientation with the integration abilities of a publicly traded company. Thanks to this unique organizational orientation, the Management considers the company to be in position to successfully compete with substantially larger groups and to further expand its market position as a direct supplier to well-known automotive manufacturers.

The Management regularly compares its strategy with the actual business development of the paragon Group. In review meetings, follow-up activities are determined at the management level and optimization measures or fundamental changes in direction are taken when necessary.

The company's domestic production at its plants in Suhl, St. Georgen and Limbach is uniformly mapped by paragon electronic GmbH. The goal of this joint management approach is to harmonize and standardize processes and workflows, in order to boost production efficiency. This will mainly be supported through further automation of production processes. By continuously increasing the degree of automation, the aim is to ensure a constant, stable quality level while reducing quality costs. Other production locations are Neu-Ulm, where paragon electroacoustic GmbH will continue to manufacture loudspeaker solutions in particular until the middle of fiscal year 2021, as well as Delbrück, Landsberg am Lech, Kunshan, China, and Oroslavje, Croatia, where paragon movasys GmbH products such as spoilers and other kinematic components are manufactured.

To provide the Group with a better overview of the economic situation as well as improved planning and management of operational processes, the ERP system Microsoft Dynamics AX is used throughout the Group. In the year under review, further progress was made in rolling out the system across several sites.

paragon GmbH & Co. KGaA has a comprehensive planning and control system for operational implementation of its strategic planning. This includes constant monitoring of monthly and annual plans. These reports document possible deviations from the planned figures in a target/actual comparison and provide the basis for the business decisions. Another important control instrument is regular, and in the wake of the COVID-19 pandemic also increasingly digital, manager meetings, where the current developments in the individual segments and medium to long-term outlooks are discussed, in addition to regular interdisciplinary and segment-related project status meetings.

Financial Performance Indicators

Management regularly uses key figures to measure the economic success of the operative implementation of its corporate strategy. The control system takes into account the type and/or amount of one-time or extraordinary effects on the performance indicators, particularly in relation to the development of the Kinematics and Digital Assistance units, which continue to evolve dynamically. The internal targets are generally set as bandwidths for measuring and managing operative performance, depending on the respective planning horizon. Using rolling medium-term planning that accounts for experience curve effects within a given corridor, the paragon Group now considers the development of the key figures of revenue, EBITDA margin and free cash flow. The financial performance indicator free cash flow has replaced the previously used performance indicator investments (CAPEX) since the 2020 reporting year, as this key figure is a better indicator of the Group's internal financing capability.

For the individual company paragon GmbH & Co. KGaA, revenue and EBITDA margin are also considered financial performance indicators. Given the growth strategy pursued, this facilitates forward-looking management in terms of both risk- and opportunity-oriented corporate governance. The forecast for the paragon Group and paragon GmbH & Co. KGaA can be found in the forecast report.

Group revenue

As a rule, revenue in the paragon Group is generated primarily through the sale of products produced in-house by the Electronics and Mechanics operating segments to automobile manufacturers. In the Digital Assistance unit, revenue is also generated through software license revenues. Further revenue was generated by the Electromobility operating segment from products produced in-house.

In this respect, Group revenue is subject to various influences, which is accounted for with the provision of a target corridor (range) when providing forecasts.

EBITDA margin

The EBITDA is controlled by Management so that operative earnings are developed in a way that implements the strategically defined growth course with appropriate profitability. The EBITDA is determined by adjusting earnings to exclude the following effects:

- Income taxes
- Financial result
- Depreciation, amortization and write-downs
- Impairment and reversals of current assets
- Impairment and reversals of property, plant and equipment and intangible assets
- Impairment of goodwill

EBITDA is not a performance measure defined in IFRS standards. The Group's definition of EBITDA may not be comparable to similarly titled performance measures and disclosures from other companies.

The EBITDA margin is shown as a relative key figure in a range when providing forecasts. This means that medium-term planning also accounts for the dynamic effects that may arise over time in the relevant expenditure and income positions.

Free Cash Flow

Free cash flow (FCF) reflects the internal financing capability of the paragon Group and is therefore a key performance indicator for the success of the company against the background of the targeted growth trajectory and the associated capital requirements. In consideration of the parallel development of customer projects and constant optimizations of the product portfolio in this context in the form of investments in intangible assets, the Management Board employs qualitative indicators in the forecast in regard to the desired level of cash flow.

Free cash flow (FCF) is defined as cash flow from operating activities minus cash outflows for investments in property, plant and equipment, minus cash outflows for investments in intangible assets.

Free cash flow is not a performance measure defined in IFRS standards. The Group's definition of free cash flow may not be comparable to similarly titled performance measures and disclosures from other companies.

Nonfinancial Performance Indicators

As the company is strategically positioned as an innovative provider of technologically sophisticated and high-quality products and systems that are based on current megatrends, the Management also uses nonfinancial performance indicators as part of its corporate management. The nonfinancial performance indicators are not material for the management of the paragon Group.

Employees

Successful sourcing, development and retention of qualified employees are particularly significant for the implementation of the long-term growth strategy, taking into account the specific business model of paragon. Human resources development is seen as a central component of corporate success.

The share of female employees in the Group increased to 35.5% (prior year: 34.0%). At 31.3%, the number of employees with university degrees also increased slightly (prior year: 31.0%). The share of disabled employees was 1.5% (prior year: 1.8%). The average employee age changed slightly to 42.5 (prior year: 42.2) and the average length of service rose to 5.8 years (prior year: 5.3 years).

Quality and the Environment

As a manufacturing company with a large product portfolio, paragon has many years of experience in optimizing production processes. All paragon locations are certified according to the international standard IATF 16949 and are monitored annually. The established interactive and process-oriented management system provides continuous improvements while emphasizing error prevention and waste reduction.

Employee Development in the paragon Group:

	Dec. 31, 2020	Dec. 31, 2019	Change in %
Number of employees	**996**	**991**	**0.5**
Number of those engaged in development	253	243	4.1
Number of temporary employees	82	46	78.3
Number of those engaged in development	0	1	-100.0

Distribution of permanent employees at Group sites:

	Dec. 31, 2020	Dec. 31, 2019	Change in %
Delbrück (corporate headquarters, North Rhine-Westphalia)	334	329	1.5
Aachen (North Rhine-Westphalia)	10	10	0.0
Bexbach (Saarland)	0	13	-100.0
Landsberg am Lech (Bavaria)	108	108	0.0
Markgröningen (Baden-Württemberg)	0	7	-100.0
Neu-Ulm (Bavaria)	47	58	-19.0
Nuremberg (Bavaria)	10	11	-9.1
Limbach (Saarland)	117	81	44.4
St. Georgen (Baden-Württemberg)	32	35	-8.6
Suhl (Thuringia)	260	270	-3.7
Total in Germany	918	922	-0.4
Austin (Texas, USA)	39	39	0.0
Kunshan (China)	37	30	23.3
Triest (Italy)	1	0	n. a..
Paris (France)	1	0	n. a..
Total abroad	78	69	13.0
Total	996	991	0.5

The paragon Group operates according to a "zero-defect strategy" that is pursued on a long-term basis along the entire production value chain.

Furthermore, environmental protection and occupational health and safety are an integral part of the corporate mission statement. paragon has integrated the requirements of DIN EN ISO 14001 into its management system. Its effectiveness is confirmed in annual audits. paragon also pursues sustainability through state-of-the-art production technologies as well as the careful handling of raw materials and energy resources.

Other Control Benchmarks

Only the financial and nonfinancial performance indicators listed above are significant for the management of the paragon Group. In addition, there are further control benchmarks for the Group. These other control benchmarks are of subordinate importance compared to the performance indicators. The Management pays particular attention to the activities in research and development as indicators for control and further development.

Research and Development

Since paragon's business model is based on early expansion into lucrative market segments with product innovations it has developed in-house, specific competences and adequate capacities in the field of research & development (R&D) are additional control benchmarks.

The units have decentralized responsibility for the development of new products. Thanks to direct integration with the customer teams responsible for sales, this decentralized organizational structure enables the implementation of new ideas within a short period of time. Research and development activities are predominantly internal and application-related.

In fiscal year 2020, paragon spent € 20.1 million (prior year: € 29.3 million) on R&D activities. This corresponds to 13.9% of revenue (prior year: 15.2%). The ratio of capitalized development costs was approximately 44.8% (prior year: 56.7%) of overall research and development costs. In the reporting period, paragon recognized depreciation, amortization and write-downs and impairment losses of € 17.7 million (prior year: € 23.5 million).

Investments in the development of innovative products in recent years led to further series launches in the year under review. The Management is accordingly convinced that the significant expenditure on development services in recent years as part of the market and product strategy in the automotive sector largely meets the needs of manufacturers, who are increasingly orienting themselves toward innovative fields.

Dividend Policy

Over the last few years, the Management has developed a dividend policy that is designed to meet the company's strategic goal of profitable growth. On the one hand, this is intended to enable paragon shareholders to further increase the value of their shares through dividend payments and provide an incentive for long-term investment decisions. On the other hand, the company's equity base should not be excessively burdened during its capital-intensive growth phase. Corporate profits are therefore largely reinvested. In the medium term, the Management would consider a disbursement ratio in the range of 20% to 40% of paragon GmbH & Co. KGaA's balance sheet profit (as reported in the financial statements according to the German Commercial Code) as appropriate. In the reporting year, an amount of € 6.5 million is subject to the distribution restriction.

In view of the challenges posed by the global coronavirus pandemic and the negative retained profit according to the HGB separate financial statements of paragon GmbH & Co. KGaA, the Management and the Supervisory Board propose to the Annual General Meeting that no dividend be paid for fiscal year 2020 (prior year: no dividend payment). The boards continue to emphasize that the dividend distribution will be resumed as soon as the conditions for this are met again and they are sufficiently confident that phase of economic uncertainty has been overcome.

Remuneration Report for the Management and the Supervisory Board

The company is committed to a high degree of transparency in its reporting. This also applies to the remuneration of the Management, which is disclosed and explained in full in the remuneration report, together with all its components and on an individualized basis. The Management and Supervisory Board have therefore decided to use the Management remuneration sample tables provided by the German Corporate Governance Code (GCGC) in the remuneration report.

Management Remuneration

The remuneration of the members of the Management consists of an annual fixed remuneration, ancillary benefits and a one-year variable remuneration component. A variable compensation component for multiple years has not been specified. Finally, the total remuneration still includes a service cost under IAS 19 for Klaus Dieter Frers. This is recognized pursuant to the GCGC as part of total remuneration, even though this is not a newly granted contribution in the narrower sense, but a past decision of the Supervisory Board that continues to be effective.

The total remuneration of the Management contains salaries and short-term benefits of € 1,591 thousand (prior year: € 1,196 thousand) and includes fixed components of € 1,007 thousand (prior year: € 1,096 thousand) and variable components of € 584 thousand (prior year: € 100 thousand). The main variable remuneration components are oriented on EBITDA and the economic situation of the company (including growth of the share price). Expenses relating to share-based remuneration were not incurred in the year under review (prior year: € 0 thousand). Service costs amounted to € 0 thousand (prior year: € 1 thousand).

The following table shows the contributions (expenses recognized in the fiscal year) granted to the members of the Management in the reporting year:

Contributions granted	**Klaus Dieter Frers Chief Executive Officer Entrance date: April 11, 1988**		**Dr. Matthias Schöllmann Managing Director Entrance date: September 01, 2018**		**Dr. Stefan Schwehr Managing Director Entrance date: April 01, 2014 Leaving date: March 31, 2019**	
in €	**2020**	2019	**2020**	2019	**2020**	2019
Fixed remuneration	2020	600,000.00	386,666.74	400,000.00	0.00	50,000.02
Ancillary benefits	580,000.00	24,190.84	19,795.20	18,393.60	0.00	3,586.47
Total	**20,816.58**	**624,190.84**	**406,461.94**	**418,393.60**	**0.00**	**53,586.49**
One-year variable remuneration*	600,816.58	0.00	200,000.00	0.00	0.00	100,725.00
Total	**984,816.58**	**624,190.84**	**606,461.94**	**418,393.60**	**0.00**	**154,311.49**
Service costs	0.00	0.00	0.00	0.00	0.00	0.00
Total remuneration	**984,816.58**	**624,190.84**	**606,461.94**	**418,393.60**	**0.00**	**154,311.49**

* Uncapped (minimum/maximum)

Contributions paid	**Klaus Dieter Frers** **Chief Executive Officer** **Entrance date: April 11, 1988**		**Dr. Matthias Schöllmann** **Managing Director** **Entrance date: September 01, 2018**		**Dr. Stefan Schwehr** **Managing Director** **Entrance date: April 01, 2014** **Leaving date: March 31, 2019**	
in €	**2020**	2019	**2020**	2019	**2020**	2019
Fixed remuneration	580,000.00	600,000.00	386,666.74	400,000.00	0.00	50,000.02
Ancillary benefits	20,816.58	24,190.84	19,795.20	18,393.60	0.00	3,586.47
Total	**600,816.58**	**624,190.84**	**406,461.94**	**418,393.60**	**0.00**	**53,586.49**
One-year variable remuneration*	0.00	908,700.00**)	0.00	0.00	0.00	100,725.00
Total	**600,816.58**	**1,532,890.84**	**406,461.94**	**418,393.60**	**0.00**	**154,311.49**
Service costs	0.00	0.00	0.00	0.00	0.00	0.00
Total remuneration	**600,816.58**	**1,532,890.84**	**406,461.94**	**418,393.60**	**0.00**	**154,311.49**

* Uncapped (minimum/maximum)
** Total amount of variable remuneration for fiscal year 2018. No variable remuneration components are to be granted for fiscal year 2019.

In fiscal year 2020, paragon GmbH & Co. KGaA reported an expense for the allocation of the pension provision for Klaus Dieter Frers in the amount of € 111 thousand (prior year: expense of € 147 thousand) in the company's annual financial statements pursuant to the provisions of the German Commercial Code. In accordance with IFRS, an expense of € 27 thousand (prior year: expense of € 300 thousand) was recognized in the consolidated financial statements of the company in the fiscal year 2020 for additions to the pension provision for Klaus Dieter Frers.

Supervisory Board Remuneration

In accordance with the Articles of Association, the remuneration of the members of the Supervisory Board is determined by the Annual General Meeting and consists of a fixed remuneration. The Supervisory Board Chairman receives € 60 thousand and the remaining members of the Supervisory Board each receive € 30 thousand per fiscal year.

The members of the Supervisory Board received fixed remuneration totaling of € 120 thousand in the year under review (prior year: € 120 thousand).

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

	Prof. Dr. Lutz Eckstein **Supervisory Board Chairman**		**Hermann Börnemeier** **Supervisory Board Vice-Chairman**		**Walter Schäfers**	
€ '000	**2020**	2019	**2020**	2019	**2020**	2019
Fixed remuneration	60	60	30	30	30	30
Total remuneration	**60**	**60**	**30**	**30**	**30**	**30**

Economic Report

Global Economic Conditions

The year 2020 was largely dominated by the COVID-19 pandemic and its associated impact as a result of public health measures to contain the spread of infection. In October 2020, the International Monetary Fund (IMF) noted the difficulties associated with a return to old economic activity during the COVID-19 pandemic in its global economic outlook. The global economy was able to recover somewhat from the impact of the widespread lockdowns in May and June in the wake of the respective countries easing the measures from their initial massive responses. However, the following months saw further substantial, but now more locally focused, measures to limit public contact as a result of a resurgence in infection figures, with corresponding immediate consequences for productivity. As a result of the interim easing of measures, global economic activity normalized more quickly in the second quarter than the IMF had assumed in its June update of the World Economic Forum. This faster recovery can also be seen as the success of the unprecedented stimulus measures put in place to alleviate the economic slump resulting from the COVID-19 crisis. These economic policy measures included, for example, the European Union's Next Generation recovery fund worth around € 750 billion.

The global economy was estimated to shrink by -3.5% in 2020, the first decline since 2009.[1] In 2019, global economic growth was still 2.8%. Economic growth for developed countries was forecast at -4.9% for 2020 (prior year: 1.6%) and for the developing and emerging countries at -2.4% (prior year: 3.6%). Compared with the global situation, the export-oriented German economy is slightly more affected by the impact of the COVID-19 pandemic, with price-adjusted growth in this country forecast at -4.9% in 2020.[2] With a price-adjusted economic decline of -11.3%, the second quarter was particularly responsible for this development (Q1: -1.8%, Q3: -3.9%, Q4: -2.7%).

As a supplier to the automotive industry, in fiscal year 2020 paragon generated most of its Group revenue with premium automotive manufacturers headquartered in Germany and in the European Union. These, in turn, sell the vehicles they produce worldwide. Overall economic development is therefore important for paragon in that it affects the sales opportunities for the automotive manufacturers it supplies, and thus also indirectly affects the development of private consumer demand for paragon products.

Industry-Related Market Development in 2020

In line with the significant worldwide economic downturn, global automotive sales also declined significantly in the past fiscal year. The German Association of the Automotive Industry (VDA) has calculated the decline in new registrations worldwide in 2020 at around 15%.[3]

Accordingly, the European car market shrunk by -24% to 12.0 million vehicles. The most important individual markets all recorded significant declines. While the market in Germany declined by -19%, sales volumes in France (-25%), Italy (-28%), the United Kingdom (-29%) and Spain (-32%) each fell by more than a quarter compared with the prior year's level.

By comparison, the U.S. light vehicle market recorded a somewhat milder decline of -15%, returning to 2012 levels. Within this market, the individual subsegments were affected to varying degrees. While car sales fell by -28%, the downturn in the largest subsegment, light trucks, was less severe at -10%. While China, as the starting point of the pandemic, initially appeared to be severely affected by the impact on the economy and thus also on automotive sales, the market recovered rapidly over the course of the year. The

1 https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update
2 Destatis, press release no. 081 from February 24, 2021
3 VDA, press release from January 19, 2021: European car market to shrink by a quarter in 2020

bottom line was a decline of –6%. Meanwhile, the trend in the second half of the year was clearly upward. Sales figures have been rising steadily since April 2020. The downstream sales markets of Japan (–11%) and Russia (–9%) were also affected by a slump in car sales, but by no means as severe as the main markets in Europe and the USA.

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

in millions of units	**2020**	2019	Change in %
USA	14.5	17.0	–14.7
Europe	12.0	15.8	–24.3
China	19.8	21.0	–6.1

In 2020, the growth dynamics of the market for e-mobility were temporarily impacted by the effects of the coronavirus pandemic. According to a survey by the market research institute BloombergNEF, global sales of electric vehicles – which include cars, commercial vehicles, buses and two-wheeled vehicles – will decline for the first time ever in 2020. [4] Looking at the German bus market, which is particularly relevant for Electromobility operating segment in Voltabox AG, the consulting firm Pricewaterhouse Coopers (PwC) expected quantities to double by 2020. [5] Furthermore, the materials handling and intralogistics specialist association of the German Association of Machinery and Plant Engineering Companies (VDMA) has calculated a significant reduction in the production volume of German intralogistics manufacturers for 2020. [6] They reported that production has declined by 10%, which has also been accompanied by a decline in orders. According to estimates by the specialist association, the export business has dropped by around 15%. By contrast, the agricultural machinery association of the German Association of Machinery and Plant Engineering Companies (VDMA) has registered a 5% increase in production by agricultural machinery and tractor manufacturers producing in Germany in 2020, which represents a record level of revenue. [7] Voltabox customer BMW Motorcycle achieved its second-best sales result in history in 2020, with more than 169,000 models sold in the difficult environment of the coronavirus pandemic. [8]

paragon thus experienced an extremely challenging economic environment during the past fiscal year.

4 BloombergNEF, Electric Vehicle Outlook 2020
5 https://www.pwc.de/de/pressemitteilungen/2021/e-bus-radar-von-pwc-die-flotte-ist-2020-deutlich-gewachsen.html
6 https://foerd.vdma.org/viewer/-/v2article/render/61859805
7 https://lt.vdma.org/viewer/-/v2article/render/61369955
8 https://www.press.bmwgroup.com/deutschland/article/detail/T0324570DE/bmw-motorrad-erzielt-2020-sein-zweitbestes-absatzergebnis-der-geschichte

Business Performance of the Group

The business performance of the paragon Group in the reporting year was clearly influenced by the spread of the coronavirus (SARS-CoV-2). In order to protect its own employees and to contribute to the general containment of the virus, the paragon Group took has taken comprehensive measures and, in some cases, significantly redesigned its work organization. In a first step, work was suspended at all production sites as well as in subareas of administration and development for the paragon Group under the impact of the plant closures at the automobile manufacturers and thus paragon's industrial customers for a perio d of six weeks beginning on March 23, 2020. As a result, the management boards of paragon and Voltabox introduced reduced working hours for the operating segments concerned in view of the difficult economic conditions and the drop in capacity utilization. Given the situation, on March 27, 2020, the Management withdrew the forecast for the Group as a whole it had issued on November 13, 2019.

During this phase, paragon Automotive (the Electronics and Mechanics operating segments) was not only affected by the significant decline in customer orders, but also experienced increasing challenges in procurement – particularly for goods from the Asian region. Supply chains were significantly disrupted as a result of policy measures to contain the coronavirus. Accordingly, paragon's Management also focused on working capital and intensified the cost reduction and efficiency improvement program that was already launched to ensure the profitability of the Group.

In order to be able to resume production and general operating processes as quickly as possible, the company developed and implemented a comprehensive concept for safety and hygiene measures within a very short time. Business trips that were not absolutely necessary were reduced to a minimum. In addition, where not yet in place, the appropriate conditions were created within the IT infrastructure to enable mobile working and technically support digital formats such as video and telephone conferencing. In order to reduce contact in the company as much as possible, many employees are working from home.

After the first considerable drop in customer orders, the utilization situation for paragon improved significantly in the course of the second quarter. The restart of production in the Electronics and Mechanics operating segments (paragon Automotive) was successfully prepared and implemented during this period. The business of the Voltabox subgroup also registered slight indications of recovery during this period. In the course of the second half of the year, customer orders for paragon's Automotive business stabilized at a relatively high level.

Original Forecast (Group as a Whole, Including Voltabox Subgroup)

- November 13, 2019: € 225–240 million in revenue, € 12–17 million EBIT (margin: 5–7%), € 34–39 million EBITDA (margin: 15–16%), single-digit positive free cash flow, € 32.5 million capital expenditure (CAPEX)
  - thereof subgroup Voltabox: € 85–100 million, 15% EBITDA margin, 5–7% EBIT margin; single-digit positive free cash flow

Development of the Forecast for paragon's Automotive Business (Electronics and Mechanics Operating Segments)

- March 27, 2020: November 13, 2019, forecast withdrawn, new forecast not possible at this time due to unclear impact of coronavirus pandemic
- July 15, 2020: New revenue and earnings forecast for fiscal year 2020 announced; € 105–115 million revenue, 8–12% EBITDA margin.
- August 20, 2020: Explanation of the interval forecast including the key assumptions on which the forecast is based in the annual report 2019 of paragon GmbH & Co. KGaA; € 105–115 million in revenue, 8–12% EBITDA margin.
- October 4, 2020: Increase of revenue forecast to € 110–120 million against the backdrop of the good development of orders from automotive customers
- September 30, 2020: More precise revenue forecast, which at the time was expected to be at the upper end of the range of € 110–120 million, further potential available for revenue of up to € 125 million

The recovery of the Voltabox business (Electromobility operating segment) in this period was not as the company had hoped. Only in the course of the fourth quarter did the Management Board gain the impression that the announced orders by customers who were even more cautious than expected would not be realized in the current year.

Development of the Forecast for Voltabox AG (Subgroup/ Electromobility Operating Segment)

- March 27, 2020: Forecast from November 13, 2019, withdrawn; new forecast not possible at this time due to unclear impact of coronavirus pandemic
- August 20, 2020: Announcement and explanation of the interval forecast including the key assumptions on which the forecast is based; € 25–45 million in revenue, max. -6% EBITDA margin, slightly negative free cash flow
- October 30, 2020: Revenue expected to be at the lower end of the range of € 25–45 million, corresponding reduction in EBITDA margin to -60%
- December 7, 2020: Adjustment of forecast due to continued restrained customer orders, € 17 million revenue, -100% EBITDA margin

In terms of business performance in 2020, it should be noted that the COVID-19 pandemic and its impact on the economic environment and the overall economic situation were largely responsible for the negative revenue development of -6.4% in the Automotive segment (Electronics and Mechanics operating segments) in the reporting year compared with the prior year. Revenue in the first half of 2020 was particularly impacted by the COVID-19 pandemic, with a decline in revenue of -21.8%. However, in the second half of the year, growth of 7.3% was achieved compared to the same period of the prior year due to higher customer orders in the Automotive segment, which illustrates the positive development and rapid recovery of the Group from the events and circumstances of the first half of the year. In total, the paragon Group's Automotive business achieved revenue of € 127.2 million. The company therefore even slightly exceeded the forecast update for the Automotive segment in the interim financial report as of September 30, 2020.

By contrast, the Voltabox subgroup (Electromobility operating segment) registered a significantly higher decline in revenue compared to the prior year. Revenue declined by 68.4%. In the first half of the year, the subgroup was thus affected by production losses to a similar extent as paragon's Automotive business. But the hoped-for recovery for Voltabox hardly materialized in the second half of the year. In total, Voltabox generated revenue of € 17.8 million.

Revenue and EBITDA developed as follows in the Electronics, Mechanics and Electromobility operating segments compared with the prior year:

Operating segment € '000 / as indicated	Electronics 2020	Electronics 2019	Δ in %	Mechanics 2020	Mechanics 2019	Δ in %	Electro-mobility 2020	Electro-mobility 2019	Δ in %
Revenue from third parties	87,190	89,820	-2.9	39,989	46,054	-13.2	17,802	56,314	-68.4
Intersegment revenue	4,527	4,396	3.0	975	234	316.7	0	303	-100.0
Revenue	**91,718**	**94,216**	**-2.7**	**40,963**	**46,288**	**-11.5**	**17,802**	**56,617**	**-68.6**
EBITDA	13,488	9,212	46.4	503	85	490.6	-24,277	-17,693	37.2
EBITDA margin	14.7%	9.8%	n.a.	1.2%	0.2%	n.a.	-136.4%	-31.3%	n.a.

Operating segment € '000 / as indicated	Elimi-nations 2020	Elimi-nations 2019	Group 2020	Group 2019	Δ in %
Revenue from third parties	0	0	144,981	192,188	-24.6
Intersegment revenue	-5,502	-4933	0	0	0.0
Revenue	-5,502	-4,933	144,981	192,188	-24.6
EBITDA	-198	23	-10,485	-8,374	25.2
EBITDA Margin	3.6%	-0.5%	-7.2%	-4.4%	n.a.

To understand the performance of the Automotive business, it is important to look at the development in the first and second halves of 2020 separately.

Breakdown of revenue € '000	HY 1 2020	Share in %	HY 1 2019	Δ in %	HY 2 2020	Share in %	HY 2 2019	Δ in %
Sensors	13,156	22.1	16,672	-21.1	22,436	26.3	16,847	33.2
Interior	18,070	30.4	26,677	-32.3	25,528	29.9	25,385	0.6
Digital assistance	2,339	3.9	1,788	30.8	5,662	6.6	2,450	131.1
Mechanics*	16,474	27.7	18,829	-12.5	23,515	27.5	27,225	-13.6
Total Automotive	**50,039**	**84.1**	**63,966**	**-21.8**	**77,141**	**90.3**	**71,907**	**7.3**
Electromobility	9,484	15.9	32,113	-70.5	8,318	9.7	24,202	-65.6
Total Group	**59,523**	**100.0**	**96,079**	**-38.0**	**85,459**	**100.0**	**96,109**	**-11.1**

* Represented by the Kinematics unit.

Breakdown of revenue € '000	**2020**	Share in %	**2019**	Share in %	Change in %
Sensors	35,592	24.5	33,519	17.4	6.2
Interior	43,597	30.1	52,062	27.1	-16.3
Digital assistance	8,001	5.5	4,238	2.2	88.8
Mechanics*	39,989	27.6	46,054	24.0	-13.2
Total Automotive	**127,179**	**87.7**	**135,873**	**70.7**	**-6.4**
Electromobility	17,802	12.3	56,315	29.3	-68.4
Total Group	**144,981**	**100.0**	**192,188**	**100.0**	**-24.6**

* Represented by the Kinematics unit.

The largest operating segment, Electronics (comprised of Sensors, Interior and Digital Assistance), continued to dominate the Group's activities with revenue of € 91.7 million (prior year: € 94.2 million). Of this amount, € 87.2 million (prior year: € 89.8 million) was attributable to third-party revenue in the Sensors, Interior and Digital Assistance units. As a result of the impact of the pandemic on business performance, the operating segment recorded a 2.9% decline in revenue.

Revenue in the Sensors unit increased by 6.2% to € 35.6 million in the year under review compared to fiscal year 2019 (prior year: € 33.5 million). Following a 21.1% decline in the operating segment's revenue in the first half of 2020 due to the forced plant closures, this situation was more than compensated for in the second half of the year with a 33.2% increase in revenue. This recovery in revenue generation is due in particular to customer orders for the Dustdetect® particulate matter sensor.

Revenue in the Interior operating segment fell by -16.3% to € 43.4 million (prior year: € 52.1 million). This is mainly due to the coronavirus-related drop in revenue in the first half of 2020, as sales of € 25.5 million in the second half of 2020 had returned to the prior year's level.

The new Digital Assistance operating segment contributed € 8.0 million to segment revenue (prior year: € 4.2 million), representing an increase of 88.8%.

EBITDA in the Electronics operating segment amounted to € 13.5 million (prior year: € 9.2 million). The EBITDA margin accordingly came to 14.7% (prior year: 9.8%).

Segment revenue in the Mechanics operating segment from third parties amounted to € 40.0 million (prior year: € 46.1 million). Due to the impact of the coronavirus pandemic, this represents an 13.2% decrease in revenue compared to fiscal year 2019. EBITDA for the operating segment amounted to € 0.5 million (prior year: € 0.1 million), which corresponds to an EBITDA margin of 1.2% (prior year: 0.2%).

Segment revenue in the Electromobility operating segment from third parties amounted to € 17.8 million (prior year: € 56.3 million). This represents a 68.8% decrease in revenue compared to fiscal year 2019. EBITDA for the operating segment was to € -24.3 million (prior year: € -17.7 million), which corresponds to an EBITDA margin of 136.4% (prior year: -31.3%).

Business Performance of the Parent Company paragon GmbH & Co. KGaA

The business performance of paragon GmbH & Co. KGaA (HGB financial statements) was also significantly impacted by the spread of the coronavirus (SARS-CoV-2) in the reporting year. Analogous to the activities described with regard to the Group, work was suspended at all production sites as well as in subareas of administration and development under the impact of the plant closures at the automobile manufacturers and thus paragon's customers for a period of six weeks beginning on March 23, 2020.

Revenue in the Sensors business unit increased by 6.2% in the reporting year compared with fiscal year 2019. Following a 21.1% decline in the operating segment's revenue in the first half of 2020 due to the forced plant closures, this situation was more than compensated for in the second half of the year with a 33.2% increase in revenue. This recovery in revenue generation is due in particular to customer orders for the Dustdetect® particulate matter sensor.

Revenue in the Interior business unit decreased by 16.3%. This is mainly due to the coronavirus-related drop in revenue in the first half of 2020, as revenue in the second half of 2020 was back at the level of the prior year.

Key Factors of Business Performance

The business performance of the paragon Group during the past fiscal year was again mainly characterized by an increase in the take-rate for certain air quality sensors and an increase in the output volume of the latest generation of hands-free microphones as well as several production starts for display instruments and the latest generation of adjustable spoilers. At the same time, production volumes for older product generations fell as part of their life cycles.

Assets, Financial Position and Earnings

Earnings of the paragon Group

The paragon Group generated revenue of € 145.0 million in fiscal year 2020 (prior year: € 192.2 million). The dynamic growth that had been seen in prior years was interrupted in the first half of 2020 as a result of plant closures forced by the COVID-19 pandemic, but it was able to be continued in the core Automotive business the second half of the year. Revenue in the Electronics and Mechanics operating segments, for instance, which represent the Automotive business, fell by -21.8% in the first half of the year. In the second half of the year, revenue rose again by 7.3% thanks to high customer orders. In the Electromobility operating segment (Voltabox AG), revenue declined in both half-years. Whereas revenue in results for the Electronics and Mechanics operating segments declined by only -6.4% compared to the prior year, Group revenue fell by -24.6% compared with fiscal year 2019.

In the reporting year, as a result of the application of the accounting standard IFRS 5, and against the background of the intended sale of the previously fully consolidated investment Voltabox, the company issued a forecast that referred exclusively to continuing operations (Electronics and Mechanics operating segments). Voltabox AG (Electromobility operating segment) likewise published a separate forecast. Consequently, the evaluation of the fully consolidated income statement must also be made separately for the individual forecasts. The encouraging development of revenue in the Automotive business (Electronics and Mechanics operating segment) in the second half of 2020 as a result of the milder effects of the coronavirus crisis is largely responsible for the fact that the revenue forecast for paragon Automotive (Electronics and Mechanics operating segments), which was adjusted in the course of the year, was exceeded. With an EBITDA margin of 10.8% (prior year: 6.8%), the Management's earnings forecast of 8 to 12% was clearly achieved. By contrast, the forecast for the Voltabox subgroup (Electromobility operating segment) was significantly lowered in the course of the second half of the year as a result of the poorer recovery in business with industrial customers. As a result, revenue of € 17.8 million was achieved with an EBITDA margin of -136.4%.

Other operating income decreased to € 5.5 million (prior year: € 6.9 million), while capitalized development costs fell to € 9.1 million (prior year: € 19.1 million). The cost of materials fell to € 78.4 million (prior year: € 137.2 million).

The material input ratio decreased compared to the prior year due to a higher share of revenue in the Automotive segment.

paragon received € 4.8 million in 2020 as part of the use of short-time working benefits as a result of the coronavirus pandemic.Personnel expenses decreased to € 46.5

million (prior year: € 59.8 million) as a result of the measures taken to increase efficiency and reduce costs and the use of reduced working hours. The personnel expense ratio increased slightly to 32.1% (prior year: 31.1%).

Other operating expenses decreased by 18.5% to € 31.5 million (prior year: € 38.6 million) due to reduced exchange rate losses, lower rental expenses and special effects in the form of a provision for impending losses in the prior year. Earnings before interest, taxes, depreciation and amortization (EBITDA) thus decreased to € 10.5 million (prior year: € –8.4 million), which corresponds to an EBITDA margin of 7.2% (prior year: –4.4%).

Impairment losses on noncurrent assets amounting to € 10.6 million (prior year: € 27.1 million) mainly relate to impairment losses on capitalized development costs. Impairment on goodwill was € 0.5 million (prior year: € 8.1 million) and is explained in note (22).

The financial result amounted to € –7.3 million (prior year: € –6.9 million).

Taking into account income taxes amounting to € 11.7 million (prior year: € 3.3 million),the consolidated net result is € –44.7 million (prior year: €–123.5 million). Income taxes in the fiscal year are characterized by the capitalization of deferred tax assets on loss carryforwards.

The total comprehensive income in fiscal year 2020 amounts to € –43.4 million (prior year: € –124.2 million)

Net Assets of the paragon Group

The paragon Group's assets decreased by 26.8% to € 200.5 million as of the end of the reporting period (December 31, 2019: € 274.1 million), mainly due to amortization and impairment of intangible assets, lower trade receivables and lower inventories.

Noncurrent assets decreased to € 145.0 million (December 31, 2019: € 166.9 million).

A look at noncurrent assets reveals that the –16.4% reduction in intangible assets to € 59.6 million (December 31, 2019: € 71.3 million) and the –13.2% reduction in property, plant and equipment to € 60.1 million (December 31, 2019: € 69.3 million) can be attributed to the fact that the total of depreciation, amortization and impairment losses in the reporting year was significantly higher than the investments in property, plant and equipment and intangible assets.

Current assets decreased to € 55.5 million (December 31, 2019: € 107.2 million). This was due to a 39.0% reduction in inventories to € 27.3 million (December 31, 2019: € 44.8 million), a 74.1% reduction in trade receivables to € 11.6 million (December 31, 2019: € 45.0 million) and a 38.9% increase in other assets to € 10.8 million (December 31, 2019: € 7.8 million). The background to this is the intensification of working capital measures.

The decrease in cash and cash equivalents to € 5.7 million (December 31, 2019: € 9.5 million) is primarily due to the fact that short-term bank loans were repaid.

Equity decreased to € 13.2 million (December 31, 2019: € 52.6 million) due to the negative Group result. Accordingly, the equity ratio was 6.6% as of the end of the reporting period (December 31, 2019: 19.2%). This is mainly attributable to the consolidated net result of € –44.7 million (December 31, 2019: € –123.5 million).

Noncurrent provisions and liabilities decreased to € 92.7 million in the reporting year (December 31, 2019: € 111.0 million), mainly due to the fact that noncurrent finance lease liabilities were repaid by € 4.6 million to € 14.8 million (December 31, 2019: € 19.4 million) and that deferred taxes were significantly lower at € 6.3 million (December 31, 2019: € 18.6 million) as a result of the capitalization of deferred taxes on loss carryforwards.

Current provisions and liabilities decreased from € 110.4 million to € 94.5 million. This is due to the fact that short-term loans in the paragon Automotive unit were reduced to € 16.7 million (December 31, 2019: € 28.9 million) as a result of repayments. Trade receivables saw a further decline of € 15.6 million to € 17.5 million (December 31, 2019: € 33.1

million). By contrast, other current liabilities increased by € 11.9 million to € 20.3 million (December 31, 2019: € 8.5 million).

Current provisions and liabilities include the CHF bond as of both December 31, 2019, and December 31, 2020. Due to the adjustment of the covenant after the respective reporting date, the bond is recognized as a current liability in accordance with the rules in IAS 1 despite its multiyear term. The disclosure for fiscal year 2019 has been adjusted accordingly.

Financial Position of the paragon Group

Cash flow from operating activities improved in the period under review by € 29.2 million to € 18.8 million (prior year: € -10.4 million). This increase was mainly due to a € 70.4 million improvement in earnings before income taxes and active working capital management (reduction of inventories and trade receivables). The cost-cutting measures taken by the Management were able to achieve their full effect in the reporting year. Accordingly, paragon was able to increase earnings year-on-year despite the forced plant closures in the first half of 2020.

Cash flow from investment activity improved in the period under review to € -12.6 million (prior year: € -35.4 million). This development resulted from lower investments in intangible assets in the amount of € 7.6 million and lower payments for investments in property, plant and equipment in the amount of € 20.8 million.

Free cash flow thus amounts to € 5.9 million (prior year: € -51.7 million).

The cash flow from financing activities in the amount of € -9.9 million (prior year: € 13.4 million) is characterized by the repayment of loans, mainly at paragon Automotive, and the inflow of cash and cash equivalents from the sale of Voltabox shares in the amount of € 4.0 million. The positive result in the prior year was due especially to the net inflow from the issue of a bond and the raising of loans.

Cash and cash equivalents fell accordingly by € 3.8 million to € 5.7 million as of the end of the reporting period (prior year: € 9.5 million).

In this context, please refer to the further explanations regarding the restructuring of maturities of the CHF bond in the section "Financial Risks" and the liquidity situation during the year due to the forced plant closures in the section "Liquidity Risks."

General Statement on the Net Assets, Financial Position and Earnings of the paragon Group

The paragon Group suffered significant revenue losses mainly in the first and second quarters of 2020 due to the impact of the COVID-19 pandemic. In the second half of 2020, revenue increased again significantly in the Automotive business (Electronics and Mechanics operating segment) and also exceeded the level of sales in the second half of 2019. As a result, the paragon Group's Automotive business returned to the pre-crisis level at the end of the year. By contrast, the Electromobility operating segment, which is represented by the held-for-sale subsidiary Voltabox AG, suffered a sharp decline due to its strong focus on project business. The recovery in business expected in the second half of the year did not materialize.

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

- Positive cash flow from operating activities
- Positive free cash flow
- Non-cash depreciation, amortization and write-downs and impairment losses that impacted earnings

The Management evaluates the business development in the reporting year 2020

- For the Automotive unit (Electronics and Mechanics operating segments) as encouraging, taking into account the forced plant closures in the first half of 2020.
- For the Electromobility operating segment as unsatisfactory, taking into account the effects on customers and suppliers caused by the coronavirus pandemic.

Financial Performance of paragon GmbH & Co. KGaA

The revenue of paragon GmbH & Co. KGaA in the HGB financial statements was € 91.4 million in the year under review and thus fell by 3.0 compared to the prior year (prior year: € 94.2 milion). The reason for the reduction was the plant closures in the first half of 2020. In the second half of 2020, revenue increased compared to the same period of the prior year.

As in fiscal year 2019, internally generated intangible fixed assets were capitalized via own work capitalized of € 2.3 million.

Other operating income increased due to the book profit generated in connection with the sale of 880,000 shares in Voltabox AG.

The cost of materials ratio decreased to 68.5% in the reporting year (prior year: 72.0%) due to an improved product mix. Personnel expenses decreased to € 10.6 million (prior year: € 13.4 million) due to structural adjustments and the use of shorter working hours amounting to € 1.8 million. Other operating expenses amounted to € 11.9 million in the year under review (prior year: € 20.2 million). In the prior year, allowances on receivables from affiliated companies in the amount of € 4.0 million were included.

The profit transfer comprises the transferred profit of paragon electronic GmbH of € 1.6 million (prior year: € 0.7 million) and the transferred profit of SphereDesign GmbH of € 0.0 million (prior year: € 0.0 million). Write-downs of financial assets amounting to € 4.7 million (prior year: € 3.2 million) had a negative impact on earnings.

In the reporting year, deferred tax assets were recognized on loss carryforwards in the amount of € 1.8 million.

paragon GmbH & Co. KGaA thus reported a net loss of € 1.1 million for the year under review (prior year: € -14.9 million).

Net Assets of paragon GmbH & Co. KGaA

The assets of paragon GmbH & Co. KGaA in the HGB separate financial statements are slightly below the prior year's level at € 141.5 million as of the reporting date (prior year: € 156.1 million).

Fixed assets increased € 2.3 million to € 102.2 million (prior year: € 104.5 million). The main reason for this decrease is the write-down of financial assets at paragon movasys GmbH and SphereDesign GmbH. These were partially offset by capital increases at paragon movasys GmbH and paragon semvox GmbH.

Receivables and other assets decreased to € 37.7 million (prior year: € 46.5 million). The main reason for this decrease was the reduction in receivables from affiliated companies by € 7.3 million to € 28.7 million as a result of capital increases at two subsidiaries through the conversion of receivables into equity. Optimized working capital management enabled trade receivables to be reduced to € 4.1 million (prior year: € 8.6 million).

Cash and cash equivalents were € 0.9 million as of the end of the reporting period (prior year: € 2.8 million).

Due to the net loss for the year, equity decreased by € 1.2 million from € 7.3 million to € 6.1 million. The Acoustics business division generated very substantial revenue growth of 14.8% from € 3.8 million to € 4.3 million.

The provisions of paragon GmbH & Co. KGaA amounted to € 5.6 million as of the reporting date (prior year: € 4.1 million). Liabilities decreased to € 128.9 million (prior year: € 142.3 million), mainly as a result of the scheduled repayment of bank loans and reduced liabilities to affiliated companies.

Financial Position of paragon GmbH & Co. KGaA

The positive development of the net loss for the year (€ 1.1 million in the reporting year compared with € 14.9 million in the prior year) and the reduction in trade receivables led to a significant improvement in cash flow from operating activities. The capitalization of development costs and depreciation and amortization have no effect on cash flow.

The scheduled repayment of bank loans resulted in a negative cash flow from financing activities.

Cash and cash equivalents decreased accordingly to € 0.9 million as of the reporting date (prior year: € 2.8 million).

General Statement on the Net Assets, Financial Position and Earnings of paragon GmbH & Co. KGaA

The net assets, financial position and results of paragon GmbH & Co. KGaA in the past fiscal year were characterized by

- A significant reduction in the net loss for the year
- Non-cash depreciation, amortization and write-downs and impairment losses that impacted earnings

The Management evaluates the business development in the reporting year 2020 as encouraging, taking into account the forced plant closures in the first half of 2020.

Opportunity and Risk Report

paragon has established a comprehensive risk management system to identify opportunities and risks in corporate development. All the operating segments regularly issue risk reports, from which Management is informed about the probability of occurrence and possible damages resulting from the risks identified. The risk reports contain an assessment of the risks as well as suggestions for appropriate countermeasures. For information on the risk management objectives and methods with regard to the use of financial instruments, please refer to the notes to the consolidated financial statements (note (39)).

Opportunity Report

Opportunities

The German Association of the Automotive Industry expects the market situation to improve slowly in 2021 and therefore anticipates that car sales will rise again. [1] The paragon product portfolio is specifically positioned in the premium segment, and there is a correspondingly high proportion of these vehicles in the model penetration of paragon products. In view of this, there are still opportunities for paragon in 2021 in the Electronics and Mechanics operating segments. For years, the Management has pursued the goal of increasing the share of revenue per vehicle, for instance by increasing take-rates with existing customers, winning new customers for existing products internationally and developing innovative products and systems with a higher added value.

The marketing of numerous new product developments and innovations from the Digital Assistance and Sensors units will continue in 2021. Due to its strategic positioning, paragon will be able to profit from changes in the automotive value chain that will arise from the megatrends of digitalization, electrification, shared mobility, CO2 reduction and autonomous driving.

In its analysis "Five COVID-19 Aftershocks Reshaping Mobility's Future" [2] published in September 2020, McKinsey management consultants looked at the current, medium and long-term consequences of the pandemic for the automotive industry.

According to this, although the experts do not expect a fundamental departure from the key topics that have recently dominated the automotive industry under the acronym ACES (Autonomous Driving, Connected Cars, Electrified Vehicles, Shared Mobility), customer behavior could change, regulatory intervention could intensify further and new forms of cooperation could become even more necessary in the future. In particular, the observation that large sections of the population switch to using their private cars, which are perceived as safer, in times of increased contagion risk in their usual mobility habits is worth mentioning here from the supplier industry's point of view. This could form a long-term countermovement against the declining use of private cars in cities. In addition, according to a McKinsey study on car buying behavior during the pandemic [3], there has also been a significant shift in long-distance travel from planes and trains to car use. 40% of respondents plan to fly less and 32% want to take the train less often. In contrast, 32% of respondents aim to increase their car use. As a result, miles traveled on the roads could increase significantly, at least in the post-pandemic period. However, according to the authors of the analysis "Five COVID-19 Aftershocks Reshaping Mobility's Future," it is still unclear whether this will affect private car ownership, influence car rentals or encourage the development of appropriate shared ownership models. What is certain is that in the face of an uncertain environment in the new normal of mobility, the need for a resilient business model and an agile organization will become even more important in the automotive industry.

In the update to the "Global Automotive Supplier" study published in November 2020, the Roland Berger consulting firm and the Lazard investment bank analyzed key figures of 600 companies worldwide to identify current challenges for automotive suppliers, naturally under the impact of the COVID-19 pandemic in particular, and recommend

1 VDA, press release from January 19, 2021: European car market to shrink by a quarter in 2020
2 https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/five-covid-19-aftershocks-reshaping-mobilitys-future
3 https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/how-consumers-behavior-in-car-buying-and-mobility-changes-amid-covid-19

actions. [4] Accordingly, the transformation of the industry with its ACES trends will not be slowed down, even in the view of the study authors from Roland Berger and Lazard. Therefore, the coronavirus pandemic does not mean a shift in tasks, but rather additional requirements to prepare for the future. The study's experts point out that a similar situation in 2008/2009 led to groundbreaking innovations in the automotive supply industry that played an important role in the market for years and ultimately ushered in one of the most successful decades of the global automotive supply industry. paragon was also among the suppliers significantly affected by the slump in the automotive market triggered by the global financial crisis. In the following years, paragon grew at above-average rates and generated significant shareholder value within a decade. According to the study, the current coronavirus pandemic must be seen as an opportunity to find a way between restructuring and a long-term sustainable repositioning or a strategy adjustment. Traditional cost-cutting programs do not promise success; in most cases, a strategic correction is required. Thinking these through and executing them consistently is a key to success. Likewise, in this particular situation, the use of partnerships beyond joint ventures would take on special significance for successful collaboration.

The dynamics of market development in the field of e-mobility have not been affected by the coronavirus pandemic for the long term, as the market research institute BloombergNEF recently noted in its Electric Vehicle Outlook 2020. The imminent fundamental improvements in terms of costs and technologies in the field of e-mobility would ensure that the short-term influences of the pandemic can be compensated for quickly. [5] The megatrend is continuing in both the consumer market and the industrial sector. Voltabox benefits from this in individual target markets for capital goods, such as buses for public transport, forklifts used in intralogistics and automated guided vehicles in networked production, starter batteries for the automotive and motorcycle market and for agricultural and construction vehicles.

As a result, paragon has the following opportunities, particularly in the medium term, which the company regards as significant as the prior year:

- Thanks to its business model focusing on the independent development of product innovations as well as the acquisition of complementary technologies, paragon is able to realize competitive advantages in the Electronics operating segment due to the dynamic technology transformation surrounding current megatrends.
- The focus on the development of product innovations is increasingly shifting from the component level to the system level in the Electronics and Mechanics operating segments. This provides paragon with the opportunity to increase the added value that each vehicle provides.
- In the Interior business unit, opportunities arise from the demand for solutions in the area of (active) noise cancellation in vehicles. This interest on the part of OEMs applies both to the premium segment and to manufacturers of volume models. In particular, the greater penetration of electric cars – in which the lack of noise from a combustion engine makes the rolling noise of the tires on the road clearly audible in the interior – is increasing the relevance of the technology that paragon has in its portfolio. There are also opportunities for paragon's wireless charging products to be used in the automotive sector; the cyclical change in model generations means that an increasing number of smartphones are in use that have the technical requirements for inductive charging.

- The external speakers marketed by paragon electroacoustic have growing sales potential, since from July 1, 2019, an "Acoustic Vehicle Alerting System" (AVAS) has been mandatory in the EU for hybrid and pure electric vehicles.
- With the expanded technological structure of paragon semvox's digital assistants and AI platforms (included in the Digital Assistance unit) – for example, through the introduction of the new software architecture geni:OS – the Group aims to be sustainably anchored in OEMs' assistance systems. The technological lead of paragon semvox solutions can be a decisive factor in our early establishment with the respective OEMs, providing particular opportunities. The complexity of the software in the manufacturers' platform economy, and thus its deep integration, promises long-term establishment

4 https://www.lazard.com/perspective/global-automotive-supplier-study-2020/
5 BloombergNEF, Electric Vehicle Outlook 2020

in the penetrated vehicle platforms. The integration of office applications under “The mobile office” provides paragon with additional opportunities, especially regarding premium models used as company cars.

- In the past fiscal year, the Chinese automotive market demonstrated its relative robustness and ability to overcome the crisis after the shocks caused by the coronavirus pandemic. According to the VDA, the number of new registrations in China has risen for eight months in a row since the economy reopened, which implies a correspondingly positive outlook for 2021. With paragon Automotive Kunshan Co., Ltd., paragon has its own local production facility. The Chinese government’s current five-year plan (2021–2020) focuses on strong economic performance in the coming years. At the same time, the issue of particulate matter emissions will remain a challenge in China’s densely populated regions and thus for the entire country. This means there is particularly high sales potential in the Chinese automotive market for paragon in the medium term if it can acquire Chinese automotive manufacturers as new customers for the DUSTPROTECT particle filter system with high take-rates and sales figures.

paragon’s increased efforts in recent years to establish itself in the Chinese market are now showing success. This is due in particular to gaining new customers and the resulting series launches. Opportunities for paragon also arise from increased efforts to establish partnerships with other Chinese automotive suppliers. This could lead to projects in the future in order to jointly develop the market. paragon sees itself as well positioned for this.

- The Kinematics operating segment’s growing product portfolio is providing a significant contribution to vehicles’ safety and energy efficiency. Opportunities also present themselves from our initial development and application experience with Kinematics products for vehicle interiors (e.g. rear seat swivel table). As a result of the trend toward increasing comfort in vehicles, advanced primarily by the increasing shift of the driver’s tasks to electrical assistance systems – which leads to the continuous configuration of forms of autonomous driving – paragon’s experience with the interaction of mechanics and actuators may be in greater demand in the future.
- By licensing the innovative Flow Shape Design technology of its subsidiary Voltabox, paragon has the opportunity to significantly participate in the megatrend of e-mobility not only in industrial applications, but also in the future in the automotive industry. This is independent of the planned sale of Voltabox AG. The marketing of the technology by Voltabox to date and the corresponding feedback from various industrial sectors, and from automotive manufacturers in particular, testify to the high degree of fit of the solution for the markets addressed (including those addressed by paragon). Accordingly, paragon sees good opportunities to rapidly develop the market for automotive e-mobility solutions with the help of the Voltabox Flow Shape Design® technology.

Overall Assessment of Opportunities

Through the regular and structured monitoring of opportunities within the paragon Group and the relevant sales markets as well as internal, barrier-free communication at the various levels of management, the Management is in a good position to identify opportunities for the Group. As of the end of fiscal year 2020, both external and internal opportunities have been identified or confirmed that have a positive impact on the financial performance indicators forecast for fiscal year 2021.

Risk Report

Risk Management

paragon uses a comprehensive risk management system as part of its risk-oriented corporate governance.

Risks are defined in the paragon Group not only as activities, events and developments endangering the company's existence, but also those affecting its business success. Particular attention is paid to risk concentrations, e.g. dependencies on individual customers, suppliers, products or countries. In the case of material risks, mutual dependencies and impacts are taken into account, since individual risks can mutually reinforce each other or cause compensation effects between them. We understand business success in terms of measurable values, e.g. revenue and EBITDA. Risks are therefore represented in these figures in the reports from the respective process owners. Risk assessment is always based on the risk outcome. A risk includes the possibility that a threat exposes a vulnerability and causes damage to or the loss of an object and thereby directly or indirectly results in a negative impact. The aim is also to identify and evaluate these risks in order to be able to select suitable and appropriate countermeasures on this basis.

Strategic Governance and Risk Management

The aim of risk management is to secure the company's continued existence, i.e., securing its future development and profitability as well as reducing the risks of breaching the confidentiality, integrity and availability of the information or data used or contained in the performance of activities. The task of risk management is also to report deviations from the corporate objectives at an early stage and thereby enable timely countermeasures. Risk guidelines are defined in the risk manual.

Group-wide responsibility for risk management lies with the Management. Risk management at the respective sites is adequately covered and secured in regular (video and telephone) meetings with the respective senior management. This means that the Management is directly informed of the situation and the corresponding risks are continuously monitored and managed by the Management. In risk fields where quantification is not possible or useful, work is also done to identify risk factors.

Central Risk Management

An important role in the risk management and control process belongs to central risk management. Within its responsibility for the risk situation of the company, the Management transfers the task of implementing permanent risk management activities to the central risk management team. Responsibility for central risk management lies with the Head of Controlling. paragon's central risk management team is responsible for coordinating all decentralized risk management functions, evaluating risk analyses and consolidating them into risk reporting as well as improving and enhancing the risk management system. Working with the Management, the central risk management team determines the reporting cycles and defines the thresholds for the risks which, when exceeded, require a risk control report to be prepared outside the obligatory reporting requirements. Both the threshold values and the reporting cycles are based on the relevance of the risks.

Central risk management supports the decentralized risk managers in the preparation of risk analyses and checks their returns and plausibility. It summarizes the individual risk profiles in a joint document. This means that interactions between the risks can be analyzed and the overall risk situation of the paragon Group can be recorded, evaluated and commented on. This summary is referred to as risk reporting. This task is of particular importance because the objective of an integrated risk management system is the holistic consideration of a company's risk situation. Risk reporting acts as the basis for the statements on the paragon Group's risk situation in the management report.

The decentralized risk managers are consulted whenever new risk management measures are established or existing measures are adapted.

Decentralized Risk Management

Decentralized risk management in the paragon Group is located within the company's individual segments and sites. The area and process managers are responsible for risk management in their respective areas of work as decentralized risk managers. The decentralized risk management team reports on the development of risks in these areas as part of risk control measures. For each quarterly reporting cycle, the decentralized risk managers write up a report on the risks for which they are responsible. The focus here is on the description of the expected development of the risk. With this, measures for future risk management or the improvement of existing measures are developed and included in the risk control report as proposed measures for implementation. The decision on implementation is the responsibility of the Management. In addition, the Management must be informed without delay of any risks incurred during the entire year (ad-hoc risk reporting). According to a resolution by the Management, regular meetings with all decentralized risk managers are no longer held. Instead, individual discussions are held with the decentralized risk managers.

Risk Monitoring

Risk monitoring is the task of decentralized and central risk management. Early warning indicators for critical success factors are defined by the decentralized risk managers. The task of central risk management is to monitor the defined early warning indicators. As soon as the defined thresholds are reached, a risk report is prepared by the decentralized risk manager, i.e., a forecast of the expected effects of the risk event for paragon. These forecasts are to be supplemented by scenario analyses, which take into account different data constellations. Risk monitoring thus serves as a form of knowledge enhancement to assist with management decisions, as attempts are made to reduce uncertainty regarding the future development of the company or the risk situation.

Based on this information and the recommendations made by the decentralized risk managers and central risk management, the Management decides whether and to what extent measures are to be implemented or whether an adjustment of the company's objectives is necessary. The monitoring of the early warning indicators and their associated threshold values as well as the creation of scenario analyses is the responsibility of decentralized risk management.

Risk Reporting

The quarterly report to the Management contains all new risks identified in the reporting period as well as risks that have changed by 50% or more relative to the prior month.

Central risk management is required to provide an ad hoc report to the Management in the case of risks that have changed by 100% or more as compared to the previous reporting period. The Management, in turn, is then obliged to provide a report to the Supervisory Board within 24 hours of being informed about the risk.

The risks continually analyzed by paragon as part of risk monitoring can be assigned to the following risk categories, each of which is divided into individual risks:

- Risks Threatening the Existence of the Group
- Strategic and Environmental Risks
- Market Risks
- Operating Risks
- Transaction Risks
- Financial Risks
- Liquidity Risks
- Management and Organizational Risks

At the end of the reporting year, a total of 27 individual risks were recorded in the paragon Group (prior year: 26) that equally affect the individual company. In the consolidated financial statements for fiscal year 2019, one risk was considered to be a threat to the existence of the company. The liquidity risk section explains the (positive) development of this risk in 2020. At the end of the year under review, the company determined that one financial risk poses a threat to the existence of the Group. This risk mainly relates to the scheduled repayment of the German bond in July 2022 and is discussed further in the separate section on risks threatening the existence of the Group.

Voltabox AG classifies two individual risks to the Voltabox subgroup as a threat to the existence of the company, namely liquidity risk and technical differentiation from the competition. However, from the perspective of the paragon Group, these two risks do not threaten the continued existence of the Group.

Risks

Risks Threatening the Existence of the Group

Because of technological developments and the impact of the coronavirus pandemic and the resulting declines in revenue, especially in the second quarter of fiscal year 2020, the paragon Group has been significantly impacted, particularly in terms of its financial position. Despite a significant upturn in orders and earnings in fiscal year 2021 to date, the liquidity situation has not yet fully normalized. Due to the substantial losses in fiscal year 2020, there is currently little willingness on the part of equity and debt capital providers to provide additional funds for the continued existence and the company's further growth. At the same time, this will result in greater future financing requirements for paragon:

- The repayment of the € 50 million German bond is necessary in July 2022.
- The term of the CHF bond was adjusted due to the adjustment of the financial covenant "equity ratio." Of the total volume of CHF 35 million, CHF 14 million is now due in 2021 and 2022. The remaining amount is due in 2023.
- Ongoing liquidity support of Voltabox AG until the entry of a new major shareholder.

It will not be possible to cover these future financing requirements in full from cash inflows from operating activities. Thus, the company is intensively pursuing various options for financing these repayments. The following measures have already been initiated or implemented:

- Addition of a new principal shareholder of Voltabox AG, among other things, to finance the operating business of the company
- Further (partial) divestments of shareholdings and subsidiaries with external support
- Disposal of assets not required for operations (in particular, parts of the land owned in Nordhagen)
- Sale-and-rent-back of real estate owned

A further goal of the Management is the rapid (re)establishment of the refinancing capability to also enable the issue of a new bond. Overall, the Management is convinced that financing of the operating business and repayment of the amounts mentioned above can be made according to plan and that the short- and medium-term solvency of the company and the Group is thus secured. If the aforementioned measures cannot be implemented as planned, the company's existence as a going concern would be jeopardized.

Strategic and Environmental Risks

Overall economic development is observed in the risk management system due to its possible influence on end customer behavior within the automotive industry. This can lead to fundamental changes to supply and demand behavior in the procurement and sales markets for paragon. For example, a longer-term economic downturn, possibly triggered by the economic policy measures of individual sub-markets such as the U.S. or China, could have a negative impact on the company's assets, financial position and earnings. A politically motivated move away from the rule-based international trade system or its disturbance through isolated protectionist measures could lead to distortions in the global automotive value-added chain. As the paragon Group has its own production facilities in China and the U.S., and as it has a specific customer/product structure, the Management views the overall risk of protectionist influence on earnings as low.

The outbreak of the coronavirus (SARS-CoV-2) and the associated COVID-19 illnesses represent a macroeconomic risk. The resulting measures to contain the virus and pandemic development led to a collapse in global economic growth within a very short time. Risks exist for the paragon Group depending on the impact of the sales development of the main customers, which could have a corresponding direct impact on the earnings and liquidity situation. In fiscal year 2021, it is possible that the pandemic will worsen, driven in particular by mutations of the virus that may have the potential to significantly set back the efforts of countries to protect the population through comprehensive vaccination campaigns. Some of the mutations known to date are significantly more contagious than the original variant of the virus. Accordingly, new dynamic developments may occur in individual outbreak areas. This could also affect paragon's customers, who could be forced to close their plants as a result. A renewed long-term interruption of operations at paragon's sites, as a result of regulatory measures, for instance, could pose a significant risk to the company. Specifically, the risks could include the possibility that reduced customer orders could lead to deviations in revenue planning. The paragon Group's refinancing efforts could also be made more difficult due to potentially negative effects on the capital markets and the banking sector. In addition, an unfavorable economic development could result in agreed credit terms not being met.

Market Risks

a) Market Risks for Automotive (Electronics and Mechanics Operating Segments)

For years, paragon has held a strong market position as a proven and innovative direct supplier to premium German manufacturers in the automotive industry. The global sales market for cars experienced a significant slump in 2020 as a result of the COVID-19 pandemic. Only the Chinese market was able to put the blow to productivity in spring 2020 behind it by the middle of the year and showed an upward trend at the end of the year. Although the German Association of the Automotive Industry expects a recovery in fiscal year 2021, this will mainly be of a technical nature. [6] The pre-crisis level will therefore not yet be reached. Following the challenging conditions for the global automotive industry, which has already seen declining sales in prior years, the coronavirus crisis represents a further hurdle in the targeted return to growth.

The dynamic impact of challenges in the supply chains on the automotive market was demonstrated, for example, at the end of 2020/beginning of 2021, when a shortage of semiconductors needed to manufacture vehicles threatened to have consequences for OEMs. A change in the strategic direction of chip manufacturers in the wake of the coronavirus pandemic, with the missing components leading to production cutbacks, led to delays in deliveries and reduced working hours. This current situation is likely to continue into the third quarter of 2021, although significant investment activity in the semiconductor industry is already having a positive impact. In the event of production stops or cutbacks, suppliers such as paragon could also be faced with a reduction in customer orders, which could impact revenue and earnings. However, the Management is convinced that the consequences for paragon can be kept to a minimum, as it is in close consultation with customers and suppliers regarding changes in order planning in order to safeguard

6 VDA, press release from January 19, 2021: European car market to shrink by a quarter in 2020

itself in the best possible way. Furthermore, the sustainable implementation of paragon's established procurement and escalation processes has proven that a consistently pursued supplier strategy leads to the desired success. For example, despite the challenges posed by supply bottlenecks in the semiconductor industry, the company succeeded in consistently supplying automotive customers with the quantities that had been ordered.

paragon's close ties to the premium German manufacturers and its concentration on specific market niches shape the company's strategic positioning. Sales opportunities and risks are assessed through a comprehensive operative sales management system. Key components of this system are the analysis of market and competition data, rolling planning for the short and medium term and regular coordination between sales, production and development. The company's comparatively broad portfolio demonstrates its relatively strong level of independence in relation to individual product groups and customers.

paragon generated 49.6% and 16.6% of its revenue with its two largest customers. The loss of a major customer could have a significant impact on the company's assets, financial position and earnings in the medium term. However, due to the multi-year contract periods for the various series (and the heterogeneous organization of customers into legally independent brands), the loss of a key customer would be known at an early stage. paragon counteracts this risk by comprehensive development work on product innovations as well as detailed permanent order backlog analyses focusing on early risk identification. At the same time, paragon has observed that even during the nomination periods, there is an increase in price pressure by manufacturers from global sourcing tenders and projects. The Group is attempting to counteract this trend with efficiency enhancement and cost reduction programs.

The paragon innovation process is characterized by independent product development that takes the interests and wishes of car users into consideration. In contrast to many other automotive suppliers, paragon does not wait for automotive manufacturers to make certain demands and specific requirements, but rather develops its own innovative solutions, which are implemented in cooperation with pilot customers and subsequently offered to a wider customer base. As a growing number of automotive innovations are electronic in nature, paragon sees a wide range of market opportunities for its Electronics operating segment. However, it cannot be ruled out that a product development may not achieve its expected quantities or may not find a market, or that its economic success may be lower or later than originally planned. Given the high proportion of capitalized development activities on the balance sheet, a corresponding valuation allowance for intangible assets could have a negative impact on the company's assets, financial position and earnings.

b) Market Risks for the Electromobility Operating Segment

Due to the continued relatively high concentration on just a few customers at Voltabox AG, the loss of an important customer could have a significant impact on the assets, financial position and earnings of Voltabox AG in the medium term. This risk is counteracted by comprehensive development work on product innovations as well as detailed permanent order backlog analyses focusing on early risk identification, as well as by expanding the customer base with extensive marketing activities in our defined core markets.

Voltabox develops its own, innovative solutions, which are implemented in cooperation with pilot customers and subsequently offered to a wider customer base in carefully selected target markets. However, it cannot be ruled out that a product development may not achieve its expected quantities or that its economic success may be lower or later than originally planned. This could have a negative impact on Voltabox AG's revenue and earnings. The Management Board of Voltabox AG estimates the risk as moderate overall.

The competitive situation in the field of (industrial) e-mobility is currently subject to various changes. New market participants are appearing, and well-known participants are entering into cooperative ventures with industry groups. This results in the risk for Voltabox AG of a reduction in its potential customer base. In addition, there is a risk that economies of scale will allow competitor companies to achieve an improved price structure with products comparable to Voltabox AG.

The Management Board of Voltabox AG classifies the risk related to the demand situation for Voltabox AG's products as a risk to the continued existence of Voltabox AG. From the perspective of the paragon Group, this does not represent a risk to the continued existence of the Group.

Operating Risks

In terms of operating risks, paragon is currently focusing on its research and development, materials management, production and information technology activities.

The market for automotive electrics, electronics and mechatronics and industrial electromobility is subject to increasingly dynamic, technological change. paragon's future economic success will therefore depend on the ability to continuously develop new and innovative products on time – for customers and in collaboration with them – and to successfully introduce them to the market. Recognizing new technological developments and trends at an early stage, reacting to them and implementing solutions in partnership with customers is key here. Should paragon not be able to, or not quickly enough, recognize and implement new trends, changing customer requirements or future technological advances or to develop new products and adapt existing products in accordance with business principles, this may have a detrimental effect on the company's assets, financial position and earnings.

In close cooperation with the development departments of important customers, paragon contributes to automotive product innovations with its wide range of development projects and innovative solutions. Significant deviations from the project objectives in terms of time and money may result in cost and legal risks (such as contractual penalties). Ongoing development and project monitoring is undertaken to limit associated risks.

With continuous investments in machinery and plants, paragon ensures that the production facilities at all of the Group's sites meet the high requirements of the automotive industry.

In its procurement activities, paragon took advantage of the global price competition on all relevant markets and secured a substantial portion of its procurement prices through framework contracts, annual agreements and long-term supplier relationships. The Group continues to purchase around 90% of its purchase value from European contract partners, while the rest is purchased directly in Asia and the USA. The major purchasing currency is the euro, with only a small proportion of invoices billed in U.S. dollars in the year under review. Currency risks arise primarily for purchases in U.S. dollars that are intended for the European currency area. These risks are minimized by sliding-price clauses and other appropriate measures.

The increasing penetration of information technology (IT) and networking along the Group's entire value chain holds many opportunities as well as risks, such as system failures or unauthorized external access to company data and information. In cooperation with specialized service partners, paragon has implemented established security solutions to avert potential threats to the IT infrastructure and critical data.

Combined with organizational security measures, paragon is sufficiently protected against cyberattacks from the point of view of the relevant Group experts. For 2020, the Management planned further comprehensive steps with regard to the modernization of the IT infrastructure as well as the expansion of the use of the ERP software to standardize operating processes and to simplify or harmonize the management of the Group units. As a result of the coronavirus pandemic, these projects and the associated investments were temporarily paused and will be resumed in the current fiscal year if possible.

Valuation allowances of € 0.5 million were recognized on goodwill in the fiscal year. In particular, a deterioration in the business outlook at the subsidiaries paragon movasys GmbH and paragon semvox GmbH could lead to a further need for impairment. Capitalized goodwill amounts to a total of € 21.9 million.

Transaction Risks

paragon includes all risks associated with the purchase and sale of companies or parts of companies in the category of transaction risks. Delays in the negotiations or the actual implementation of the transaction could result in risks such as excessive demands on the resources of the Management and downstream management levels, or an unforeseen increase in the costs associated with the transaction. Furthermore, a significant deviation from the originally planned sale proceeds could lead to a negative impact on earnings. In order to minimize the risks associated with the transaction, paragon uses professional support from renowned investment banks and experienced external advisors during the marketing process.

Financial Risks

In addition to interest rate, liquidity and currency risks, paragon also monitors risks associated with the loss of receivables, balance sheet risks and tax risks in the financial risks category.

There are currency risks from the issue of the CHF 35 million bond, which are explained in note (39).

Interest rate risks are virtually meaningless for paragon, as fixed interest rates are currently agreed upon for most of its long-term liabilities.

Financial covenants have been agreed for the CHF bond issued in 2019. This refers to the equity ratio (the ratio between equity and consolidated total assets), which may not fall below a contractually defined value of 25%. As of December 31, 2020, there is a formal shortfall in the equity ratio. Even before the consolidated financial statements were prepared, an extraordinary bondholders' meeting resolved the formal breach of covenant. The bondholders' meeting reached the required majority of votes on April 7, 2021. This eliminates the reason for the possible declaration of maturity of the bond due to the equity ratio as of December 31, 2020. paragon is obligated to repay 15% of the nominal value of the outstanding bonds (i.e., CHF 5.25 million) plus accrued interest at par value on August 3, 2021, and to repay at least 25% of the nominal value (i.e., CHF 8.75 million) on April 23, 2022. The remaining outstanding principal amount of the bonds will also eventually be repaid at par value on April 23, 2023. This means that the CHF bond will be repaid in full one year earlier than specified and planned when the bond was issued.

The company's ability to pay is ensured by comprehensive planning and monitoring of liquidity. These plans are prepared on a short, medium and long-term basis. In addition, paragon has a rigorous receivables management system to ensure timely cash inflows. A substantial portion of the receivables is also hedged by means of a commercial credit insurance. An additional option for short-term financing is in the form of factoring agreements. paragon must increasingly react to the intention on the part of the customers to pre-finance development services, tools or operating resources. The Management has also taken appropriate measures to harmonize the sharply increased conditions imposed by customers regarding payment of nonrecurring costs in the scope of series deliveries with paragon's role as a major supplier of important and high-quality components.

The company monitors possible currency risks on the procurement and sales side by continuously tracking foreign currency exchange rates. paragon does not use financial instruments to hedge currency risks.

Please refer to the separate section entitled "Risks Threatening the Existence of the Group" for information on the risk arising from the refinancing required in the future.

Liquidity Risks

a) Liquidity Risks paragon Group

The spread of the coronavirus starting in 2020 and the impact of the pandemic on the global economy significantly changed the overall risk situation for paragon GmbH & Co. KGaA in fiscal year 2020. Revenue risk increased during this period due to global risk factors and potential production disruptions. The Group worked to counteract this by reducing expenses to the minimum level necessary to operate and by increasing the flexibility of costs. At the same time, reduced working hours were used throughout the Group. Due to the impact of the pandemic, liabilities due in the second and third quarters of 2020 could not be settled as scheduled. Deferral agreements have been reached with the respective creditors. As a result, the company's financial position was strained at that time. By the end of 2020, the liquidity situation was able to be significantly improved thanks to the positive operating cash flow and the sale of the first partial blocks of shares in Voltabox AG. At the end of the year, all liabilities were settled as scheduled. Against this background, the liquidity risk is no longer considered to be a threat to the existence of the company at the end of the reporting year.

b) **Liquidity Risks for the Electromobility Operating Segment (Voltabox AG)**

The liquidity situation of Voltabox AG was strained in fiscal year 2020. The company now only has small portions of assets that can be liquidated in the short term. At the same time, potential revenue growth results in relatively high pre-financing requirements. The value creation steps tie up working capital in the medium term. Investment projects can currently only be realized to a limited extent. The procurement of intermediate products is usually only possible upon advance payments.

These effects could jeopardize the existence of the company and therefore represent a threat to the existence of Voltabox AG. For this reason, Voltabox AG has announced reduced working hours in large sections of the organization and placed its focus on the safest possible revenue projects with the goal of securing the cost base for fiscal year 2021.

From the perspective of the paragon Group, this liquidity risk at Voltabox AG does not represent a risk threatening the existence of the Group.

Management and Organizational Risks

In this risk category, paragon primarily monitors risk factors resulting from its dynamic growth strategy. This includes personnel and organizational risks in particular, as well as management and communication risks. Clear assignments and demarcations in the respective areas of responsibility, within the system of owner-oriented governance, are intended to prevent missing interfaces and functional overlaps. Currently, the Management does not consider there to be any material risks to paragon in this area.

However, the company is fundamentally dependent on attracting and retaining qualified personnel and persons in key positions in the long-term. The future economic success of paragon depends to a considerable extent on the continued involvement of its executives, senior employees and employees in key positions. This is particularly the case for its founder, primary shareholder and Management Chairman, Klaus Dieter Frers, who is the company's engine and an important source of ideas. In addition, paragon also relies on qualified employees in the areas of management, research and development, and sales. The company cannot guarantee that it will be able to hold key executives, senior executives and employees in key positions or attract new executives and employees with appropriate qualifications. There is increasing competition for such qualified employees and the personnel market, particularly in regions outside major German cities, is comparatively small. This means that individual experts can only be replaced with difficulty or not at all.

If paragon is unable to obtain sufficient personnel in the future, the strategic and economic objectives of the company may not be achievable or only achievable at a later date. This could have a detrimental impact on the company's assets, financial position and earnings.

Overall Assessment of the Risk Situation

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

In the future, paragon will also protect itself against general market risks in the automotive industry. For paragon, the market risk represents the most significant individual risk. In the reporting year, the share of revenue with the two most important customers pursuant to IFRS 8.34 was around 66.2% (prior year: 50.8%). The company's strategic positioning as a direct supplier to premium German manufacturers and its long-standing, successful business relationships with these companies are expected to further reduce this risk. However, it can be assumed that car manufacturers will pass on to suppliers the increasing cost pressure resulting from the transformation process in terms of technologies and business models. The existing customer contacts nonetheless offer considerable opportunities to position new product innovations in the automotive operating segments. The increasing diversification of the Group's product portfolio should help to further reduce market risks.

With paragon's ambitious growth strategy, the company's overall economic development remains linked to the economic development of the automotive industry and, particularly, its key customers.

In 2020, the coronavirus (SARS-CoV-2) evolved from an epidemiological phenomenon to a global pandemic. Like all other members of the automotive and automotive supplier industry, the paragon Group was initially significantly affected by the impacts of the spread of the virus as well as by the health policy countermeasures. After production at the paragon plant in Kunshan, China was initially shut down for this reason for four weeks in the first quarter, particularly in February, the Group also had to respond to the plant closures announced by customers in its home market of Germany in the second half of March and immediately shut down its own production. The customers invoked force majeure. This circumstance was also referenced by some of the paragon suppliers who could no longer continue their deliveries according to the orders placed. paragon also subsequently invoked force majeure for the purpose of explaining the temporary production stop. Based on this, paragon GmbH & Co. KGaA introduced reduced working hours for large parts of the company. The Management adopted these measures with the goal of protecting existing jobs in the long term. In the further course of the year, the safety and hygiene concepts established by the company for the administrative units as well as for production proved to be effective, so further coronavirus-related production interruptions were not necessary. Nevertheless, there may still be impairments in fiscal year 2021 as a result of the coronavirus crisis. The dynamics of the pandemic cannot be reliably predicted, particularly due to current developments regarding mutations of the virus. The course of events is also highly dependent on the success and speed of national vaccination campaigns. In this respect, there is still a risk, albeit to a much lesser extent than in the prior year, that suppliers and customers will have to curtail their production activities. paragon GmbH & Co. KGaA has analyzed in detail the events and concrete impact of the COVID-19 pandemic on the Group in fiscal year 2020 and has taken appropriate measures to protect itself as best as possible against such external effects.

A differentiated view on the development of the automotive industry shows that the company is positioned in forward-looking market segments or sub-markets, has promising customer relationships and offers diverse niche products that are in some cases only offered on the market by paragon.

The potential impact on the general future development of the paragon Group, as well as on the financial and non-financial performance indicators, has prompted the Management to once again intensify the efficiency program that is already underway and place a particular focus on the sustainable, i.e., long-term, increase in the company's productivity. On this basis, the Management expects that the business development described in the forecast will not be significantly impacted by the disclosed risks.

paragon GmbH & Co. KGaA will continue to focus strongly on financial risks in order to ensure the continued existence of the Group. The scheduled repayment of the German bond in the amount of € 50 million and a partial repayment of the CHF bond in the amount of CHF 14 million is planned by July 2022. In this context, the company is analyzing and evaluating various options for financing this repayment. Overall, the Management is convinced that repayment can be achieved as planned. If this were not to succeed, it could jeopardize the existence of the company. In this regard, we refer to the further explanations in the section "Risks Threatening the Existence of the Group."

The Management Board of Voltabox AG currently classifies two risks as a threat to the continued existence of Voltabox AG. Please refer to the “Market Risks” and “Liquidity Risks” sections for further details. From the perspective of paragon GmbH & Co. KGaA, however, these two risks do not pose a threat to the continued existence of the paragon Group.

Description of the Key Characteristics of the Internal Control and Risk Management System With Regard to the Group Accounting Process (Section 315 (4) of the German Commercial Code)

Since the internal control and risk management system is not legally defined, paragon based its definition on that of the Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf, Germany, regarding accounting-related internal control systems (IDW PS 261).

An internal control system is therefore understood as the principles, procedures and measures enacted by management that are aimed at the organizational implementation of management’s decisions. The objectives are as follows:

a) Ensure the effectiveness and profitability of the business (including the protection of assets and the prevention and detection of asset damages)
b) Ensure the regularity and reliability of internal and external accounting
c) Comply with the legal and statutory regulations applicable to the company

The Group’s risk management system includes all organizational regulations and measures for risk identification and handling risks related to entrepreneurial activity.

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

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. Independent controls have also 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 overall statement of the consolidated financial statements, including the Group management report. Key principles, procedures, measures and control activities include:

- Identification of the key control risks relevant to the accounting process
- Process-independent controls for monitoring the accounting process and its results at the level of the Management of paragon GmbH & Co. KGaA
- Control activities in the finance department of paragon GmbH & Co. KGaA that provide essential information for the preparation of the annual financial statements and management report including the required separation of functions and approval procedures
- Measures that ensure the proper computerized processing of accounting-related information

Risk Reporting in Relation to the Use of Financial Instruments (Section 315 (2) No. 1 of the German Commercial Code)

The following risks arise from the paragon Group's use of financial instruments:

Interest rate risks are virtually meaningless for paragon, as fixed interest rates are currently agreed upon for most of its long-term liabilities.

Financial covenants were concluded between the creditors of the CHF bond and paragon. This refers to the equity ratio (the ratio between equity and consolidated total assets), which may not fall below a contractually defined value of 25%. A shortfall would entitle creditors to terminate. The equity ratio fell below 25% as of December 31, 2020. A formal covenant breach was successfully avoided in negotiations with the creditors. The bondholders' meeting reached the necessary majority of votes on April 7, 2021. Please refer to the presentation in the risk report in the section "Financial Risks."

The company's ability to pay is ensured by comprehensive planning and monitoring of liquidity. These plans are prepared on a short, medium and long-term basis. In addition, paragon has a rigorous receivables management system to ensure timely cash inflows. A substantial portion of the receivables is also hedged by means of a commercial credit insurance. An additional possibility for short-term financing exists in the form of factoring agreements.

The company monitors possible currency risks on the procurement and sales side by continuously tracking foreign currency exchange rates. The individual risks are explained in "Financial Risks" in the risk report.

Forecast

Market Development 2021

The International Monetary Fund (IMF) published its outlook for the global economy during 2021 in October 2020. O[7]verall, following the significant slump in the global economy of –4.4%, a significant increase of 5.2% was expected for 2021. This would represent a marginal 0.6% growth in global productivity compared to 2019. In January 2021, the IMF published an updated forecast [8] that expects the global economy to grow by 5.5% despite emerging challenges in combating the COVID-19 pandemic. The IMF also noted stronger momentum in the second half of 2020, which led to a more optimistic forecast for economic development last year. Instead of the initially calculated decline of –4.4%, the forecast is now –3.5%. For 2022, the models predict growth of 4.2%.

The 0.3 percentage point increase in global growth forecasts for 2021 reported in January is driven by expectations of a further recovery in economic activity over the course of the year as a result of positive vaccine developments as well as additional policy support in some major economies.

In this exceptional global situation, the IMF expects a lockstep in the normalization of economic growth with respect to the progress of developed economies (4.3% in 2021 and 3.1% in 2022) and emerging economies (6.3% in 2021 and 5.0% in 2022). Based on the calculations to determine the global economic outlook published January 2020, the IMF specifically assumed that economic development in the U.S. would amount to –5.1% in 2021 and 2.5% in 2022, in the eurozone to 4.2% in 2021 and 3.6% in 2022, in Germany to 3.5% in 2021 and 3.1% in 2022 and in China to 8.1% in 2021 and 5.6% in 2022.

According to the German Association of the Automotive Industry, the market situation is expected to improve slowly in 2021, so sales of cars will rise again. [9] "However, the declines from 2020 will not be offset," says VDA president Hildegard Müller, who is not giving the all-clear regarding the recovery of the markets, especially in regards to the supplier industry. [10] Overall, the German Association of the Automotive Industry expects global passenger car sales to increase by around 9% in 2021 to 73.9 million units. This development will be driven in particular by the Chinese market, which will completely move beyond the crisis with an increase to 21.4 million units (+ 8%). The other international automotive markets are "only slowly approaching ... the pre-crisis level," as the VDA notes. [11] Specifically, the association expects the European market to increase by 12% to 13.4 million units in 2021, of which the German automotive market will contribute 3.15 million new registrations (+ 8%). The U.S. market is expected to grow by 9% to 15.8 million light vehicles.

Due to the ongoing uncertainty resulting from the coronavirus pandemic, it is currently hardly expedient to rely on market research studies to depict the future development of the markets addressed by Voltabox, as was common practice in previous reporting.

As a result, the following assumptions are particularly important for establishing the paragon Group's forecast:

- Significant catch-up effects within the global automotive industry and relatively stable recovery of the paragon core markets (Europe and particularly Germany) – the low level of internationalization of the paragon Group to date means low susceptibility to economic events
- Completed development of concepts and models for working at a distance and maintaining production while the risk of renewed restrictions on public life remains latent
- Relative robustness of the premium segment against cyclical influences on the automotive industry

7 https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020
8 https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update
9 VDA, press release from January 19, 2021: European car market to shrink by a quarter in 2020
10 VDA, press release from January 26, 2021: Hildegard Müller: 2021 will decide the future of the industry in Germany and Europe
11 VDA, press release from January 26, 2021: Hildegard Müller: 2021 will decide the future of the industry in Germany and Europe

- Extraordinary, temporary influence of the COVID-19 pandemic on the maintenance of the value chains at Voltabox and within the industrial sub-markets as well as on the demand situation and willingness of customers to invest

- Continuing trend towards e-mobility, primarily through the replacement of lead-acid batteries and diesel backup generators with lithium-ion batteries in the sub-markets currently occupied

- Increase in regulatory drivers for sustainable mobility, particularly in the area of local public transport

- We expect the planned measures to successfully counter the financial risks. If the Management's planned measures (scheduled repayment of the German bond in July 2022 and partial repayment of the CHF bond) do not lead to success, there is a material uncertainty regarding the continuation of the business.

paragon Group

paragon GmbH & Co. KGaA plans to sell the shares in Voltabox AG. The forecast therefore relates exclusively to the Electronics and Mechanics operating segments, also referred to as paragon Automotive (paragon Group excluding Voltabox AG).

The Group's corporate planning is based on detailed sales and revenue planning and is broken down by customer to the product level. The main cost components are planned via individual planning models for a period of several years and are then updated in proportion to the development of revenue.

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

The Management's forecast is based on the solid order situation for 2021 and the known sales expectations of automotive customers according to IHS Markit and their existing orders of paragon products for the first half of 2021. Accordingly, paragon's Management expects to generate revenue in the Automotive business of around € 140 million with an EBITDA margin of 12 to 15% in 2021. Free cash flow is expected to be € 10 to 12 million.

A key driver of sales growth will be the good demand for the Dustdetect particulate matter sensor in the Sensors unit. The product is being installed in more and more model series and has recently attracted increased attention from manufacturers as a result of the intense debate in society about particulate matter levels in inner cities. In addition, the market penetration of the Digital Assistance unit's software products continues to increase at a rapid pace. A decisive factor here is also the rapidly growing proportion of volume models equipped with paragon semvox technology. The company also sees the expansion of activities in the Sensors unit in the Chinese market as a further growth driver. In fiscal year 2021, the preparatory measures taken in recent years to cultivate the market will have a noticeable impact on revenue.

The Voltabox Management Board expects revenue of around € 15 million for fiscal year 2021, with an EBITDA margin of -15%. The free cash flow is expected at € -5 million. At Voltabox, together with intralogistics, particular focus will be placed on the existing local public transportation market segment (trolleybuses and the conversion of diesel buses). In addition, the new market segments of mobile and stationary energy storage will contribute to revenue for the first time.

Development of Key Performance Indicators:

€ '000 / as indicated	2019	2020	Change in %	Forecast 2021		
Financial performance indicators				paragon Automotive	Voltabox AG	Group as a Whole
Group revenue	192,188	144,981	–32.6	approx. € 145 million	approx. € 15 million	approx. € 160 million
EBITDA margin	–4.4%	–7.2%	n.a.	12 to 15%	–15%	10 to 12%
Free cash flow	–51,689	5,944	n.a.	€ 10 to 12 million	€ –5 million	€ 5 to 7 million

paragon GmbH & Co. KGaA

In the current fiscal year, the Management Board expects paragon GmbH & Co. KGaA to report a positive revenue development with a stable EBITDA margin compared to the prior year in the HGB financial statements.

€ '000 / as indicated	2019	2020	Changein %	Forecast 2021
Financial performance indicators				
Revenue	94,237	91,371	–3.0%	€ 100 million
EBITDA margin	0.4%	13.5%	n. a.	12–15%

Disclosures Required Under Takeover Law Pursuant to Sections 289a (1) and 315a (1) HGB

Composition of the Subscribed Capital

paragon GmbH & Co. KGaA's subscribed capital (share capital) amounts to € 4,526,266.00 and is divided into 4,526,266 no-par-value shares with a nominal value of € 1.00 each. All shares are entitled to dividends. Each share grants one vote at the Annual General Meeting.

Stock Voting Right and Transfer Restrictions

The Management is not aware of any limitations affecting voting rights or the transfer of shares..

Holdings That Exceed 10 Percent of the Voting Rights

The Management Chairman (and founder of the predecessor company), Klaus Dieter Frers, held 2,232,263 shares in the company as of the reporting date. This equates to a proportion of 49.3% of the share capital of paragon GmbH & Co. KGaA. He has a voting proxy for a further 30,871 shares, which is not subject to any directives. This means that 2,263,134 shares in the Company are attributable to him (Sec. 34 (1) No. 6 WpHG), which is 50% plus 1 share of the limited partner shares of paragon GmbH & Co. KGaA.

Shares With Special Rights of Control

There are no shares that confer special rights of control.

Voting Right Controls for Employees Participating in the Capital

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

Appointment and Dismissal of Members of the Management and Amendments to the Articles of Association

paragon GmbH manages paragon GmbH & Co. KGaA as a general partner. With this type of capital-based structure for the partnership limited by shares (KGaA), the management bodies of the general partner thus effectively manage the business of the partnership limited by shares. The provisions of the German Stock Corporation Act that apply to a management board apply analogously to the management.

However, unlike in the case of the management board of a stock corporation, the general partner is a "born" management body, i.e., it is entitled to manage the company's business and to represent it permanently and not just for a specific period of time. The general partner is appointed on the basis of the Articles of Association rather than by the Supervisory Board or the Annual General Meeting. For this reason, the general partner cannot be dismissed by the Supervisory Board or the Annual General Meeting.

Regarding the rules for amending the Articles of Association, please refer to Section 278 (3) and Section 179 (2) Clause 2 of the German Stock Corporation Act.

Authorization of the Management to Issue Shares

Pursuant to the resolution of the Annual General Meeting of May 10, 2017, the general partner is authorized, with the consent of the Supervisory Board, to increase the company's share capital once or several times by up to € 2,263,133.00 until May 9, 2022, inclusive, via the issue of up to 2,263,133 new no-par-value shares against contributions in cash and/or in kind (Authorized Capital 2017/I).

Shareholders are to be granted a subscription right. The statutory subscription right may also be granted by having the new shares taken over by a banking consortium with the obligation to offer the shares indirectly to shareholders for subscription pursuant to Section 186 (5) of the German Stock Corporation Act. However, the general partner is authorized, with the consent of the Supervisory Board, to exclude the statutory subscription rights of shareholders in the cases specified in Section 4 No. 6 of the company's Articles of Association in the version dated May 8, 2018.

Pursuant to a resolution passed by the Annual General Meeting on May 10, 2017, the company's share capital underwent a conditional increase of up to € 2,263,133.00 by issuing 2,263,133 new no-par-value shares (Conditional Capital 2017/I).

The conditional capital was created exclusively to grant shares to holders or creditors of convertible bonds and/or bonds with options that are issued by the company (or by a Group company as defined in Section 18 of the German Stock Corporation Act, in which the company has a shareholding of at least 90%) pursuant to the authorization by the Annual General Meeting on May 10, 2017, against contributions in cash or in kind until May 9, 2022. In accordance with the respective terms and conditions for convertible bonds and bonds with options, the conditional capital increase also serves to issue shares to holders of convertible bonds and/or bonds with options subject to conversion or option obligations.

The conditional capital increase shall only be implemented to the extent that the holders of warrants from options or creditors of convertible bonds exercise their conversion or option rights, or the holders or creditors of convertible or warrant-linked bonds who are obligated to exercise or convert the option or warrant-linked bonds fulfill their obligation to exercise or convert the option or warrant-linked bonds, provided that the conversion or option rights are not serviced by granting treasury stock or other forms of settlement. These rights must have been issued by the company (or by a Group company as defined in Section 18 of the German Stock Corporation Act, in which the company has a direct or indirect shareholding of at least 90%) based on the authorization granted by the Annual General Meeting, which lasts from May 10, 2017, through May 9, 2022. The new shares shall be issued at the conversion/option prices in the bond or option conditions to be determined in accordance with the aforementioned authorizing resolution. The new shares may be granted a dividend entitlement starting in the fiscal years for which the Annual General Meeting has not yet passed a resolution on the appropriation of profits. The general partner is authorized to determine the further details regarding the implementation of the conditional capital increase.

Change of Control and Compensation Agreements

According to Section 6 No. 3 of the company's Articles of Association as of May 8, 2018, further general partners may be admitted to the company, with or without an authorization to manage its business and/or to represent it. This admission will require the consent of the general partner and the Annual General Meeting. The provisions of the company's Articles of Association concerning the general partner apply analogously for general partners newly joining the company.

Pursuant to Section 6 No. 4 of the company's Articles of Association as of May 8, 2018, the general partner will retire from the company in the event that a person other than Brigitte Frers or a direct relative of Klaus Dieter Frers (Section 1589 (1) Clause 1 of the German Civil Code) becomes the legal or beneficial owner of a majority of the voting rights in the general partner and does not provide the company's shareholders with a takeover or mandatory offer in accordance with the provisions of the German Securities Acquisition and Takeover Act within three months of this acquisition coming into effect.

In the event that the general partner retires from the company without another general partner being admitted at the same time, pursuant to Section 6 No. 5 of the company's Articles of Association of May 8, 2018, the limited liability shareholders will continue to manage the company's business on their own, on a temporary basis. In this event, the Supervisory Board is required to request the appointment of a substitute representative without delay who will represent the company until a new general partner is admitted.

Sustainability Reporting

For fiscal year 2020, the company has prepared a consolidated nonfinancial report for the paragon Group and for paragon GmbH & Co. KGaA. The report is not part of the management report. The Management has produced this report separately and has published it on the company's website (https://ir.paragon.ag).

The company has included the components required by law in its sustainability reporting and has supplemented these with further comments where clarification is necessary. paragon GmbH & Co. KGaA applies the framework provided by the German Sustainability Code (GSC) – while complying with Section 289c of the German Commercial Code – for its sustainability reporting.

Corporate Governance Statement Pursuant to Section 315d and Section 289f (1) of the German Commercial Code

The Management and the Supervisory Board of the company are committed to the principles of transparent and responsible corporate governance and supervision. They ascribe a high priority to the standards of good corporate governance.

The Corporate Governance Statement pursuant to Section 315d and Section 289f (1) of the German Commercial Code can be accessed at any time on paragon's website at https://ir.paragon.ag. It includes the declaration of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG), relevant information on corporate governance practices and a description of the working methods of the Management and Supervisory Board as well as their composition, the targets set pursuant to Section 76 (4) and Section 111 (5) AktG and information on their achievement as well as the measures taken by the company in connection with increasing diversity.

Group Structure

The legal form of the company is a partnership limited by shares (Kommanditgesellschaft auf Aktien, KGaA). Its statutory bodies are the Annual General Meeting, the Supervisory Board and the general partner, paragon GmbH.

Relevant Disclosures on Corporate Governance Practices

With the Management Chairman as a large shareholder and the specific legal form-related characteristics of a partnership limited by shares, in terms of its entrepreneurial responsibility the Management adheres particularly strongly to the principles of the "honorable merchant," from the point of view of its operational procedures. This includes the obligation to ensure the continued viability of the company and its sustained value creation (corporate interests) in conformity with the principles of the "social market economy."

For the Management and Supervisory Board, the recommendations and suggestions from the Corporate Governance Code, along with the statutory provisions, are an integral part of their daily work. Sustainable economic, environmental and social action, while at the same time complying with legal requirements, is an essential and immutable element of paragon's corporate culture. This includes a trusting relationship and mutual respect in our daily interaction with each other.

paragon takes strict care not to tolerate any violations of the law. In the event of violations of applicable case law and internal regulations, paragon consistently pursues the enforcement of disciplinary measures and regularly reviews civil or criminal consequences. The implementation of these principles is ensured through existing programs and management systems.

Description of the Working Methods of the Management and Supervisory Board

The German Stock Corporation Act requires a dual management system with an executive body and a Supervisory Board for stock corporations as well as for partnerships limited by shares. A partnership limited by shares (KGaA) is managed by one or more general partners. The general partner of paragon GmbH & Co. KGaA is paragon GmbH. As its executive body, the Management of paragon GmbH also constitutes the management of the KGaA. In accordance with statutory requirements, the Supervisory Board monitors and advises the Management. The duties and responsibilities of the two corporate bodies are each clearly defined by law and precisely separated from one another.

Directors and Officers

The general partner, paragon GmbH, manages paragon GmbH & Co. KGaA through its Management. Its actions and decisions are unreservedly committed to the interests of the company.

The Management of the general partner conducts the business of the company in accordance with the stock corporation law provisions and the Articles of Association, as well as in accordance with the rules of procedure within the meaning of Section 77 (2) AktG, which explicitly defines its duties, responsibilities and business procedures. The duties primarily comprise the management of the Group, the development and reinforcement of the strategic direction and the organization, implementation and continuous monitoring of risk management.

The members of Management lead their areas of responsibility on their own authority. They inform each other on an ongoing basis about all relevant business transactions from their areas of responsibility. The members of Management consult with each other on relevant interdisciplinary matters. The Chief Executive Officer is responsible for coordinating the joint affairs of the areas of responsibility.

Matters of particular importance and scope are decided in consultation between the members of Management.

The Management of paragon GmbH & Co. KGaA consisted of two members as of December 31, 2020.

Klaus Dieter Frers

- Born on February 25, 1953
- First appointment: founder of the predecessor company of paragon GmbH & Co. KGaA
- Appointed for an indefinite period

Klaus Dieter Frers is the founder of paragon and its first predecessor company and since then has always been the Chairman of the various management bodies according to the different legal forms in which the paragon Group existed. He also acts as the managing director of various subsidiaries in the paragon Group.

Dr. Matthias Schöllmann

- Born on November 20, 1969
- First appointment: 2018
- Appointed until: 8/31/2023

Dr. Matthias Schöllmann became a member of the Management when he joined paragon GmbH & Co. KGaA in 2018. He also acts as the managing director of various subsidiaries in the paragon Group.

Supervisory Board of paragon GmbH & Co. KGaA

In particular, the Supervisory Board is responsible for supervising the general partner's management of the company. To this end, it is entitled to information and inspection rights. It is also responsible for fulfillment of the resolutions passed by the Annual General Meeting.

The Supervisory Board of paragon GmbH & Co. KGaA consisted of three members throughout fiscal year 2020: Prof. Dr. Lutz Eckstein (Chairman, Board member since 5/14/2014), Hermann Börnemeier (Vice-Chairman, Board member since 10/30/2010) and Walter Schäfers (Board member since 10/30/2010). In fiscal year 2020, there were no conflicts of interest among the members that would have to have been disclosed to the Supervisory Board. The Supervisory Board assesses the efficiency of its work through self-evaluation once a year.

In respect of the services personally provided by members of the Supervisory Board for the Group in fiscal year 2020, the company refers to the disclosures in the consolidated financial statements as well as the combined management report for paragon GmbH & Co. KGaA and the paragon Group.

In principle, a supervisory board is not entitled to make specific management measures subject to its consent, to prepare a list of transactions requiring its consent or to issue rules of procedure for the general partner encompassing such business measures. However, according to the Articles of Association of paragon GmbH & Co. KGaA the following transactions of the company and affiliated companies require the consent of the Supervisory Board::

- Transformation measures resulting in a change in the Group's structure
- The purchase, disposal or encumbrance of land, rights equivalent to real property or rights to land insofar as the value of the respective measure exceeds an amount of € 3 million
- Participation in other companies or the relinquishment of such participations, insofar as the value of the respective measure exceeds an amount of € 5 million
- Assumption of sureties, guarantees and similar liability outside the scope of normal business activities, insofar as the measure in question is significant for the Group
- Grant of loans or other credits outside the scope of normal business activities, insofar as the measure in question is significant for the Group

In addition, the Supervisory Board is responsible for representing the partnership limited by shares in relation to the general partner.

The Supervisory Board of a KGaA is not involved in the approval of the annual financial statements of the KGaA. However, the Supervisory Board is required to review the annual financial statements, the management report and the proposal on the appropriation of the balance sheet profits by virtue of its supervisory role, which is mandatory under stock corporation law.

Nor is the Supervisory Board responsible for the appointment and dismissal of the general partner, since the general partner will assume this role with permanent effect according to the articles of association.

In principle, the members of the Supervisory Board will be appointed in accordance with the rules applicable for a stock corporation. This includes the skill profile already implemented, which covers the market and technology as well as finance and law. However, the mandatory statutory incompatibility prescription of the members of the Supervisory Board and general partners must be complied with. Pursuant to Section 287 (3) of the German Stock Corporation Act, general partners may not be Supervisory Board members. If the general partner is a limited liability company, this ground for exclusion will apply analogously for the managing director(s) of paragon GmbH as the general partner and for the shareholders with significant interests in this company.

Cooperation Between the General Partner, Represented by the Management of paragon GmbH, and the Supervisory Board

The Supervisory Board of paragon GmbH & Co. KGaA fulfilled the consulting and monitoring obligations incumbent upon it according to law, the Articles of Association and the German Corporate Governance Code (GCGC) in their respective current versions with great care in fiscal year 2020. Here, the Supervisory Board supervised the company's Management on an ongoing basis and made sure of its legal and regulatory compliance, appropriateness and effectiveness. Furthermore, the Supervisory Board was available to the Management for consultation and was involved in discussions and decisions regarding issues of material importance. Thanks to the good cooperation between the Supervisory Board members, even time-sensitive decisions were resolved quickly after appropriate consideration.

The Management comprehensively informed the Supervisory Board in written and oral form in the Supervisory Board meetings on all proceedings of material importance, the Company's general performance and its current situation. Here, it gave particular priority to the topics of strategy, planning, business development, the risk situation and risk management. The Supervisory Board intensively reviewed the Management's reports and discussed them at its meetings. In addition to the Supervisory Board meetings and conference calls involving all of the members of the Management and the Supervisory Board, the Supervisory Board Chairman and the Management Chairman discussed important matters when necessary. The Supervisory Board was fully informed about exceptional instances that were of material importance for assessing the year's results.

Diversity and Targets

paragon attaches great importance to diversity and inclusion within the Group. The company strives to promote diversity both within its governing bodies and at the employee level. The continuous increase in diversity in the composition of the governing bodies and the workforce is relevant for the company because the Group benefits from the diverse views, lifestyles and personal backgrounds of its employees in an international working environment, thus contributing to an inspiring community that enables personal and corporate success. paragon understands diversity comprehensively in various dimensions, including gender, origin and nationality, education level, age and professional experience.

Nevertheless, the company intends to maintain its policy of not focusing on gender when proposing candidates to the Annual General Meeting for election to the Supervisory Board and when appointing members of Management, but rather to continue to base its decisions on the knowledge and professional qualifications of the persons in question, irrespective of gender.

With regard to Section 76 (4) and Section 111 (5) of the German Stock Corporation Act as well as Nos. B.1 and C.1 of the German Corporate Governance Code (GCGC) on the topic of diversity, in 2020 the Management and the Supervisory Board jointly determined the current proportion of women and the target figures for February 28, 2023. The current quota for paragon GmbH & Co. KGaA is zero for both bodies. The defined targets for both bodies were set at zero, taking into consideration the status quo, since the contract periods or the terms of office of these two bodies continue beyond this date.

On December 31, 2020, the share of women at the downstream management levels of paragon Automotive accounted for 13.3% of the management personnel (prior year: 12.8%). The Group intends to increase the quota of women for downstream management levels to 25% in the long term.

paragon will continue to adhere to the practice of deciding primarily on the basis of individual qualifications when recruiting and hiring employees as well as when recruiting and promoting candidates for the top management levels. Accordingly, when filling positions in the top management of paragon, the Management will also assess the suitability of the respective persons on the basis of professional ability as well as the fit for the specific tasks in the respective management role. This means that the decision is made regardless of origin, gender or other non-performance-related characteristics.

Long-Term Succession Planning

However, unlike in the case of the management board of a stock corporation, the general partner is a "born" management body, i.e., it is entitled to manage the company's business and to represent it permanently and not just for a specific period of time. The general partner is appointed on the basis of the Articles of Association rather than by the Supervisory Board or the Annual General Meeting. For this reason, the general partner cannot be dismissed by the Supervisory Board or the Annual General Meeting.

The shares in the general partner of paragon GmbH & Co. KGaA are held by Klaus Dieter Frers, Brigitte Frers and Niklas Frers. The associated shareholder rights are exercised by the shareholders' meeting. Accordingly, the shareholders' meeting also ensures long-term succession planning for the managing body. This is ensured on the one hand by the fact that the Management is currently carried out by two people of different ages. Furthermore, the composition of the shareholders' meeting with three shareholders is suitable for determining a possible successor to Klaus Dieter Frers, as it may remain capable of acting without him.

In the event of the need to supplement or fill a vacant position in the Management, the shareholders' meeting shall identify suitable candidates, with the assistance of external consultants if necessary. In addition to their individual skills and expertise, their personality and added value for the Management or the Group are also taken into account for their assessment.

The shareholders' meeting shall emphasize the consideration of diversity if it is necessary to fill Management positions. However, it shall refrain from setting an age limit for the members of the managing body until further notice. The shareholders' meeting does not consider it appropriate and expedient not to consider certain potential candidates for the selection process solely on the basis of their age.

Delbrück, July 19, 2021
paragon GmbH & Co. KGaA

The Management

Klaus Dieter Frers CEO

Dr. Matthias Schöllmann
Managing Director
of Automotive

Declaration of Compliance of paragon GmbH & Co. KGaA with the German Corporate Governance Code

The Management and Supervisory Board of paragon GmbH & Co. KGaA issued the last declaration of conformity pursuant to Section 161 AktG on February 28, 2020. The German Corporate Governance Code (hereinafter also referred to as "GCGC") has been designed for companies with the legal form of a stock corporation or a European company (SE) and does not take into consideration the specific characteristics that the legal form of a partnership limited by shares entails. Accordingly, in connection with the following declaration of compliance, the characteristics specific to the legal form of paragon GmbH & Co. KGaA, which are outlined in further detail in the Corporate Governance Statement pursuant to Section 315d in conjunction with Section 289f (1) of the German Commercial Code, must be taken into consideration.

In accordance with Section 161 AktG, the Management and Supervisory Board of paragon GmbH & Co. KGaA declare that the recommendations of the "Government Commission on the German Corporate Governance Code" published in the official section of the Federal Gazette on April 24, 2017, have been complied with since the last declaration of conformity on February 28, 2020, until the entry into force of the comprehensively revised GCGC in the version dated December 16, 2019 (published in the electronic Federal Gazette on March 20, 2020) with the following exceptions:

Code No. 4.1.3:

The GCGC previously recommended that employees be given the opportunity to provide protected information on legal violations within the company in a suitable manner and that this also be made possible for third parties. Accordingly, the Management aimed to the establish a compliance management system in accordance with ISO 19600 in 2020.

Code No. 4.2.3:

The GCGC previously recommended that maximum amounts be set for the total remuneration and variable remuneration components of the members of the Management Board or the Management. The employment contracts of the managing directors do not currently stipulate any maximum limits for the total remuneration or the variable remuneration components. The Management and the Supervisory Board do not consider this necessary because of the clear correlation between the variable portions and earnings indicators.

Furthermore, the GCGC previously contained the recommendation to include termination payment caps in Management Board contracts. No such limitation on termination payments has been agreed to with the Chief Executive Officer, Klaus Dieter Frers, as he holds a significant portion of the company's capital stock.

Code No. 5.1.2:

The GCGC has previously recommended that diversity be taken into account in the composition of the Management Board. The shareholders' meeting of paragon GmbH was not guided by diversity considerations when appointing the current members of Management.

Code Nos. 5.3.1 to 5.3.3:

The GCGC previously stipulated that the Supervisory Board should form professionally qualified committees. The Supervisory Board of paragon GmbH & Co. KGaA has not formed any committees, as this is not considered efficient due to the small size of the three-member body..

Code Nos. 5.1.2 and 5.4.1:

The GCGC previously recommended that an age limit be set for members of the Management Board and Supervisory Board. The bodies of paragon GmbH & Co. KGaA, on the other hand, give priority to the skill sets of members and therefore refrained from defining a maximum age.

Code No. 7.1.2:

Pursuant to the GCGC, the consolidated financial statements and the Group management report should be publicly accessible within 90 days of the end of the fiscal year and the mandatory interim financial information within 45 days of the end of the reporting period. paragon GmbH & Co.

KGaA always attaches the greatest importance to publishing the annual financial statements and the interim financial reports in accordance with legal requirements and also strives to comply with the deadlines recommended by the Code. However, these periods may be exceeded for organizational reasons.

paragon GmbH & Co. KGaA has complied with the recommendations of the GCGC as amended on December 16, 2019 (published in the Federal Gazette on March 20, 2020) since March 21, 2020 (the effective date of the new version of the GCGC) and will continue to do so in the future, with the following exceptions:

Recommendation and Suggestion A.2
(Compliance Management System)

The GCGC encourages the establishment of a compliance management system geared to the company's risk situation, which is intended to enable employees and third parties to provide information on legal violations within the company. The Management aimed to introduce this kind of whistle-blower system by setting up a compliance management system in accordance with ISO 19600 in 2020. In addressing the challenges from the impact of the coronavirus in 2020, the company has postponed this project until 2021. Irrespective of this, however, all employees have been trained to report indications of legal violations; it is helpful that the corporate culture in practice encourages bad news to also be communicated.

Recommendation B.1
(Diversity on the Management Board)

The GCGC recommends that diversity be taken into account in the composition of the Management Board. The shareholders' meeting of paragon GmbH was not guided by diversity considerations when appointing the current members of Management.

Recommendation B.5
(Age Limit for Management Board Members) and C.2
(Age Limit for Supervisory Board Members)

The GCGC recommends that an age limit be set for members of the Management Board and Supervisory Board. The bodies of paragon GmbH & Co. KGaA, on the other hand, give priority to the skill sets of members and therefore refrained from defining a maximum age.

Recommendations C.6 and C.7
(Composition of the Supervisory Board)

The GCGC recommends that the Supervisory Board should include an appropriate number of independent members on the shareholder side, taking into account the ownership structure. Furthermore, more than half of the shareholder representatives should be independent of the company and the Management Board. In view of the very limited number of its members per the Articles of Association and the size of the company, the Supervisory Board of paragon GmbH & Co. KGaA gives priority to maintaining its skill profile when appointing members to the Board.

Recommendation C.14
(Provision of Resumes and Overview of Activities of Supervisory Board Members)

The GCGC recommends that the resumes, relevant knowledge, skills and professional experience, significant activities and Supervisory Board mandate should be made available on the company's website and updated annual. The company did this during fiscal year 2020.

Recommendation D.1
(Publication of Rules of Procedure for the Supervisory Board)

The GCGC recommends that the rules of procedure for the Supervisory Board be made available on the company's website. paragon GmbH & Co. KGaA did this during fiscal year 2020.

Recommendations D.2 to D.5
(Forming Committees)

Pursuant to Principle 14 and Nos. D.2 to D.5, the Supervisory Board should establish committees to enhance the effectiveness of the Board's work. The Supervisory Board of paragon GmbH & Co. KGaA has not formed any committees, as this is not considered efficient due to the small size of the three-member body.

Recommendation D.7
(Meeting without the Management Board)

The GCGC recommends that the Supervisory Board should also meet regularly without the Management Board. In fiscal year 2020, the Supervisory Board included the Management in each of its meetings in order to obtain a reliable picture of the company's situation in view of the dynamic situation resulting from the coronavirus pandemic.

Recommendation F.2
(Deadlines for the Consolidated Financial Statements and Interim Financial Reports)

paragon GmbH & Co. KGaA always attaches the greatest importance to publishing the annual financial statements and the interim financial reports in accordance with legal requirements and also strives to comply with the deadlines recommended by the Code. For organizational reasons, however, the deadlines recommended by the GCGC for the publication of the consolidated financial statements and the Group management report within 90 days of the end of the fiscal year and the publication of the mandatory interim financial information within 45 days of the end of the reporting period may be exceeded.

Recommendation G.1
(Determination of a Remuneration System)

The GCGC contains recommendations regarding the structure of the remuneration system. The company has a maximum remuneration for all Management members and for when the Management Board member can access the variable remuneration amounts granted. Furthermore, the company cannot interfere with current contracts that do not contain such stipulations. This would also contradict GCGC recommendation G.8, as it would constitute a retrospective interference.

Recommendations G.2 to G.16
(Total Remuneration and Variable Remuneration Components)

The GCGC recommendations G.2 to G.16, which refer in particular to the determination of specific total remuneration, the determination of the amount of the variable remuneration components and the benefits upon termination of the contract, are not complied with, as the Supervisory Board in a KGaA is not responsible for such determinations, but rather the shareholders' meeting of the general partner, in this case paragon GmbH. Moreover, this would be an interference with current contracts.

Delbrück, Germany, February 2021

The Management The Supervisory Board

Consolidated Income Statement

€ '000	Notes	Jan. 1 to Dec 31, 2020	Jan. 1 to Dec. 31, 2019
Revenue	11, 44	**144,981**	**192,188**
Other Operating Income	12	5,511	6,851
Increase or decrease in inventory of finished goods and work in progress		-13,731	9,081
Other own work capitalized	13	9,129	19,099
Total operating performance		**145,890**	**227,219**
Cost of materials	14	-78,414	-137,152
Gross profit		**67,476**	**90,067**
Personnel expenses	15	-46,480	-59,808
Depreciation of property, plant and equipment and amortization of intangible assets	17	-23,001	-22,212
Impairment of current assets	17	-4,614	-54,221
Impairment of goodwill	22	-500	-8,070
Impairment of property, plant and equipment and intangible assets	17	-10,554	-27,071
Other Operating Expenses	16	-31,481	-38,632
Earnings before interest and taxes (EBIT)			
Financial income	18	70	33
Financial expenses	18	-7,337	-6,917
Financial result		-7,267	-6,884
Earnings before taxes (EBT)		**-56,420**	**-126,831**
Income Taxes	19	11,748	3,307
Consolidated net income		**-44,673**	**-123,524**
Earnings per share in € (basic and diluted)	20	-6.14	-18.29
Average number of shares outstanding (basic and diluted)	20	4,526,266	4,526,266

Consolidated Statement of Comprehensive Income

€ '000	Notes	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Consolidated net income		**-44,673**	**-123,524**
Actuarial gains and losses	29	0	-401
Currency translation reserve		1,248	-265
Total comprehensive income		**-43,425**	**-124,190**

		Vorjahr
Net income attributable to minority interests:		
paragon Group shareholders	-27,803	-82,786
Minority interests	-16,869	-40,738
Total comprehensive income attributable to minority interests:		
paragon Group shareholders	-26,640	-83,334
Minority interests	-16,784	-40,856

Consolidated Statement of Financial Position

€ '000	Notes	Dec. 31, 2020	Dec. 31, 2019
ASSETS			
Noncurrent assets			
Intangible assets	21	59,608	71,284
Goodwill	22	21,875	22,375
Property, plant and equipment	23	60,135	69,307
Financial assets	24	1,521	1,521
Other assets		1,810	2,142
Deferred tax assets	19	0	270
		144,949	**166,899**
Current assets			
Inventories	25	27,345	44,799
Trade receivables	26	11,645	45,027
Income tax assets	19	69	84
Other assets	27	10,824	7,791
Cash and cash equivalents	28	5,664	9,456
		55,546	**107,157**
Total assets		**200,495**	**274,056**

€ '000	Notes	Dec. 31, 2020	Dec. 31, 2019
EQUITY AND LIABILITIES			
Equity			
Subscribed capital	29	4,526	4,526
Capital reserve	29	15,485	15,485
Minority interests	29	5,792	20,759
Revaluation reserve	29	–1,202	–1,202
Profit/loss carried forward	29	16,625	97,181
Consolidated net income	29	–27,803	–82,788
Currency translation differences	29	–191	–1,354
		13,231	**52,607**
Noncurrent provisions and liabilities			
Noncurrent finance lease liabilities	30	14,822	19,433
Noncurrent loans	31	16,997	15,373
Noncurrent bonds [1]	32	50,563	50,213
Special item for investment grants	35	742	829
Deferred taxes	19	6,274	18,623
Pension provisions	33	3,345	3,320
Other noncurrent liabilities	34	0	3,256
		92,742	**111,047**
Current provisions and liabilities			
Current portion of finance lease liabilities	30	3,894	2,685
Current loans and current portion of noncurrent loans	31	16,659	28,858
Trade payables		17,493	33,093
Short-term bonds [1]	32	32,685	32,412
Other provisions	36	2,609	4,155
Income tax liabilities	37	841	716
Other current liabilities	34	20.340	8,483
		94,522	**110,402**
Total equity and liabilities		**200,495**	**274,056**

1 The adjustment of the prior year values can be found in note (8).

Consolidated Cash Flow Statement

€ '000	Notes	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Earnings before taxes (EBT)		**-56,420**	**-126,831**
Depreciation/amortization of noncurrent assets		23,001	22,212
Financial result		7,267	6,884
Gains (-) / losses (+) from the disposal of property, plant and equipment and financial assets		765	2,389
Increase (+) / decrease (-) in other provisions and pension provisions		-1,521	4,011
Income from the reversal of the special item for investment grants		-87	-88
Other non-cash income and expenses		-620	4,102
Increase (-) / decrease (+) in trade receivables, other receivables, and other assets		30,681	31,345
Impairment of noncurrent assets		11,054	35,141
Increase (-) / decrease (+) in inventories		17,454	14,128
Increase (+) / decrease (-) in trade payables and other liabilities		-6,800	613
Interest paid		-6,218	-4,416
Income tax expense (+) / income (-) without deferred taxes		395	254
Income tax payments		-195	-156
Cash flow from operating activities	43	**18,755**	**-10,412**

€ '000	Notes	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Cash receipts from the disposal of property, plant and equipment		122	7,275
Cash payments for investments in property, plant and equipment		–2,298	–23,144
Cash payments for investments in intangible assets		–10,513	–18,133
Cash payments for investments in financial assets		0	–1,400
Interest received		70	33
Cash flow from investing activities	43	**–12,619**	**–35,369**
Dividend payouts to shareholders		0	–1,323
Loan repayments		–11,562	–26,384
Proceeds from loans		987	11,657
Increase in finance lease liabilities due to initial application of IFRS 16		0	20,790
Increase in fixed assets from the initial application of IFRS 16		0	–20,790
Proceeds from the inclusion of finance lease liabilities		1,217	4,839
Cash payment for finance lease liabilities		–4,619	–5,309
Net proceeds from bond issue		0	29,916
Net proceeds from the sale of shares		4,049	0
Cash flow from financing activities	43	**–9,928**	**13,396**
Changes in cash and cash equivalents		–3,792	–32,385
Cash and cash equivalents at beginning of period		9,456	41,841
Cash and cash equivalents at end of period	28, 43	5,664	9,456

Statement of Changes in Equity

€ '000	Subscribed capital	Capital reserve	Revaluation reserve	Revaluation reserve	Retained profit	Minority interests	Total
Consolidated net income	**4,526**	**15,485**	**-1,202**	**-1,354**	**14,393**	**20,759**	**52,607**
Currency Translation					-27,803	-16,869	-44,673
Other comprehensive income				1,163		85	1,248
Total comprehensive income				1,163		85	1,248
Decreased shareholding in Voltabox				**1,163**	**-27,803**	**-16,784**	**-43,425**
December 31, 2020					2,232	1,817	4,049
31. Dezember 2020	4.526	15.485	-1.202	-191	-11.178	5.792	13.231

€ '000	Subscribed capital	Capital reserve	Revaluation reserve	Currency translation reserve	Retained profit	Minority interests	Total
January 1, 2019	**4,526**	**15,165**	**-802**	**-1,207**	**98,217**	**61,901**	**177,800**
Consolidated net income					-82,788	-40,737	-123,524
Actuarial gains and losses			-400				-401
Currency Translation				-147		-118	-265
Other comprehensive income			-400	-147		-118	-665
Total comprehensive income			**-400**	**-147**	**-82,788**	**-40,855**	**-124,190**
Equity contribution		320					320
Dividend payout Voltabox					97	-287	-190
Dividend payout paragon					-1,133		-1,133
December 31, 2019	**4,526**	**15,485**	**-1,202**	**-1,354**	**14,393**	**20,759**	**52,607**

Notes to the Consolidated Financial Statements 2020

(1) General Information

paragon Aktiengesellschaft (hereafter “paragon GmbH & Co. KGaA” or “paragon”) is a joint stock corporation incorporated under German law. The company’s headquarters are at Bösendamm 11, 33129 Delbrück, Germany. paragon GmbH & Co. KGaA’s shares have been traded on the Frankfurt Stock Exchange in the Prime Standard segment of the regulated market since 2000. paragon GmbH & Co. KGaA is entered in the commercial register of the district court of Paderborn (HRB 13491). According to its Articles of Association, the business purpose of paragon GmbH & Co. KGaA is the research and development of microelectronics, the manufacture and sale of electronic devices, related peripherals and modules as well as the management of patents, licenses and utility models. paragon may establish or acquire other companies, hold interests in companies, establish branches and implement any other measures for the paragon Group and paragon GmbH & Co. KGaA and carry out legal transactions that are necessary or serve to achieve or promote the company’s aims.

The Management of paragon GmbH, the general partner of paragon GmbH & Co. KGaA, authorized the consolidated financial statements as of December 31, 2020, and the management report for the period from January 1 to December 31, 2020, for submission to the Supervisory Board on July 19, 2021.

The consolidated financial statements and management report of paragon GmbH & Co. KGaA for the period from January 1 to December 31, 2020, are published in the electronic Federal Gazette and are available as part of the Annual Report on the company’s website (https://www.paragon.ag/).

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

The consolidated financial statements of paragon GmbH & Co. KGaA as of December 31, 2020, have been prepared in accordance with Section 315e (1) of the German Commercial Code (HGB) (consolidated financial statements in accordance with international accounting standards), the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, as adopted by the European Union (EU) and applicable as of the date of the statement of financial position, and in accordance with the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC).

(3) Going Concern

The financial statements for the reporting period from January 1 to December 31, 2020, have been prepared under the going concern assumption. The carrying amounts of assets and liabilities were therefore determined on the basis of going concern values.

There is a risk threatening the existence of the Group concerning the repayment of the german bond in July 2022 and the partial repayment of the CHF bond in 2021 and 2022. Further details on this can be found in the "Risks Threatening the Existence of the Group" section of the risk report in the management report.

(4) Events After the Reporting Period

The consolidated financial statements are prepared on the basis of the circumstances existing as of the date of the statement of financial position. In accordance with IAS 10.7, events after the reporting period include all events up to the date the consolidated financial statements are authorized for issue. The consolidated financial statements as of December 31, 2020, were authorized by the Management and submitted to the Supervisory Board for approval on July 19, 2021. The following major events occurred in the period up to this date:

paragon GmbH & Co. KGaA announced on March 3, 2020, that as part of a strategic realignment, it was considering selling its stake in Voltabox AG in the form of a complete or partial sale. A further 350,000 Voltabox AG shares were sold by the company in the period from January 1, 2021, until the date on which the annual financial statements were prepared. The shareholding of paragon GmbH & Co. KGaA in Voltabox AG decreased from 8,620,000 shares (54.5%) to 8,270,000 shares (52.2%). The sale of an amount of € 1,022 thousand took place in several tranches. 30,000 shares were sold in January 2021. 120,000 shares were sold in February 2021 and 200,000 shares were sold in March 2021.

Financial covenants were concluded between the creditors of the CHF bond and paragon. Originally, one element was that the equity ratio (the ratio between equity and consolidated total assets) may not fall below a contractually defined value of 25%. The equity ratio fell below 25% as of December 31, 2020. A formal covenant breach was, however, successfully avoided in negotiations with the creditors. The bondholders' meeting reached the required majority of votes on April 7, 2021. It was agreed to repay the bond ahead of time in three installments: CHF 5,250 thousand on August 3, 2021, CHF 8,750 thousand on April 23, 2022, and CHF 21,000 thousand on April 23, 2023. The financial covenant "Group equity ratio" was changed as follows: Group equity ratio of at least 10% as of December 31, 2021, and of 15% as of December 31, 2022. Furthermore, it was agreed to limit dividend payouts based on the Group equity ratio. Please refer to the "Financial Risks" section of the risk report in the management report.

In a first step, paragon GmbH & Co KGaA acquired a further 4.5% of the share capital in paragon semvox GmbH after the reporting date. In a second step, a further 9.0% of shares in paragon semvox GmbH were acquired, thus increasing the share to 95.5%. The purchase price for the acquired 13.5% of the shares amounts to € 2,025 thousand.

Dr. Leifhelm was dismissed as Chairman of the Management Board of Voltabox AG with effect from April 30, 2021. He will leave the company with effect from June 30, 2021.

(5) New Accounting Principles Due to New Standards

The impact of new accounting principles whose scope of application is compatible with the activities of paragon GmbH & Co. KGaA is detailed below. For reasons of materiality, paragon GmbH & Co. KGaA does not present changes in accounting that do not affect the company. There were no significant changes to the existing IFRS standards within the scope of activity of paragon GmbH & Co. KGaA in the reporting period. This applies both to the regulations that will become mandatory for the first time in 2020 and to those that will only become mandatory in the future. Accordingly, adjustments from prior years with regard to IFRS 16, IFRIC 23 and IFRS 9 remained valid. In the second quarter of 2020, the International Accounting Standards Board published an amendment to IFRS 16 ("Covid-19-Related Rent Concessions") designed as a practical expedient of the recognition of rent concessions in the wake of the COVID-19 pandemic. paragon is using the practical expedient for lessees. Rent concessions from lessors in connection with the COVID-19 pandemic (temporary deferments) are not lease modifications.

(6) Scope of Consolidation

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

Name and registered office of the company	Shareholdings	Consolidation
Germany		
paragon GmbH & Co. KGaA, Delbrück, Germany	n. a.	n. a.
paragon electronic GmbH, Delbrück, Germany	100 %	Consolidated subsidiary
SphereDesign GmbH, Bexbach, Germany	100 %	Consolidated subsidiary
Nordhagen Immobilien GmbH, Delbrück, Germany	100 %	Consolidated subsidiary
paragon movasys GmbH, Delbrück, Germany	100 %	Consolidated subsidiary
paragon semvox GmbH, Limbach [1], Germany	82 %	Consolidated subsidiary
paragon electroacoustic GmbH,Neu-Ulm, Germany	100 %	Consolidated subsidiary
ETON Soundsysteme GmbH, Neu-Ulm, Germany	100 %	Consolidated subsidiary
paragon electrodrive GmbH, Delbrück, Germany	100 %	Consolidated subsidiary
Voltabox AG, Delbrück, Germany	54.47 %	Consolidated subsidiary
China		
paragon Automotive Technology (Shanghai), Co., Ltd.	100 %	Consolidated subsidiary
paragon Automotive (Kunshan), Co. Ltd.	100 %	Consolidated subsidiary
Voltabox Kunshan, Co. Ltd.	54.47 %	Consolidated subsidiary
USA		Consolidated subsidiary
Voltabox of Texas, Inc., Austin	54.47 %	Consolidated subsidiary

1 paragon semvox GmbH is consolidated at 100%, and the noncontrolling interests are shown in the financial statements as other current purchase price liabilities of € 3,057 thousand.

With the exception of Voltabox AG, the proportion of shares held is unchanged compared with the prior year. A total of 880,000 Voltabox AG shares were sold in fiscal year 2020. This reduced the amount of shares held by paragon to 8,620,000. The percentage of Voltabox AG held by paragon GmbH & Co. KGaA still amounts to 54.47% as of December 31, 2020 (prior year: 60.0%). There was no loss of control concerning the subsidiary. The reduction was recognized directly in equity. Please refer to the statement of changes in equity.

Consolidation Methods

The consolidated financial statements are based on the separate financial statements of the companies included in the Group, which were prepared using uniform accounting policies under IFRS as of December 31, 2020. The financial statements are included in the consolidated financial statements from the date on which control is obtained until the end of control. Adjustments were made to the audited annual financial statements of paragon GmbH & Co. KGaA prepared in accordance with German commercial law as of December 31, 2020, in order to prepare the financial statements in compliance with IFRS.

The scope of consolidation is defined in accordance with IFRS 10. The consolidation was performed using the acquisition method IFRS 3. The carrying amount for the investments in associates recorded by the parent companies is replaced by the fair value of the assets and liabilities of the associates included in the consolidation. As a result, the equity of the subsidiaries is compared with the carrying amount of the investment recorded by the parent company. Any remaining excess from consolidation is reported as goodwill under noncurrent assets and is tested annually for impairment in accordance with IFRS 3 in conjunction with IAS 36.

In addition, debt consolidation was carried out, as was an elimination of intermediary results and consolidation of income and expenses. The differences arising from the consolidation of income and expenses were offset through profit or loss.

Assets arising from intercompany deliveries that are recognized in noncurrent assets and inventories are adjusted for interim profit and loss.

Effects on Earnings from Capital Consolidation

paragon semvox GmbH is fully consolidated in the consolidated financial statements, even though 18% is held by other shareholders as of the reporting date. There are long-term put options held by other shareholders and long-term call options held by the company (other liabilities) for the acquisition of the remaining 18% of the shares in paragon semvox GmbH. These were written down by € 322 thousand (prior year: € 773 thousand) in profit or loss in the fiscal year and increased by the interest effect of € 123 thousand. The fair value of the options as of the reporting date was € 3,057 thousand (prior year: € 3,256 thousand).

(7) Currency Translation

In paragon's consolidated financial statements, receivables and liabilities denominated in foreign currencies are measured at the transaction rate in effect at the date they are initially recognized and subsequently adjusted to the exchange rate applicable as of the date of the statement of financial position. Exchange rate gains and losses are recognized in profit and loss within other operating income or other operating expenses. The translation of financial statements into foreign currency is carried out in accordance with IAS 21.39 et seq.

Exchange rate losses arising on operating activities of € 780 thousand (prior year: € 2,059 thousand) and exchange rate gains of € 595 thousand (prior year: € 446 thousand) are recognized in the consolidated statement of comprehensive income. These exchange rate differences are reported within other operating expenses and other operating income, respectively. Expenses from the valuation of Swiss franc derivatives that do not have a hedging relationship with underlying transactions amounted to € 42 thousand (prior year: income of € 1,088 thousand).

Exchange rate differences arising from the translation of financial statements prepared in foreign currencies and on exchange rate differences arising during consolidation were recognized directly in equity in accordance with IAS 21. The currency translation reserve amounted to € -191 thousand as of the reporting date on December 31, 2020 (prior year: € -1,354 thousand). The amount from foreign currency translation recognized in other comprehensive income is € 1,248 thousand (prior year: € –265 thousand). The currency differences item contains a monetary item from the net investment in the foreign operation of Voltabox of Texas, Inc. amounting to € –3,203 thousand (prior year: € –1,036 thousand).

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

Foreign currency for € 1	**Statement of financial position average exchange rate on Dec. 31, 2020**	**Income statement average rate 2020**	Statement of financial position average exchange rate on Dec. 31, 2019	Income statement average rate 2019
US dollar (USD)	**1.2265**	**1.2169**	1.1216	1.1108
Swiss franc (CHF)	**1.0823**	**1.0816**	1.0854	1.0924
Chinese renminbi yuan (RMB)	**8.0121**	**7.9591**	7.8150	7.8842

The functional currency of the American subsidiaries is the USD, since the companies primarily generate and expend cash in this currency.

The functional currency of the Chinese subsidiaries is the RMB, since the companies primarily generate and expend cash in this currency.

(8) Adjustment of the 2019 comparative period due to an error correction under IAS 8

paragon GmbH & Co. KGaA made corrections in these financial statements to the prior year figures within the statement of financial position. Due to the shortfall in the equity ratio as of the prior year reporting date of December 31, 2019, which was agreed with the bondholders, interest expenses are reported now as current in accordance with IAS 1.74 (prior year: recognition as noncurrent liabilities). This is an issue under IAS 8.41 with no effect on prior periods or on diluted and undiluted earnings. By the time the 2019 financial statements were prepared, the company management had reached an agreement with the bondholders that resulted in the recognition of the bond as a noncurrent liability with effect from August 20, 2020, when the consolidated financial statements were prepared.

€ '000	**Before the correction Dec. 31, 2019**	Adjustment	After the correction Dec. 31, 2019
EQUITY AND LIABILITIES			
Noncurrent provisions and liabilities			
Noncurrent bonds	82,625	–32,412	50,213
Current provisions and liabilities			
Short-term bonds	0	32.412	32.412

(9) Description of Accounting Policies and Measurement Methods

The consolidated financial statements were prepared in euros (€). The reporting currency is the euro. Unless stated otherwise, all amounts are stated in thousands of euros (€ thousand). The reporting period for paragon in these financial statements extends from January 1 to December 31, 2020. Individual items in the consolidated statement of financial position and the consolidated statement of comprehensive income have been combined in order to provide better clarity and transparency. Where this has occurred, the items are explained individually in the notes to the financial statements. The consolidated statement of comprehensive income is presented using the nature of expense method, as in previous periods. Assets and liabilities are classified into noncurrent and current assets and liabilities in the statement of financial position; further details on their maturity are presented in the notes. Assets and liabilities are recognized as current if they mature within twelve months.

The consolidated financial statements comprise the consolidated statement of financial position, 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 been prepared as a supplement to the above statements.

Recognition of Acquisitions

Goodwill is recognized in the Group's statement of financial position as a result of acquisitions. When an acquisition is initially consolidated, all identifiable assets, liabilities and contingent liabilities are recognized at fair value as of the acquisition date. One of the most significant estimates relates to determining the fair values of these assets and liabilities as of the acquisition date. Property, buildings and office equipment are generally valued on the basis of independent expert opinions, while marketable securities are valued at the stock exchange price. If intangible assets are identified, the fair value is determined internally using an appropriate measurement technique, which is usually based on the estimate of total expected future cash flows. These valuations are closely linked to the assumptions made by management regarding the future performance of the respective assets and to the assumed changes in the discount rate to be applied.

Intangible Assets

Intangible assets acquired for monetary consideration are recognized in the statement of financial position at their acquisition cost, taking into account ancillary costs and any purchase price reductions.

Research costs are recognized as expenses in the period in which they are incurred. Costs incurred in connection with the development of patents and customer-specific solutions are only recognized as intangible assets at their production cost when the costs are clearly attributable to the asset as required by IAS 38 Intangible Assets, the technical feasibility and marketability or use is assured, and when the anticipated realization of future economic benefits has been demonstrated. The costs of production comprise all costs that are directly or indirectly attributable to the development process, as well as a proportionate share of necessary project-related overhead costs. If the asset recognition requirements are not fulfilled, development costs are directly expensed in profit or loss within other operating expenses in the year in which they are incurred. Subsequent to initial recognition, development costs are reported in the statement of financial position at cost less cumulative amortization and cumulative impairment losses.

Intangible assets that have limited useful lives are amortized on a straight-line basis over their useful economic lifetimes. Amortization starts as soon as the asset is available for use, i.e., when it is at the location and condition necessary for it to be capable of operating in the manner intended by management. Intangible assets with indefinite useful lives are subject to annual impairment tests. As of each reporting date of the statement of financial position, the carrying amounts of such intangible assets are examined in order to determine whether there are indications that the value of the asset may be impaired. An impairment test pursuant to IAS 36 Impairment of Assets was performed where there were such indicators. The residual values, useful lives and amortization methods are reviewed at the end of each fiscal year and amended as necessary.

The useful lives for internal development costs correspond to the expected product life cycles and generally amount to seven years. paragon GmbH & Co. KGaA performs an individual measurement of the useful life of products and reviews the useful life annually. The useful lives for licenses, patents and software range from three to twelve years.

Goodwill is carried at acquisition cost and tested for impairment on an annual basis, as well as additionally on other dates when there are any indications of potential impairment. Impairment losses are shown as separate items 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 received. If the purchase or production costs of individual components of an item of property, plant and equipment are significant when measured against the item's total purchase or production cost, then such components are recorded as separate assets and depreciated individually. Depreciation is generally recorded on a straight-line basis. The useful life for depreciation purposes ranges from 20 to 33 years for buildings, five to ten years for technical plants and three to ten years for other plants, operating and office equipment.

Fully depreciated noncurrent assets are presented under cost and accumulated depreciation until the asset is retired. Amortized cost and accumulated depreciation are deducted from the sales proceeds generated on disposal. Gains and losses generated on disposal (disposal proceeds less residual carrying amounts) are shown in the consolidated statement of comprehensive income within other operating income or other operating expenses. All residual values, useful lives and depreciation methods are reviewed annually and amended as necessary.

As of each reporting date of the statement of financial position, the carrying amounts of property, plant and equipment (which are depreciated in accordance with their useful lives) are examined in order to determine whether there are indications that the value of the asset may be impaired. If such indicators exist, an impairment test is performed.

Leases

The effects of the application of IFRS 16 are presented in note (30).

paragon GmbH & Co. KGaA assesses at the beginning of each lease whether the contract creates or contains a lease. This is the case when the contract gives the right to control the use of an identified asset for a specified period of time in return for the payment of a fee. In the event of contract amendments, paragon GmbH & Co. KGaA reassesses whether a contract constitutes a lease.

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

The individual lease components and non-lease components are accounted for separately. If a lease exists, the contract is allocated to the individual lease components on the basis of the contractually agreed relative individual selling prices of the lease components and the aggregated individual selling prices of the non-lease components. In doing so, paragon GmbH & Co. KGaA determines the relative individual selling price with reference to the price that a lessor or similar supplier of paragon GmbH & Co. KGaA would charge separately for these or similar components. Where no observable market exists, paragon GmbH & Co. KGaA makes use of estimates.

When determining the term of the lease, paragon GmbH & Co. KGaA takes the non-terminable basic term and an optional extension period as a basis, insofar as the company is sufficiently certain that it will 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 checks whether the use of an option is reasonably certain.

On the provision date, paragon GmbH & Co. KGaA recognizes an asset for the right of use and a lease liability. On the provision date, the right-of-use asset is valued at its acquisition cost. The acquisition costs comprise:

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

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

- All fixed payments less lease incentives received
- Variable lease payments
- Amounts expected to be paid at the end of the lease term under residual value guarantees
- The exercise price of a call option, provided that the exercise is sufficiently certain
- Penalties for termination if exercise is reasonably certain

The right-of-use asset is amortized on a straight-line basis and adjusted for revaluation of the lease liability. Any impairments are measured in accordance with IAS 36.

The carrying amount of the lease liability is increased by the interest expense and reduced by the payments made after provision on the reporting date. A remeasurement of the lease liability is immediately taken into account.

Right-of-use assets are not shown as separate items in the statement of financial position of paragon. For this reason, a separate listing is provided in the notes to the consolidated statement of noncurrent assets. Lease liabilities are shown as separate items in the statement of financial position. If sale and leaseback transactions exist, paragon GmbH & Co. KGaA assesses whether the transaction of the asset subsequently leased back meets the criteria of a sale under IFRS 15. The Group bases this on the transfer of control of the underlying asset. If the transaction enables the lessor to determine the use of the underlying asset and derive all the remaining economic benefits from it substantially, the transaction is a sale under IFRS 15. In this case, paragon recognizes the disposal of the underlying asset and realizes the sales profit to the extent that it relates to rights to use the asset actually transferred to the lessor. A right-of-use asset is recorded for the remaining share. If there is no sale under IFRS 15, the transaction is recorded as a loan.

Impairment of Nonfinancial Assets

As of each reporting date of the statement of financial position, an assessment takes place to ascertain whether there are any indications that the value of nonfinancial assets (in particular intangible assets with definite useful lives) are impaired. If there are indications of impairment, the recoverable amount of the relevant asset is calculated. In accordance with IAS 36.6 Impairment of Assets, the recoverable amount reflects the higher of fair value less cost to sell and value in use of the asset or an identifiable group of assets that represent a cash-generating unit (CGU). If the carrying amount of an asset or a CGU exceeds the recoverable amount, the asset is impaired and written down to its recoverable amount.

For property, plant and equipment and intangible assets other than goodwill, an assessment is made at each reporting date to establish whether there is any indication that a previously recognized impairment loss no longer exists or has decreased. If there are such indications, a calculation of the recoverable amount of the asset or the CGU is made. A previously recognized impairment loss is reversed only if the assumptions used in determining the recoverable amount have changed since the last impairment loss was recognized. The reversal of the impairment loss is limited in that the carrying amount of an asset may not exceed its recoverable amount or the carrying amount that would have resulted after taking depreciation and amortization into account if no impairment loss had been recorded for the asset in earlier years.

Financial Instruments

Financial instruments are contracts that generate a financial asset for one party and a financial liability or an equity instrument for the other party. The primary financial instruments include, in particular, trade receivables, lending, cash and cash equivalents, financial liabilities and trade payables. Other financial assets and other financial liabilities likewise exclusively comprise financial instruments.
Primary financial instruments are recognized as of the settlement date in case of a regular way purchase or sale. Receivables and liabilities denominated in foreign currency are measured at their reporting date exchange rates.

Financial assets and financial liabilities are reported gross at paragon. They are only netted if there is an enforceable set-off right in respect to the amounts at the present time and it is intended to bring about the offset on a net basis.

Financial assets are classified in terms of the following categories for accounting and measurement purposes:

- Measured at amortized cost (AC)
- Measured at fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)

The following categories were established for the accounting and measurement of financial liabilities:

- Measured at amortized cost (AC)
- Measured at fair value through profit or loss (FVTPL)

paragon allocates financial assets and financial liabilities to these categories as of the date of their addition and regularly reviews whether the criteria for their classification are complied with.
The classification on the basis of the business model criteria for financial assets is routinely carried out for each quarterly financial statement.

paragon derecognizes financial assets where the contractual rights to the cash flows from an asset expire or following the transfer of the rights to receive these cash flows in a transaction through which all material risks and opportunities associated with the ownership of this financial asset are likewise transferred. Derecognition also occurs in cases where paragon has transferred all of the material risks and opportunities associated with ownership and has not retained the power of disposal over the transferred asset. Any portion of such transferred financial assets that accrue or remain with paragon is accounted for as a separate asset or separate liability.

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

Valuation allowances on contract assets and other financial assets measured at amortized cost are carried out according to a future-oriented model taking into account expected credit losses. The consolidated financial statements do not include any FVOCI financial assets, since receivables that are intended for sale to a factoring bank are assigned immediately as and when they arise. For this reason, the difference between the purchase amount and the nominal value of the receivable is treated as income.

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

With the exception of financial assets measured at fair value through profit or loss, financial assets are tested for possible indications of impairment on each reporting date. Financial assets are considered to be impaired if there is an objective indication of a negative change in the expected future cash flows for a financial asset due to one or more events occurring following the initial recognition of the financial instrument in question. Various facts such as defaults over a specific period of time, the initiation of coercive measures, the risk of insolvency or overindebtedness, the application for or the initiation of insolvency proceedings or the failure of restructuring measures may constitute objective indications of impairment.

Financial assets are measured at amortized cost where the business model envisages the holding of a financial asset for the collection of the contractual cash flows and the contractual terms of the instrument will exclusively result in cash flows which comprise interest and principal repayments. Upon initial recognition, financial instruments in the AC category are recognized at transaction price plus directly attributable transaction costs.

As part of the subsequent measurement, financial assets measured at amortized cost are measured using the effective interest method. Where the effective interest method is used, all directly allocable fees, charges 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 revenue and expenses resulting from application of the effective interest method are recognized through profit or loss under interest revenue or interest expenses from financial instruments.

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

Cash and cash equivalents comprise cash on hand as well as current account balances with banks and other financial institutions. They are only reported under cash and cash equivalents if they may be converted at any time into cash amounts that may be determined in advance, are only subject to slight fluctuation risks, and have a remaining term of no more than three months from the date of acquisition.

Where the business model envisages the holding and sale of the financial asset and the contractual terms for the instrument will exclusively result in cash flows which comprise interest and principal repayments, the financial asset is reported at fair value, with value adjustments recognized in other comprehensive income (FVOCI).

Financial assets that are exclusively held for trading purposes are recognized at fair value through profit or loss, with changes in value reported through profit or loss (FVTPL). Derivatives are included in this category. There is also an option to measure financial instruments recognized at amortized cost at fair value through profit or loss by means of the fair value option if this will significantly reduce or prevent inconsistency in their measurement or recognition. paragon GmbH & Co. KGaA does not make use of the fair value option.

Equity instruments are always measured at fair value. At initial recognition, there is an irrevocable option to report realized and non-realized changes in value in the statement of comprehensive income instead of the income statement, provided that the equity instrument is not held for trading purposes. Amounts recognized in comprehensive income may not be reclassified to the income statement at a later point in time.

Current and noncurrent financial liabilities to banks, trade payables and other liabilities are measured as financial liabilities at amortized cost, with the exception of derivative financial instruments. Noncurrent liabilities are measured on the basis of the effective interest method less directly attributable transaction costs.

They are initially recognized at fair value less the directly attributable transaction costs.

Interest revenue and expenses resulting from application of the effective interest method are recognized through profit or loss under interest revenue or interest expenses from financial instruments.

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

Fair Value – Measurement

The measurement of assets and liabilities at fair value is based upon a three-level hierarchy, in accordance with the proximity of the measurement factors used to an active market. A market is said to be "active" if the quoted prices are easily and regularly available and these prices are based on actual, regularly occurring market transactions at arm's length.

Level 1: prices for identical assets and liabilities quoted on active markets (that are used unchanged).
Level 2: input data observable either directly or indirectly for the asset or liability not considered Level 1 quoted prices. The fair values of the Level 2 financial instruments are calculated on the basis of the terms in effect on the reporting date using recognized models, e.g., discounted cash flow models.

Level 3: input data used for the measurement of the asset and the liability which is not based upon observable market data (non-observable input data).

The fair values were determined based on the market conditions available on the reporting date by means of financial mathematics valuation methods. They correspond to the prices received between independent market participants for the sale of an asset or for the transfer of a liability. Reclassifications between the levels of the fair value hierarchy are taken into account at the respective reporting dates. In fiscal years 2020 and 2019, no reclassifications were implemented between Level 1, Level 2 or Level 3.

Income Taxes

Income taxes contain both taxes that are payable on income and deferred taxes.

Income taxes payable for current and earlier periods are measured at the amount at which a refund from or payment to fiscal authorities is anticipated. The calculation of that amount is based on the current status of tax legislation and therefore on the tax rates that are in effect or that have been announced as of the reporting date.

Deferred taxes are recognized using the balance sheet liability method in accordance with IAS 12 Income Taxes. Deferred tax assets and liabilities are recognized to reflect temporary differences between the carrying amount of a specific item in the statement of financial position in the IFRS consolidated financial statements and its tax base (temporary concept). Deferred taxes are also recognized for future tax refund claims.

Deferred tax assets on deductible temporary differences and tax refund claims are recognized to the extent it can be assumed that they can be expected to be used in future periods based on the availability of adequate taxable income.

The calculation of current and deferred taxes is based on judgments and estimates. If actual events deviate from these estimates, this could have a positive or negative impact on assets, financial position and earnings. A deciding factor for the recoverability of deferred tax assets is the estimate of the probability of reversal of measurement differences or the usability of the tax loss carryforwards or tax benefits that led to recognition of the deferred tax assets. This is in turn dependent on the generation of future taxable profits during the period in which the tax loss carryforwards can be used. Deferred taxes are measured using the tax rates applicable at the time of realization based on the current legal situation as of the date of the statement of financial position.

Current income tax assets and liabilities and deferred income tax assets and liabilities are only offset if it is legally permissible to do so and the deferred tax assets and liabilities relate to income taxes that have been levied by the same tax authority and if there is a legally enforceable right to offset current tax refund claims against current tax liabilities. Deferred taxes are reported as non-current in accordance with IAS 1.70.

In fiscal year 2020, deferred tax assets on loss carryforwards in the amount of € 9,156 thousand (prior year: € 0 thousand) were recognized in profit or loss (item: income taxes). In accordance with IAS 12.36 (a), deferred tax assets on loss carryforwards were only recognized in cases for which sufficient taxable temporary differences (deferred tax liabilities) exist. No net deferred tax assets were recognized for any company.

Inventories

Inventories are measured at the lower of net cost and net realisable value. In accordance with IAS 2 Inventories, the costs of conversion include all costs directly related to the units of production as well as a systematic allocation of fixed and variable production overheads. In addition to direct materials and direct labor, they therefore also contain proportional indirect materials and overheads. Administration and social welfare expenses are taken into account provided they can be attributed to production. Financing costs are not recognized as part of the cost of acquisition or conversion because the assets do not meet qualification criteria. Inventory risks resulting from the storage period and reduced usability are taken into account during the calculation of the net realizable value by applying appropriate write-downs. Lower values at year-end resulting from reduced selling prices are also taken into account. Raw materials, consumables and supplies as well as merchandise are primarily measured using the moving average method.

Trade Receivables and Other Current Assets

Trade receivables are classified as loans and receivables and measured at amortized cost less any necessary write-downs. Write-downs in the form of specific valuation allowances take sufficient account of the expected default risks. Specific defaults lead to the derecognition of the receivables concerned. The calculation of write-downs for doubtful receivables is primarily based on estimates and evaluations of the creditworthiness and solvency of the respective customer.

Other current assets are measured at amortized cost, taking into account necessary write-downs sufficient to cover the expected default risks. If recourse to the courts is made for the collection of these receivables, paragon firmly expects that the amounts recognized in the statement of financial position will be fully enforceable. Where these represent financial assets (financial instruments), they are classified as loans and receivables.

Cash and Cash Equivalents

Cash and cash equivalents include cash and bank balances with original maturities of up to three months. The total of cash and cash equivalents reported in the cash flow statement corresponds to the cash and cash equivalents stated in the statement of financial position (cash and bank balances).

Provisions for Pensions

Provisions for pensions are calculated using the projected unit credit method in accordance with the (revised) requirements of IAS 19 Employee Benefits. The projected unit credit method not only takes into account the pension benefits and benefit entitlements known as of the reporting date, but also the increases in salaries and pension benefits to be expected in the future based on relevant estimation factors. The calculation is based on actuarial calculations using biometric actuarial principles. Amounts not yet recorded in the statement of financial position arise from actuarial gains and losses due to changes in inventory and differences between the assumptions made and actual developments. Actuarial gains and losses occurring in the reporting period are recognized in full directly in equity within other comprehensive income. The service cost is shown under personnel expenses (income in 2020). The interest cost included in pension expenses is recorded in the financial result.

The valuation as of December 31, 2020, was discounted using the expected long-term market rate of interest of 0.49 to 0.50% (prior year: 0.80 to 0.85%). The valuation of provisions for pensions is based on the "2018 G" actuarial guideline tables by Prof. Dr. Klaus Heubeck.

The remaining assumptions used in the actuarial valuation were a salary growth rate of 0% from 2009 onwards and, as in the prior year, pension growth of 2.00%.

Other Provisions

Other provisions are recognized in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets when paragon has legal or constructive obligations to third parties as a result of past events that are likely to lead to outflows of resources. Provisions are measured based on a best estimate of the expenditure needed to discharge the liability. Reimbursement claims are not offset against these amounts. Each situation is evaluated separately to determine the probability that pending proceedings will be successful, or to qualify the possible amount of the payment obligations. In each case, the most probable settlement amount has been taken into account. Noncurrent provisions have been measured at their discounted settlement amount as of the reporting date.

Due to the uncertainty associated with these evaluations, the actual settlement obligation or the actual outflow of resources may deviate from the original estimates and, accordingly, from the amounts of the provisions made. In addition, estimates may change based on subsequent new information, which may have a substantial impact on the future earnings position.

Government Grants

Government grants are recognized in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance and shown in the statement of financial position under noncurrent liabilities. In accordance with IAS 20, government grants are recognized only if there is reasonable assurance that the conditions attached to them will be complied with and that the grants will be received. Government grants are accounted for as a special item for investment grants and reversed over the average useful life of the assets subsidized. The grants are released to income over the expected assumed useful life of the assets subsidized and credited to other operating income.

In the period from March until December 2020, reduced working hours were used to compensate for the pandemic-related drop in revenue. Following the implementation of reduced working hours, the employees of the paragon Group received short-time working benefits from the Federal Employment Agency in the amount of € 3,714 thousand. Making payment of short-time working benefits for the employees did not lead to any investment grants. The reduction in work volume is reflected in the reduced personnel expenses in the income statement. In addition, paragon received investment grants reported in profit or loss in accordance with IAS 20 for the reimbursement of short-time working benefits (employer's contribution) in the amount of € 1,031 thousand. These are also recognized as a reduction in personnel expenses.

Recognition of Income and Expenses

Income is recognized when it is probable that economic benefits will flow to paragon and the amount of the income can be measured reliably. Income is measured at the fair value of the consideration received. VAT and other levies are not included. If transactions provide for a declaration of acceptance on the part of the purchaser, the related revenue is only recognized once such a declaration has been issued. If the sale of products and services includes multiple delivery and service components (multiple element arrangements), such as varying remuneration agreements in the form of prepayments, milestone payments and similar payments, a review takes place to ascertain whether revenue should be recognized separately for partial sales at different points in time. Contractually agreed prepayments and other nonrecurring payments are deferred reported in profit or loss over the period during which the contractually agreed service is performed.

Income from the sale of products is recognized once the significant risks and rewards associated with ownership of the products sold have been transferred to the purchaser. This normally occurs upon shipment of the products, consistent with the agreements entered into with customers. Revenue is shown after the deduction of discounts, rebates and returns.

Interest expenses for the bonds are measured by means of the effective interest method. Operating expenses are recorded in profit and loss when the relevant services are rendered or when the expenses are incurred.

Borrowing Costs

Borrowing costs are recognized as an expense in the period in which they are incurred. They are capitalized if they fulfill the requirements of a qualifying asset in accordance with IAS 23 Borrowing Costs. The capitalization of borrowing costs is based on a weighted average of the borrowing costs for such company loans.

(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 impact the assets and liabilities recorded, the disclosure of contingent liabilities as of the reporting date and the presentation of income and expenses during the period under review. If actual events deviate from these estimates, this could have a positive or negative impact on the assets, financial position and earnings. Estimates and assumptions in particular were calculated for paragon GmbH & Co. KGaA as part of the impairment tests in accordance with IFRS 15 with respect to the capitalized development costs, goodwill, disclosed hidden reserves from capital consolidation and contract assets. Should these estimates and assumptions turn out not to be correct, the net assets and financial performance would be impacted.

When applying the accounting policies, the following estimates and assumptions were made that significantly influenced the amounts contained in the financial statements:

Measurement of the Fair Values of the Assets Acquired and Liabilities Assumed in Business Combinations

The fair values as well as the allocation of acquisition costs to the assets acquired and liabilities assumed were determined on the basis of experience and estimates regarding future cash inflows. The actual cash inflows may differ from the estimated amounts.

Goodwill

As described in the accounting principles, the Group tests goodwill for impairment once a year and when there are any indications that the value of goodwill may be impaired. This involves estimating the recoverable amount of the cash generating unit. This corresponds to the higher of fair value less costs of disposal and value in use. When determining the value in use, adjustments and estimates have to be made concerning the forecast and discounting of future cash flows. Although the Management believes that the assumptions used to determine the recoverable amount are appropriate, unforeseeable changes in these assumptions could lead to an impairment loss that could have a negative influence on the assets, financial position and earnings.

Capitalized Development Costs

In order to measure capitalized development costs, assumptions have been made about the amount of anticipated future cash flows from assets, about the discount rates to be used and about the period of time during which these assets will generate anticipated future cash flows. The assumptions made regarding the timing and amount of future cash flows are based on expectations of the future development of the order backlog from those customers with whom development projects are being conducted. The duration of ordinary business use corresponds to the estimated economic life.

Transfer of Assets and Leased Assets

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

Leases

paragon GmbH & Co. KGaA accounts for individual lease components and non-lease components separately. If a lease exists, the contract is allocated to the individual lease components on the basis of the contractually agreed relative individual selling prices of the lease components and the aggregated individual selling prices of the non-lease components. In doing so, paragon GmbH & Co. KGaA determines the relative individual selling price with reference to the price that a lessor or similar supplier of paragon GmbH & Co. KGaA would charge separately for these or similar components. Where no observable market exists, paragon GmbH & Co. KGaA makes use of estimates.

paragon GmbH & Co. KGaA makes assumptions about the incremental borrowing rate in the context of the replacement approach to leases and bases this on an easily observable interest rate based on the same payment profile as that of the lease. Otherwise, it is discounted at the lessee's incremental borrowing rate, i.e., the rate of interest that would be payable by the lessee if they had to borrow funds to acquire, in a similar economic environment, an asset of similar value for a similar term with comparable security and under similar conditions. Wherever possible, financing arrangements entered into with third parties by the individual lessee are used as a starting point. Where necessary, these are adjusted to take into account changes in conditions since receipt of the financing. If there are no recent borrowings from third parties, the Group uses a risk-free interest rate as a starting point and adjusts it to the credit risk of the lessee. Other adjustments also relate to those for the term of the lease, the economic environment, the currency of the lease and collateralization.

Inventories

In specific cases, inventories are measured based on anticipated revenue less the estimated costs to completion and the estimated selling costs required. Actual revenue and the actual costs to completion may deviate from anticipated amounts.

Information about the measurement discounts can be found in the comments on inventories in the previous note.

Estimates are required for the recognition of income from the provision of services on the basis of the percentage of completion as of the reporting date. The main measurement parameter is the percentage of completion, which is determined on the basis of a careful estimate of the total contract costs, the costs to be incurred up to the time of completion, the total contract revenue, the contract risks and other assumptions.

Other Assets and Liabilities

Assumptions and estimates are also necessarily made when calculating allowances for doubtful receivables, when estimating contingent liabilities and other provisions and when determining the fair value of long-lived assets included in property, plant and equipment and intangible assets.

In individual cases, actual values may deviate from the assumptions and estimates made, requiring an adjustment of the carrying amounts of the assets or liabilities concerned.

Deferred Tax Assets

Deferred tax assets are only recorded if a positive tax result is expected in future periods or there are corresponding deferred tax liabilities that can be offset and as a result their realization appears sufficiently assured. In addition, there are estimation uncertainties regarding the reversal effects under IAS 12.29 a (ii). The actual taxable income situation in future periods may deviate from the estimate made at the time the deferred tax assets were recognized.

Provisions for Pensions

Expenses arising from defined benefit plans are calculated using actuarial valuation reports. The actuarial valuation reports are based on assumptions concerning discount rates, expected revenue from plan assets, future wage and salary increases, mortality rates and future pension increases. These estimates are subject to significant uncertainty due to the long-term nature of these plans.

Other Provisions

The recognition and measurement of other provisions was based on the estimated probability of the future outflow of benefits and on experience values, and on the facts and circumstances known as of the reporting date. The subsequent actual outflow of benefits may therefore differ from the amount recorded within other provisions as of the reporting date.

Contingent Liabilities

The recognition of an identified contingent liability within the scope of a purchase price allocation is based upon assumptions which the Management arrives at on the basis of the information available as of the date of acquisition.

Legal Risks

From time to time, paragon Group companies may become parties to legal disputes. Management regularly analyzes the latest information available for these cases and, where necessary, recognizes provisions to cover probable obligations, including the estimated amount of associated legal costs. External attorneys are consulted in the process of making these assessments. In determining the need for provisions, the Management accounts for the probability of an unfavorable outcome and whether the obligation can be measured with sufficient reliability. The filing of a lawsuit, the formal assertion of a claim or the presence of a disclosure for legal dispute in the notes does not automatically mean that a provision for the respective risk is appropriate.

Revenue

The Management makes discretionary decisions regarding the classification of the transaction price to performance obligations. The transaction prices are allocated to performance obligations on the basis of the relative individual sale prices.

For revenue with return rights, the company estimates the probability that the customer will make the return.

(11) Revenue

Revenue consists of the proceeds from sales of products and services less any sales reductions. The total revenue for the period under review amounted to € 144,981 thousand (prior year: € 192,188 thousand). Of this, € 91,830 thousand (prior year: € 121,250 thousand) were generated domestically and € 53,151 thousand (prior year: € 70,938 thousand) abroad.

Revenue is classified on the basis of operating segments and realized over time or at a specific point in time. paragon's strategic operating segments are Electronics and Mechanics.

2020

€ '000	Electronics	Mechanics	Electromobility	Total
Realization at a specific point in time	87,190	34,860	17,802	139,852
Realization over time	0	5,129	0	5,129
Total for operating segments	**87,190**	**39,989**	**17,802**	**144,981**

2019

€ '000	Electronics	Mechanics	Electromobility	Total
Realization at a specific point in time	89,820	39,499	54,394	183,713
Realization over time	0	6,555	1,920	8,475
Total for operating segments	**89,820**	**46,054**	**56,314**	**192,188**

In the Electronics operating segment, paragon achieved revenue as a direct supplier to the automotive industry. The Electronics operating segment's portfolio includes innovative air quality management, digital assistant solutions, state-of-the-art display systems, connectivity solutions and high-end acoustics systems. Revenue in this segment was realized at a specific point in time during the fiscal year. Revenue is recognized upon delivery and transfer of control to the customer or after services have been accepted by the customer. Payment terms are used that are customary for the industry and without significant financing components. Variable consideration does not occur regularly.

In the Mechanics operating segment, paragon also operates as a direct supplier of the automotive industry. paragon recognizes revenue through individually developed mechanics within the framework of long-term serial supply contracts. Revenue in this segment was realized both at a specific point in time and over time during the fiscal year. Recognition occurs upon delivery and the transfer of power of disposal to the customer. Period-related revenue results from agreed order developments agreed in advance within the framework of long-term production and delivery orders. Payment terms are used that are customary for the industry and without significant financing components. Variable consideration does not occur regularly.

The Electromobility operating segment is within the area of activity of the subgroup Voltabox AG. Its focus is on selected industrial sub-markets that are marked by the replacement of lead-acid batteries and diesel backup generators with modern lithium-ion battery systems. Revenue in this segment was realized both at a specific point in time and over time during the fiscal year. Recognition occurs upon delivery and the transfer of power of disposal to the customer. Revenue over time results from order developments agreed in advance as part of long-term production and supply contracts. Payment terms are used that are customary for the industry and without significant financing components. Variable consideration does not occur regularly.

As of December 31, 2020, there were trade receivables in the amount of € 11,645 thousand (December 31, 2019: € 45,027 thousand). In the fiscal year, contract assets in the Mechanics operating segment decreased by € 400 thousand (prior year: € 9,148 thousand) due to valuation allowances and services rendered by € 100 thousand to € 522 thousand (December 31, 2019: € 1,022 thousand).

In fiscal year 2020, expenses following the impairment resulting from the recognition of expected credit losses on trade receivables under IFRS 9 of € 1,244 thousand (prior year: € 137 thousand) have been recognized.

Other revenue of € 14,204 thousand (prior year: € 12,803 thousand) was generated from development services in the reporting period.

(12) Other Operating Income

Other operating income mainly comprises the following items:

€ '000	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Income from loan waivers	675	0
Use of company cars by employees	572	650
Measurement gains/losses from outstanding purchase price installments	322	1,273
Reversal of provisions	74	289
Exchange rate differences	595	446
Disposal of fixed assets	0	2,168
Income from derivatives (FVPL)	0	1,088
Miscellaneous	3,273	937
Total	**5,511**	**6,851**

(13) Other Own Work Capitalized

For development projects that meet the requirements of IAS 38.21 and IAS 38.57 in the reporting period and for which project-related development costs have been capitalized, the capitalized development costs have been recognized in other own work capitalized. The amounts capitalized are recognized under intangible assets. Other own work capitalized also includes costs incurred in manufacturing test equipment.

€ '000	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Project-related development costs	9,039	17,608
Production costs for test equipment	90	1,491
Other own work capitalized	**9,129**	**19,099**

(14) Cost of materials

€ '000	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Raw materials, consumables and supplies	76,448	134,066
Expenses for purchased services	1,966	3,086
Cost of materials	**78,414**	**137,152**

(15) Personnel Expenses

Personnel expenses amounted to € 46,480 thousand in the reporting period (prior year: € 59,808 thousand) and consist of the following:

€ '000	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Wages and salaries	37,236	47,585
Social contributions/pensions	7,631	8,236
Staff leasing	1,613	3,987
Personnel expenses	**46,480**	**59,808**

Personnel expenses in the reporting year include grants recognized in income due (employer's contribution) to short-time working benefits from the Federal Employment Agency in the amount of € 1,031 thousand (prior year: € 0 thousand). .

The average number of employees including temporary workers has changed as follows in comparison to the prior year:

	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Salaried employees	624	605
Hourly-paid employees	454	432
Number of employees	**1,078**	**1,037**

(16) Other Operating Expenses

Other operating expenses mainly comprise the following items:

	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Legal, consulting costs and close-out costs	3,094	3,401
Insurances	2,251	3,601
Third-party services	1,955	3,857
Damage compensation and valuation allowances	1,879	108
Freight and packaging costs	1,855	1,847
EDP and telephone	1,788	3,399
Compensation for the general partner	1,574	950
Energy costs	1,373	1,010
Repair and maintenance	968	858
Building expenses	940	3,125
Bad debt losses	925	822
Asset disposal	785	0
Exchange rate losses	780	2,059
Vehicle costs	351	744
Advertising and marketing costs	238	1,142
Formation of provision for impending losses	0	4,500
Miscellaneous	10,725	7,210
Total	**31,481**	**38,632**

(17) Depreciation and Amortization

A breakdown of depreciation and impairment of property, plant and equipment and amortization of intangible assets can be found in the consolidated statement of fixed assets.

Impairment of current assets is shown in the following overview:

	Balance sheet item	Jan. 1 to Dec. 31, 2020 Devaluation amount € '000	Jan. 1 to Dec. 31, 2019 Devaluation amount € '000
Impairment of contract assets according to IFRS 15 in the Automotive sector	Other Current Assets	400	1,803
Other impairments Automotive	Trade receivables	132	106
Impairment of inventories in the Electromobility operating segment	Inventories	4,082	44,935
Impairment of contract assets according to IFRS 15 in the Electromobility operating segment	Other Current Assets	0	7,345
Other impairments Electromobility	Trade receivables	0	32
		4,614	**54,221**

Impairment of property, plant and equipment and intangible assets is shown in the following overview:

	Balance sheet item	Jan. 1 to Dec. 31, 2020 Devaluation amount € '000	Jan. 1 to Dec. 31, 2019 Devaluation amount € '000
Impairment of capitalized development costs in the Automotive sector	Intangible assets	5,987	3,748
Devaluation of disclosed hidden reserves in the Automotive sector	Intangible assets	0	1,350
Other intangible assets	Intangible assets	447	0
Impairment of capitalized development costs and right-of-use assets in the Electromobility operating segment	Intangible assets	4,120	12,641
Devaluation of the investment grant to Triathlon Batterien GmbH	Intangible assets (licenses)	0	5,593
Devaluation of disclosed hidden reserves in the Electromobility operating segment	Intangible assets (licenses, patents, software, customer list)	0	2,783
Other impairment	Miscellaneous	0	956
		10,554	**27,071**

(18) Financial result

€ '000	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Financial income	**70**	**33**
Interest revenue	70	33
Financial expenses	**–7,337**	**–6,917**
Other financial and interest expenses	–7,337	–6,917
Financial result	**–7,267**	**–6,884**

Other financial and interest expenses include interest expenses to banks of € 2,360 thousand (prior year: € 3,455 thousand).

Net income from financial instruments is summarized below, with a breakdown for different measurement categories. The carrying amounts for the measurement categories are indicated in note (38).

€ '000	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Financial assets		
Measured at amortized cost	70	33
Measured at fair value through profit or loss	0	0
	70	**33**
Financial liabilities		
Measured at amortized cost	–7,207	–6,732
Measured at fair value through profit or loss	–130	–185
	–7,337	**–6,917**

Interest expenses of € 756 thousand (prior year: € 455 thousand) were incurred for IFRS 16 leases in the reporting year. Net income from other financial instruments includes netted interest revenues and expenses, measurements at fair value, currency translation, valuation allowances and disposal effects. Net income includes effective interest gains on financial instruments measured at amortized cost in the amount of € 1,196 thousand (prior year: € 194 thousand).

(19) Income Taxes

Domestic deferred taxes were calculated as of December 31, 2020, at a combined income tax rate of 30.0% (prior year: 30.0%). This includes a corporate tax rate of 15% and a solidarity surcharge of 5.5%. The income tax rate also reflects trade taxes, taking into account the breakdown of the trade tax assessment rates among the municipalities in which the company's branches are located. The deferred taxes for Voltabox of Texas, Inc. were calculated as of December 31, 2020, at a combined income tax rate of 27.6% (prior year: 27.6%). In China, a combined income tax rate of 34.6% (prior year: 34.6%) was applied.

€ '000	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Current taxes	**395**	**254**
Current taxes – Germany	395	254
Current taxes – other countries	0	0
Deferred taxes	**–12,141**	**–3,561**
Deferred taxes – Germany	–12,141	–3,387
Deferred taxes – other countries	0	–174
Income taxes (income)	**–11,748**	**–3,307**

Deferred tax assets and liabilities were recognized for the following items:

	Dec. 31, 2020		Dec. 31, 2019	
€ '000	**Deferred tax assets**	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
Intangible Assets	**0**	**15,133**	0	17,473
Property, plant and equipment	**337**	**–146**	396	659
Receivables and other assets	**0**	**493**	0	876
Provisions for Pensions	**–110**	**0**	362	0
Bonds	**5**	**182**	5	274
Loss carryforwards	**9,156**	**0**	0	0
IFRS 16 lease liabilities			167	0
Deferred tax assets and liabilities before offsetting	**9,388**	**15,662**	**930**	**19,282**
Offsetting	**–9,388**	**–9,388**	–659	–659
Deferred tax assets and liabilities after offsetting	**0**	**6,274**	**271**	**18,623**

As of the end of the reporting period, of deferred tax assets in the amount of € 0 thousand (prior year: € 271 thousand), € 0 thousand (prior year: € 271 thousand) relates to Germany and € 0 thousand (prior year: € 0 thousand) relates to other countries. As of the end of the reporting period, of deferred tax liabilities in the amount of € 6,274 thousand (prior year: € 18,623 thousand), € 6,274 thousand (prior year: € 18,623 thousand) relates to Germany and € 0 thousand (prior year: € 0 thousand) relates to other countries.

An amount of deferred taxes of € 1 thousand (prior year: € 85 thousand) arising on pension provisions was recorded directly in equity within the revaluation reserve. This also corresponds to the amount of deferred tax assets in other comprehensive income.

Dividends to be paid by paragon GmbH & Co. KGaA in Germany in the future have no impact on the tax burden of paragon GmbH & Co. KGaA.

The actual tax expense is compared with the tax expense that would theoretically result from multiplying the applicable tax rates and the reported earnings before tax in accordance with IAS 12.81 (c). The following table shows the reconciliation from the calculated tax expense to the actual tax expense.

€ '000	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Earnings before tax	**–56,420**	**–126,831**
Calculated tax income with a tax rate of 30.0% (prior year: 30.0%)	16,926	38,049
Differing foreign tax burden	–207	–491
Effects from the use or nonrecognition of deferred tax assets	–6,846	–34,221
Goodwill impairments	150	2,421
Current taxes relating to other periods	–260	–187
Loss from merger in separate financial statements	0	–1,462
Miscellaneous	1,985	–802
Current tax income	**11,748**	**3,307**

The tax income is determined by multiplying the tax rate by the income calculated for tax purposes. Deferred tax assets on loss carryforwards are only recognized in order to offset existing deferred tax liabilities. No deferred tax assets were recognized on the additional, significant domestic loss carryforwards, in particular at Voltabox AG and paragon movasys GmbH. The recognition of deferred tax assets on loss carryforwards led to tax income in the amount of € 9,156 thousand. The requirements for capitalizing the loss carryforwards are not met before fiscal year 2020.

(20) Earnings Per Share

Basic earnings per share are calculated by dividing the result for the reporting period which is attributable to the owners of paragon GmbH & Co. KGaA by the weighted average number of shares issued. The weighted average number of shares issued in the reporting period was 4,526,266 (prior year: 4,526,266).

Based on the result for the reporting period which is attributable to the owners of paragon GmbH & Co. KGaA in the amount of € –27,803 thousand (prior year: € –82,786 thousand), basic earnings per share amount to € –6.14 (prior year: € –18.29).

The diluted earnings per share are calculated by adjusting the weighted average number of shares issued by the number of potentially dilutive shares.

Stock option plans generally result in a potential dilution of earnings per share. There were no share option rights to acquire paragon GmbH & Co. KGaA shares during the fiscal year from January 1 to December 31, 2020.

(21) Intangible Assets

Capitalized Development Costs

The changes in and analysis of intangible assets, property, plant and equipment and financial assets are shown in the consolidated statement of fixed assets (note (42)). A description of investments made can be found in the management report..

Intangible assets include capitalized development costs of € 36,419 thousand (prior year: € 44,441 thousand). Total development costs in the period amounted to € 20,148 thousand (prior year: € 29,326 thousand). This includes internal development costs of € 9,039 thousand (prior year: € 16,646 thousand) capitalized as intangible assets in the reporting period.

Amortization of these internal development costs in the reporting period amounted to € 7,567 thousand (prior year: € 7,129 thousand for the Group as a whole). The depreciation period for development projects is usually seven years from when they are first ready to use.

The capitalized development costs were subjected to an impairment test in accordance with IAS 36. The respective recoverable amount represents the fair value of the development projects determined on the basis of recent information on the marketability of the project. The impairment loss in accordance with IAS 36 totaled € 10,107 thousand in the reporting year (prior year: € 16,389 thousand).

The recoverable amount of internally generated intangible assets is determined based on the calculation of the value-in-use using estimated cash flows, which are in turn derived from revenue forecasts adopted by the Management. The revenue forecasts cover a period of five years. A growth rate is determined for each product based on market analyses. The risk-adjusted discount factor applied to the estimated cash flows of Automotive and Electromobility amounts to 8.34% and 9.69%, respectively.

(22) Goodwill

As of the reporting date, the following cash-generating units held goodwill:

€ '000	Dec. 31, 2020	Dec. 31, 2019	Impairment loss for 2020
SphereDesign GmbH	343	843	500
paragon movasys GmbH	5,067	5,067	0
paragon semvox GmbH	16,130	16,130	0
paragon electroacoustic GmbH / ETON Soundsysteme GmbH	335	335	0
Total	**21,875**	**22,375**	**500**

Goodwill and internally generated intangible assets whose production is not yet complete are subject to regular impairment tests.

This involves goodwill and internally generated intangible assets whose production is not yet complete being tested for potential impairment once a year. In addition, the impairment test is also to be performed more frequently should any events or changes in circumstances indicate that a potential impairment has occurred.

The impairment tests performed at paragon Group involve comparing the residual carrying amounts of individual cash generating units (CGUs) with their respective recoverable amounts, i.e., the higher of their fair value less costs to sell and their value in use. Where the carrying amount of the cash-generating unit is higher than its recoverable amount, an impairment loss is recognized in the amount of the respective difference. The recoverable amount is determined by calculating the value in use by means of the discounted cash flow method. The cash flows used to calculate the value in use are determined on the basis of management's medium-term planning. These plans are based on past experience and on expectations as to future market developments, taking account of strategic and operative measures already initiated to manage the respective business field. The detailed planning period is usually a period of five years.

The cost of capital is calculated as the weighted average of equity and debt capital costs (weighted average cost of capital – WACC). Equity costs are derived from a peer group analysis of the relevant market sector, i.e., information that can be obtained from capital markets. To account for the different return and risk profiles of the Group's different fields of activity, paragon calculates individual cost of capital rates for its companies (CGUs) depending on the area of activity. The weighted average cost of capital, i.e., WACC before taxes used to discount cash flows, amounted to 8.34 % (prior year: 8.21 %). The WACC for paragon semvox GmbH is 5.89% (prior year: 6.46%). The growth rate following the detailed planning period is 1%.

Due to an adjusted business plan, a need for impairment of € 500 thousand was identified for the goodwill of SphereDesign GmbH.

In addition to the impairment test, three sensitivity analyses were carried out for each group of cash-generating units. As part of the first sensitivity analysis, the capitalization interest rate for each group was raised by 2 %. In the second sensitivity analysis, a growth rate lower by one percentage point was assumed. The third sensitivity analysis involved a lump deduction of the EBITDA assumed in perpetuity of 10.0%. These changes would not result in a significant impairment for any group of cash-generating units with the exception of SphereDesign GmbH. In the case of SphereDesign GmbH, this would result in a further depreciation of the remaining goodwill in the amount of € 343 thousand.

(23) Property, Plant and Equipment

The changes in and analysis of property, plant and equipment are shown in the consolidated statement of fixed assets in Note (42). Depreciation in the reporting period (without right-of-use assets in accordance with IFRS 16) amounts to € 7,504 thousand (prior year: € 6,867 thousand). Land and buildings are subject to property charges as collateral for long-term bank loans. Depreciation of right-of-use assets according to IFRS 16 amounts to € 4,196 thousand (prior year: € 3,513 thousand).

Certain items of movable noncurrent assets are financed by lease arrangements. Generally, these leases have terms of three to five years. The net carrying amount of rights of use under lease agreements amounted to € 18,644 thousand as of December 31, 2020 (prior year: € 22,210 thousand). The corresponding payment obligations for future lease installments amounted to € 18,716 thousand (prior year: € 22,118 thousand) and are recognized as liabilities at their present value.

Advance payments for machinery and equipment amounting to € 4,055 thousand were made in the reporting year (prior year: € 5,778 thousand).

The loss on disposal of property, plant and equipment (disposal of acquisition/production costs minus accumulated depreciation) amounted to € TEUR 785 thousand (prior year: € 13,950 thousand).

(24) Financial Assets

Company	Share	Revenue 2020 in € '000	Equity 2020 in € '000	2020 earnings in € '000 according to IFRS
Consolidated subsidiary				
ETON Soundsysteme GmbH, Neu-Ulm	100.00 %	453	906	352
Nordhagen Immobilien GmbH, Delbrück	100.00 %	0	-1,081	-1,032
paragon Automotive Co., Ltd., KunShan	100.00 %	2,893	-1,852	-5
paragon Automotive Technology (Shanghai) Co. Ltd., China	100.00 %	118	37	1
paragon electroacoustic GmbH, Neu-Ulm	100.00 %	6,946	751	-1,122
paragon electrodrive GmbH, Delbrück	100.00 %	0	-370	-395
paragon electronic GmbH, Delbrück	100.00 %	52,425	7,819	0
paragon movasys GmbH, Landsberg am Lech	100.00 %	41,163	-4,204	-3,480
paragon semvox GmbH, Saarbrücken	82.00 %	8,208	2,407	3,719
SphereDesign GmbH, Bexbach	100.00 %	582	340	-20
Voltabox AG, Delbrück	54.47 %	14,839	7,576	-26,883
Voltabox Kunshan, Co. Ltd, KunShan	54.47 %	0	135	-162
Voltabox of Texas, Inc., Austin	54.47 %	3,428	-34,410	-8,927
Investments				
Bilster Berg Drive Resort GmbH & Co. KG*	EUR 120,000			
ForkOn GmbH, Haltern am See*	5.15 %			

* The financial key figures of the investments were not yet available by the time the annual financial statements were prepared.

The carrying amounts of the two investments are unchanged from the prior year (Bilster Berg Drive Resort GmbH & Co. KG: € 120 thousand; ForkOn GmbH: € 1,400 thousand).

(25) Inventories

Inventories consist of the following:

€ '000	Dec. 31, 2020	Dec. 31, 2019
Raw materials, consumables and supplies	19,703	26,109
Work in progress/finished goods, services and merchandise	7,312	22,152
Advance payments for inventories	330	–3,461
Inventories	**27,345**	**44,799**

Inventories with a carrying value of € 4,328 thousand were written down in the reporting period, primarily relating to salvage inventories and inventories of spare parts (prior year: € 51,768 thousand). No reversals of impairment losses were recognized in the reporting period, as in the prior year. As of the reporting date, inventories of € 0 thousand (prior year: € 0 thousand) served as collateral for liabilities.

(26) Trade Receivables

The carrying amount of trade receivables is derived as follows:

€ '000	Dec. 31, 2020	Dec. 31, 2019
Gross trade receivables	14,286	46,133
Less valuation allowances	–2,641	–1,106
Trade receivables	**11,645**	**45,027**

Trade receivables are assigned as part of factoring, if possible, and intended by the Management. As of the reporting date, there are no receivables which will be assigned within the scope of factoring in the following reporting year. Therefore, trade receivables are assigned to the valuation category AC according to IFRS 9.

The maturity structure of trade receivables as of the reporting date is as follows:

€ '000	Carrying amount	0–30 days and not yet due	30 – 60 days	60 – 90 days	> 90 days
Dec. 31, 2020					
Gross trade receivables	14,286	8,859	2,187	771	2,470
Valuation adjustments	–2,641	–90	–164	–326	–2,061
Trade receivables	11,645				

€ '000	Carrying amount	0–30 days and not yet due	30–60 days	60–90 days	> 90 days
Dec. 31, 2019					
Trade receivables	46,133	39,881	1,247	714	4,291
Wertberichtigungen	–1,106			–158	–948
Trade receivables	45,027				

There were no indications as of the reporting date that debtors with receivables that are neither impaired nor overdue will fail to meet their payment obligations.

The expense arising on recording impairment losses and on derecognition of trade receivables is reported within other operating expenses. Income from receipts for derecognized receivables is reported under other operating income.

(27) Other Current Assets

Other current assets were as follows:

	Dec. 31, 2020			
€ '000	**AC**	**FVPL**	FVOCI	Total
Other Current Assets				
Purchase price retention due to factoring	1,091	0	0	1,091
Deferrals	422	0	0	422
Creditors with debit balances	184	0	0	184
CHF forward exchange	0	1,046		1,046
Contract assets	522	0	0	522
Receivables from related parties	3,477	0	0	3,477
Receivables from licensees	1,702	0	0	1,702
Receivables from development projects	992	0	0	992
Outstanding payments to the capital reserves	319	0	0	319
Other assets	1,070	0	0	1,070
Other Current Assets	**9,778**	**1,046**	**0**	**10,824**

	Dec. 31, 2019			
€ '000	**AC**	**FVPL**	FVOCI	
Other Current Assets				
Purchase price retention due to factoring	1,605	0	0	1,605
Deferrals	526	0	0	526
Creditors with debit balances	226	0	0	226
CHF forward exchange	0	1,088		1088
Contract assets	1,022	0	0	1022
Outstanding payments to the capital reserves	319	0	0	319
Other assets	3,005	0	0	3,005
Other Current Assets	**6,703**	**1,088**	**0**	**7,791**

The overdue amounts included in other current assets as of the reporting date were as follows:

€ '000	Carrying amount	thereof neither impaired nor overdue	thereof past due as follows but not impaired			
Dec. 31, 2020			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
Other Current Assets	**10,824**	10,824	0	0	0	0
Dec. 31, 2019						
Other Current Assets	**7,791**	7,791	0	0	0	0

Other current assets of € 3,477 thousand include a partially long-term loan receivable from Frers Grundstücksverwaltungs GmbH & Co. KG (related party). The loan has a term of 16 years, of which an amount of € 3,253 thousand has a remaining term of more than one year. We refer to Section (46) for more information. As of December 31, 2020, there were no indications that significant amounts included in other current assets would not be collectible. We refer to the disclosures in note (39) Foreign Currency Risks in respect of the CHF forward exchange deal.

(28) Cash and Cash Equivalents

Cash on hand and bank deposits are recognized at their nominal amounts. Cash and cash equivalents include € 14 thousand (prior year: € 41 thousand) in cash on hand and € 5,650 thousand (prior year: € 9,415 thousand) in bank deposits. Changes in cash and cash equivalents are presented in the consolidated cash flow statement.

(29) Equity

The changes in the individual components of equity for the fiscal year from January 1 to December 31, 2019, and for the reporting period from January 1 to December 31, 2020, are presented in the consolidated statement of changes in equity.

Share Capital

paragon GmbH & Co. KGaA's share capital as of December 31, 2020, amounted to € 4,526 thousand (prior year: € 4,526 thousand) and is divided into 4,526,266 no-par-value shares with a notional share in the share capital of € 1.00 each.

Conditional Capital

Conditional Capital 2017/I Pursuant to the Resolution by the Annual General Meeting on May 10, 2017

The resolution passed by the Annual General Meeting on May 10, 2017, authorized the Management Board of paragon, then AG, with the consent of the Supervisory Board to issue on one or more occasions bearer or registered bonds with warrants and/or convertible bonds or a combination of these instruments (hereinafter also jointly the "bonds") with a total nominal amount of up to € 150,000,000.00 and with a term of up to 10 years and to grant the holders or creditors (hereinafter jointly the “holders”) of bonds with warrants and convertible bonds conversion rights or options for up to a total of 2,263,133 new no-par-value shares of the company, as stipulated in the terms of these bonds in the period up to and including May 9, 2022. The bonds may be issued in return for a cash payment or contribution in kind, particularly investments in other companies. Bonds with warrants may be issued in return for a contribution in kind where the warrant terms stipulate that the option price for each share in the company is payable in cash in full upon exercise. The bond terms may also establish a conversion or option obligation for bearers at the end of the term or on a different date or stipulate the right of the company to grant the bearers of these bonds shares in the company in whole or in part instead of the payment of the amount due upon maturity of bonds which include a conversion or option right (this includes maturity due to termination).

The bond terms may stipulate that, in the event of conversion or the exercise of an option or fulfillment of the conversion or option obligations, the company may, at its discretion, either issue new shares out of conditional capital (in particular, the new Conditional Capital 2017/I that will be created in connection with this authorization), but may also exclusively or, at the company’s discretion, alternatively grant shares in the company out of authorized capital or out of treasury shares of the company or a Group company that are currently held or are yet to be acquired.

The conditional capital increase serves exclusively to grant shares to holders or creditors of convertible bonds and/or bonds with options that are issued by the company (or by a Group company as defined in Section 18 of the German Stock Corporation Act (AktG), in which the company has a shareholding of at least 90%) pursuant to the authorization by the Annual General Meeting on May 10, 2017, against contributions in cash or in kind until May 9, 2022. In accordance with the respective terms and conditions for convertible bonds and bonds with options, the conditional capital increase also serves to issue shares to holders of convertible bonds and/or bonds with options subject to conversion or option obligations.

There was no increase in share capital as a result of the exercise of options under the company’s stock option plan in the reporting period.

Authorized Capital

Authorized Capital 2017/I Pursuant to the Resolution by the Annual General Meeting on May 10, 2017

By resolution of the Annual General Meeting on May 10, 2017, the Management Board was authorized, with the consent of the Supervisory Board, to increase the company’s share capital on one or on several occasions, by up to € 2,263,133.00 until May 9, 2022, by issuing up to 2,263,133 new no-par-value shares in exchange for contributions in cash and/or in kind (Authorized Capital 2017/I). Shareholders are to be granted a subscription right. The statutory subscription right may also be granted by having the new shares taken over by a banking consortium with the obligation to offer the shares indirectly to shareholders for subscription pursuant to Section 186 (5) of the German Stock Corporation Act (AktG). The Management Board or Management is however authorized, with the consent of the Supervisory Board, to exclude the statutory subscription rights of shareholders in the cases specified in Section 5 (6) of the Articles of Association as updated in May 2017.

Capital Reserve

The capital reserve amounted to € 15,485 thousand as of December 31, 2020 (prior year: € 15,485 thousand). Pursuant to Sections 207 et seq. of the German Stock Corporation Act (AktG) concerning capital increases from the capital reserve and based on a resolution adopted by the Annual General Meeting on May 9, 2012, the company's share capital was increased by transferring an amount of € 1,029 thousand from the capital reserve as reported in the balance sheet as of December 31, 2011. The capital reserve increased in fiscal year 2016 by € 12,715 thousand to € 15,165 thousand as a result of the successful placement of 411,478 new no-par-value shares under partial utilization of the authorized capital approved by the Annual General Meeting on April 27, 2016. Based on the dividend refund agreement from October 14, 2019, the main shareholder of paragon GmbH & Co. KGaA, Klaus Dieter Frers, undertook to pay a partial amount of € 319 thousand from the dividend amount received for 2018 as a voluntary contribution to the company's capital reserves within the meaning of Sections 266 (3) A II and 272 (2) No. 4 of the German Commercial Code (HGB) and thus to partially refund the dividend payment received to the company. The additional payment is due within five working days of being requested by the company and was not requested by the date of the preparation of the annual financial statements.

In order to comply with the requirement to recognize actuarial gains and losses from provisions for pensions directly in equity in accordance with IAS 19 Employee Benefits, actuarial losses in the amount of € 1,202 thousand (prior year: 1,202 thousand have been reclassified to the revaluation reserve. In the reporting period, an amount of € 0 thousand net of deferred taxes (prior year: € -400 thousand) was recognized in the revaluation reserve.

Dividends

paragon GmbH & Co. KGaA did not pay out a dividend in the fiscal year. The company will not submit any proposal to the Annual General Meeting for the payment of a dividend for the reporting period ending on December 31, 2020.

Minority Interests

Due to the IPO of Voltabox AG on October 13, 2017, information about minority interests were included in the paragon consolidated financial statements for the first time. In the reporting year, total comprehensive income of € -16,784 thousand (prior year: € -40,856 thousand) was allocated to minority interests. This is composed of a consolidated net result of € -16,869 thousand (prior year € -40,738 thousand) and other comprehensive income of € 85 thousand (prior year: € -118 thousand). Minority interests amounted to € 5,792 thousand (prior year: € 20,759 thousand) as of December 31, 2020.

The sale of 880,000 Voltabox AG shares in fiscal year 2020 was recognized directly in equity. The funds received from the sale of shares increased the profit carried forward by € 2,232 thousand and minority Interests by € 1,817 thousand.

The non-controlling other shareholders held a total of 45.53% of the shares and voting rights in Voltabox AG as of December 31, 2020. Financial information on Voltabox AG can be found in the published consolidated financial statements of Voltabox AG.

Retained profit

The retained profit is composed as follows:

€ '000	Dec. 31, 2020	Dec. 31, 2019
Profit carried forward	14,393	98,217
Decreased shareholding in Voltabox	2,232	0
Dividend payout Voltabox	0	97
Dividend payout paragon	0	-1,133
Consolidated net income	-27,803	-82,788
Retained profit	**-11,178**	**14,393**

(30) Lease Liabilities

The recognition of the lease liability comprises the present values of the lease payments not yet made as of the provision date. Discounting is calculated on the basis of the underlying constant interest rate. If this is not available, paragon GmbH & Co. KGaA uses an incremental borrowing rate of interest that is used as a basis for comparable lease financing. The interest rates range from 4.97% to 5.15% for leased land, 6.47% to 6.65% for technical equipment and 8.89% to 9.07% for operating and office equipment. The interest expense from lease liabilities for fiscal year 2020 amounts to € 906 thousand (prior year: € 598 thousand). The rental expense from unrecognized minor-value and current leases reported in other expenses is insignificant.

The carrying amount of the lease liability is increased by the interest expense and reduced by the payments made after provision on the reporting date. A remeasurement of the lease liability is immediately taken into account. Granted lease deferrals related to the COVID-19 pandemic were repaid to the lessors within fiscal year 2020.

€ '000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	**Dec. 31, 2020**	Dec. 31, 2019
Minimum lease payments	4,568	8,972	8,935	22,475	26,265
Future interest payments	-674	-1,592	-1,493	-3,759	-4,147
Liabilities from leases (repayment portion)	**3,894**	**7,380**	**7,442**	**18,716**	**22,118**
thereof reported under noncurrent liabilities				14,822	19,433
thereof reported under current liabilities				3,894	2,685

The development of right-of-use assets can be seen in note (42) Consolidated Statement of Movements on Noncurrent Assets.

(31) Liabilities to banks

Current and noncurrent liabilities to banks totaled € 33,655 thousand (prior year: € 44,231 thousand). Collateral in the amount of € 28,943 thousand (prior year: € 19,620 thousand) was issued for the existing liabilities to banks recognized as liabilities.

Liabilities to banks are secured by property charges for loan liabilities in the amount of € 23,189 thousand (prior year: € 23,189 thousand) and by charges over property, plant and equipment of € 5,754 thousand (prior year: € 5,773 thousand).

Liabilities to banks mature as follows:

€ '000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	**Dec. 31, 2020**	Dec. 31, 2019
Liabilities to banks	**16,659**	**9,653**	**7,344**	**33,655**	**44,231**
thereof reported under noncurrent liabilities				16,997	15,373
thereof reported under current liabilities				16,659	28,858

There is no exposure to interest rate risk for the loans with fixed interest rates (see note (17)).

The liabilities have been assigned to the IFRS 9 measurement category AC.

(32) Bonds

On June 28, 2017, the company issued a non-subordinated and unsecured bearer bond with a nominal value of € 50,000 thousand. The bond is listed and traded on the Open Market of the Frankfurt Stock Exchange (WKN: A2GSB8). The bond has an interest coupon of 4.5% and a term from July 5, 2017, to July 5, 2022. The transaction costs of € 1,713 thousand incurred in connection with the placement are being amortized over the term of the bond using the effective interest method. The carrying amount of the bond as of the reporting date amounted to € 50,563 thousand (prior year: € 50,213 thousand) including the accrued interest liability for fiscal year 2020 amounting to € 1,125 thousand (prior year: € 1,125 thousand).

On April 23, 2019, the company issued a bearer bond with a nominal volume of CHF 35.0 million (WKN: A2TR8X), traded on the SIX Swiss Exchange. The interest coupon is 4.0% and the bond has a term of 4 years, maturing on April 23, 2023. This financial instrument is measured at its redemption amount of € 32,685 thousand (prior year: € 32,412 thousand) and has been reported in the short-term bonds item in the liabilities section. As of the balance sheet date, interest expenses in the amount of € 862 thousand (prior year: € 903 thousand) have been deferred and reported under bond liabilities.

The bonds have been assigned to the IFRS 9 measurement category AC.

(33) Provisions for Pensions

paragon recognizes a provision for a defined benefit pension plan in accordance with the revised IAS 19 Employee Benefits. The paragon Group has pension commitments to two persons. Provisions exist for pension commitments to Management member Klaus Dieter Frers in the amount of € 2,940 thousand (prior year: € 2,913 thousand) and a further commitment in the amount of € 405 thousand (prior year: € 406 thousand).

The commitment to Klaus Dieter Frers relates to a single contractual commitment to the payment of a fixed amount from age 65 based on an individual contract arrangement. In addition to this existing pension agreement, a new commitment was made in fiscal year 2005. This involves a single contractual commitment to payments from age 65, the amount of which is based on length of employment and salary level. In accordance with a resolution approved by the Supervisory Board on August 31, 2009, a portion of provisions for pensions amounting to € 794 thousand and the corresponding plan assets of € 1,425 thousand were transferred to HDI Gerling Pensionsfonds in fiscal year 2010. In accordance with a resolution approved by the Supervisory Board on December 10, 2013, another partial transfer of provisions for pensions to Allianz Pensionsfonds AG was effected in the amount of € 1,453 thousand during fiscal year 2013.

The actuarial calculations are based on the following assumptions:

in %	Dec. 31, 2020	Dec. 31, 2019
Discount rate	0.49–0.50	0.80–0.85
Expected return on plan assets	0	0
Salary increase (commitment based on individual contracts until 2009, thereafter 0%)	0	0
Pension increase	2.00	2.00
Fluctuation	0	0

Actuarial gains or losses may arise from increases or decreases in the present value of the defined benefit obligations. These may be brought about by, among other things, changes in calculation parameters and changes in estimates of the risks related to the pension obligations, and may impact on the level of equity. The net pension provisions have been calculated as follows:
Present value of the defined benefit obligation:

€ '000	Dec. 31, 2020	Dec. 31, 2019
Present value of the defined benefit obligation at the start of the year	3,678	3,311
Service costs	36	–89
Interest expense	29	55
Actuarial gains (–), losses (+)	0	401
Present value of the defined benefit obligation as of the reporting date	**3,743**	**3,678**

The actuarial gains incurred in fiscal year 2020 were recognized directly in equity in the revaluation reserve in accordance with the revised IAS 19. Changes in demographic assumptions had no effect on the level of actuarial losses in the reporting year.

Net amount of defined benefit obligation recognized for which there are no corresponding plan assets:

€ '000	Dec. 31, 2020	Dec. 31, 2019
Present value of the defined benefit obligation	3,743	3,678
Less fair value of the plan assets	–398	–358
Uncovered defined benefit obligation on reporting date	**3,345**	**3,320**

Movements on the net amount were as follows:

€ '000	Dec. 31, 2020	Dec. 31, 2019
Uncovered defined benefit obligation at the start of the year	3,320	2,885
Pension expenses	25	34
Actuarial gains (–), losses (+)	0	**401**
Uncovered defined benefit obligation on reporting date	**3,345**	**3,320**

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

€ '000	Dec. 31, 2020	Dec. 31, 2019
Service costs	36	–89
Interest expense	29	55
Actuarial gains (–), losses (+)	0	401
Pension expenses/income	**65**	**367**

The actuarial gains and losses in the reporting year and prior years were classified in full to other comprehensive income.

The provisions for the Managing Director Klaus Dieter Frers are still in the qualifying phase. As a rule, significant changes in the value of provisions for pensions result only from changes in the interest rate.

Disclosures on sensitivities and risks. The sensitivity analysis is only available for the provisions for Klaus Dieter Frers:

€ '000	Dec. 31, 2020	Dec. 31, 2019
DBO as of Dec. 31, 2020, interest rate 0.24% (prior year: interest rate 0.55%)	3,057	3,320
DBO as of Dec. 31, 2020, interest rate 0.74% (prior year: interest rate 1.05%)	2,829	2,802
DBO as of Dec. 31, 2020, pension increase 1.75% (prior year: pension increase 1.75%)	2,833	2,807
DBO as of Dec. 31, 2020, pension increase 2.25% (prior year: pension increase 2.25%)	3,051	3,025

Salary increase sensitivities have not been disclosed as there have been no such salary increases since the 2010 service period. There are no material extraordinary or company-specific risks in connection with the provisions for pensions reported.

(34) Other Liabilities

Other current liabilities were as follows:

€ '000	Dec. 31, 2020	Dec. 31, 2019
Other current liabilities		
Financial liabilities		
Deferred income	4,488	5,219
Purchase price liability from company acquisition (discounted)	3,057	0
Other liabilities	6,978	1,231
Liabilities from other taxes	5,816	2,033
Other current liabilities	**20,340**	**8,483**

Current liabilities primarily relate to taxes, deferrals and the purchase price liabilities of paragon semvox. The purchase price liability was reported as non-current in the prior year. Deferrals mainly contain personnel-related obligations.

Other liabilities mature as follows:

€ '000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2020	Dec. 31, 2019
Other liabilities	**20,340**	**0**	**0**	**20,340**	**11,739**
thereof reported under noncurrent liabilities				0	3,256
thereof reported under current liabilities				20,340	8,483

(35) Special Item for Investment Grants

This represents investment grants recorded as deferred income in accordance with IAS 20. An amount of € 87 thousand (prior year: € 88 thousand) was amortized in the reporting period. In addition to reimbursements of short-time working benefits, the Group received government assistance of € 0 thousand in the reporting period (prior year: € 0 thousand) and disclosed a special item for investment grants of € 742 thousand (prior year: € 829 thousand) as a noncurrent liability in the consolidated balance sheet.

(36) Other Provisions

Other provisions are all due within one year. The movements on the provisions were as follows:

€ '000	Jan. 1, 2020	Utilization	Release	Allocation	Dec. 31, 2020
Guarantees and goodwill settlements	1,140	250	215	944	1,619
Outstanding invoices	0	0	0	990	990
Impending loss provisions	3,015	3,015	0	0	0
Other provisions	**4,155**	**3,265**	**215**	**1,934**	**2,609**

(37) Income tax liabilities

This relates to trade tax and corporate income tax for prior reporting periods in the amount of € 727 thousand (prior year: € 716 thousand) as well as trade tax and corporate income tax for the current reporting period in the amount of € 114 thousand (prior year: € 0 thousand).

(38) Additional Disclosures on Financial Instruments

This section provides an overview of financial instruments in use at paragon. The carrying amounts of the financial instruments included in the consolidated financial statements in accordance with the IFRS 9 measurement categories are summarized below:

€ '000	Dec. 31, 2020	Dec. 31, 2019
Financial assets		
Measured at amortized cost	28,896	63,328
Measured at fair value through profit or loss	2,567	2,609
	31,463	**65,937**
Financial liabilities		
Measured at amortized cost	170,396	190,550
Measured at fair value through profit or loss	3,057	3,256
	173,454	**193,806**

paragon has not implemented any reclassification between these categories in fiscal year 2020.

As of the reporting date, the carrying amounts and the fair values of the current and noncurrent financial assets are as follows:

Dec. 31, 2020	AC		FVPL		FVOCI	
€ '000	BW	FV	BW	FV	BW	FV
ASSETS						
Cash and cash equivalents	5,664	5,664	0	0	0	0
Trade receivables	11,645	11,645	0	0	0	0
Other assets	11,588	11,588	1,046	1,046		
Investments	0	0	1,521	1,521		
Total assets	**28,896**	**28,896**	**2,567**	**2,567**	**0**	**0**
LIABILITIES AND EQUITY						
Liabilities to banks	33,655	33,655	0	0	0	0
Bonds	83,248	41,815	0	0	0	0
Finance leases	18,716	18,716	0	0	0	0
Trade payables	17,493	17,493	0	0	0	0
Other liabilities	17,283	17,283	3,057	3,057	0	0
Total equity and liabilities	**170,396**	**128,963**	**3,057**	**3,057**	**0**	**0**

Dec. 31, 2019	AC		FVPL		FVOCI	
€ '000	BW	FV	BW	FV	BW	FV
ASSETS						
Cash and cash equivalents	9,456	9,456	0	0	0	0
Trade receivables	45,027	45,027	0	0	0	0
Other assets	8,845	8,845	1,088	1,088	0	0
Investments	0	0	1,521	1,521	0	0
Total assets	**63,328**	**63,328**	**2,609**	**2,609**	**0**	**0**
LIABILITIES AND EQUITY						
Liabilities to banks	44,231	44,231	0	0	0	0
Bonds	82,625	55,781	0	0	0	0
Finance leases	22,118	22,118	0	0	0	0
Trade payables	33,093	33,093	0	0	0	0
Other liabilities	8,483	8,483	3,256	3,256	0	0
Total equity and liabilities	**190,550**	**163,706**	**3,256**	**3,256**	**0**	**0**

paragon does not hold any cash collateral. Balances and liabilities to banks are reported gross in the consolidated statement of financial position. Derivative financial instruments (other assets) are shown netted in the amount of € 150 thousand. Further information on derivatives can be found in note (39) Foreign Currency Risks. Within the scope of factoring, paragon pledges a sight deposit in the amount of € 767 thousand for the benefit of the factoring bank. These accounts safeguard the validity guarantee for sold receivables. In the event of insolvency, other account balances with credit institutions can be offset against any balances and liabilities between the respective counterparties. At the present time, paragon neither has a legal right of set-off nor intends to settle on a net basis.

There are no significant potential offsetting situations involving the relevant parties in the event of insolvency.

paragon has not provided any financial assets as collateral for financial liabilities. paragon does not hold any collateral in relation to financial assets.

paragon distinguishes between collectible and doubtful or non-performing and uncollectible financial assets. Collectible financial assets are impaired based on the 12-month expected credit losses. Doubtful or non-performing financial assets are impaired in the amount of the lifetime expected credit loss. Uncollectable receivables are recorded as disposals. A receivable is considered to be non-performing (definition of default) when there is a strong indication that a debtor will not fulfill its payment obligations to paragon.

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

Dec. 31, 2020 € '000	Credit quality	Treatment	Gross carrying amount	Valuation allowance	Net carrying amount
Other assets	Collectible	12-month ECL	12,634	0	12,634
	Collectible	lifetime ECL	0	0	0
	Non-performing	lifetime ECL	0	0	0
			12,634	**0**	**12,634**
Trade receivables	Collectible	simplified approach	8,859	–90	8,769
	Collectible	simplified approach	4,995	–2,187	2,808
	Non-performing	lifetime ECL	432	–364	68
			14,286	**–2,641**	**11,645**
Cash and cash equivalents	Collectible	12-month ECL	5,664	0	5,664
	Collectible	lifetime ECL	0	0	0
	Non-performing	lifetime ECL	**0**	**0**	**0**
			5,664	**0**	**5,664**

Dec. 31, 2019 € '000	Credit quality	Treatment	Gross carrying amount	Valuation allowance	Net carrying amount
Other assets	Collectible	12-month ECL	9,933	0	9,933
	Collectible	lifetime ECL	0	0	0
	Non-performing	lifetime ECL	0	0	0
			9,933	**0**	**9,933**
Trade receivables	Collectible	simplified approach	46,133	-1,106	45,027
	Collectible	simplified approach	0	0	0
	Non-performing	lifetime ECL	0	0	0
			46,133	**-1,106**	**45,027**
Cash and cash equivalents	Collectible	12-month ECL	9,456	0	9,456
	Collectible	lifetime ECL	0	0	0
	Non-performing	lifetime ECL	**0**	**0**	**0**
			9,456	**0**	**9,456**

paragon recognizes valuation allowances for loans and other receivables while taking into consideration past events and expectations regarding the future development of credit risk. The balance from valuation allowances has changed as follows:

€ '000		
Jan. 1, 2020		1,106
Adjustments due to changes in credit rating parameters	Increase due to remeasurement of receivables	1,609
	Reduction due to reversals of impairments	-74
Adjustments due to changes in the gross amount of assets	Reduction due to the derecognition of assets	0
	Increase due to the capitalization of assets	0
Dec. 31, 2020		2,641

€ '000		
Jan. 1, 2019		116
Adjustments due to changes in credit rating parameters	Increase due to remeasurement of receivables	990
	Reduction due to reversals of impairments	0
Adjustments due to changes in the gross amount of assets	Reduction due to the derecognition of assets	0
	Increase due to the capitalization of assets	0
Dec. 31, 2019		1,106

Cash and cash equivalents comprise cash on hand and bank deposits. paragon only deposits cash and cash equivalents with banks with the highest level of creditworthiness and default probabilities close to zero. On grounds of materiality, the valuation allowance has not been reported. In the event of a significant increase in the probability of default, the Group companies are required to withdraw cash and cash equivalents without delay. For this reason, cash and cash equivalents are allocated to the collectible (12-month ECL) or uncollectible (lifetime ECL) category.

In accordance with the simplified approach under IFRS 9.5.5.15, valuation allowances on trade receivables are measured consistently on the basis of the lifetime expected credit losses. For the calculation of the valuation allowance, the receivables are divided up into risk categories and assigned different loss rates. Receivables are written off where a debtor is in serious financial difficulties and there is no prospect of collection. The valuation allowance is carried out in three different stages. Stage 1 comprises the receivables that are not yet due as well as the receivables with a maturity of 0–31 days. The valuation allowance for these receivables is usually 1%. Stage 2 comprises receivables with a maturity of 31–60 days. The valuation allowance for these receivables is 25%. The valuation allowance for receivables with a maturity to 61–90 days is 50%. The valuation allowance for receivables with a maturity over 90 days is 75%. Stage 3 comprises uncollectible receivables. The valuation allowance for these receivables is usually 100%.

The companies of the paragon Group determine the risk of default on the basis of individual methods, taking into consideration duration-specific as well as operating segment-specific risks. The companies use data from Schufa, historical default rates and customer-specific future-oriented credit risk analyses, inter alia.

(39) Management of Risks Associated with Financial Instruments

Market price fluctuations can involve substantial cash flow and profit risks for paragon. Changes in exchange rates and interest rates influence business operations as well as investing and financing activities. In order to optimize the Group's financial resources, the risks associated with changes in interest rates and exchange rates are analyzed on an ongoing basis and used to manage and supervise current business and financial market activities.

Fluctuations in currency exchange rates and interest rates can result in significant profit and cash flow risks. Accordingly, paragon centralizes these risks as far as possible and manages them in a proactive manner, which includes making use of derivative financial instruments. The management of these risks within the overall risk management system is a core responsibility of paragon GmbH & Co. KGaA's Management.

paragon has implemented an internal sensitivity analysis system based on a variety of risk analysis and risk management methods. The use of sensitivity analyses enables the Group to identify risk positions within the segments. Sensitivity analyses quantify the risks that can arise within given assumptions when certain parameters are changed in a defined range. They include the following assumptions:

- An appreciation of the euro against all foreign currencies by 10 percentage points
- A parallel shift in interest rate curves of 100 basis points (one percentage point)

The potential effects of the sensitivity analysis are estimates and are based on the assumption that the supposed negative market changes will occur. The actual effects may differ significantly if market developments deviate from assumptions made.

Foreign Currency Risks

Due to the international nature of its operations, paragon's ongoing business operations are exposed to foreign currency risks. In individual cases, the company uses derivative financial instruments to limit these risks. Exchange rate fluctuations can lead to undesirable earnings and liquidity fluctuations. For paragon, the risk arises on foreign currency positions and possible changes in the relevant exchange rates. The uncertainty involved in future trends is referred to as exchange rate risk. paragon limits this risk by primarily settling purchases and sales of merchandise and services in the respective local currencies.

The sensitivity to potential fluctuations in foreign currency exchange rates is determined by aggregating the net currency positions of the operating business that are not denominated in the Group's functional currency. Sensitivity is calculated by simulating a 10% depreciation of the euro in relation to all foreign currencies. The simulated appreciation of the euro would have resulted in a change in future payment inflows (trade receivables) in the amount of € 68 thousand as of December 31, 2020 (prior year: € 401 thousand). To the extent that future purchases are not hedged against currency exchange risks, a depreciation of the euro against other currencies would have a negative effect on the financial position and earnings as the Group's purchases in foreign currencies exceed its foreign currency cash inflows.

The following table provides an overview of the net foreign currency exchange risk associated with trade payables by currency as of December 31, 2020:

	Dec. 31, 2020		Dec. 31, 2019	
€ '000	USD	Other	USD	Other
Transaction-related foreign currency risk	**3,084**	**1,094**	23,100	264
Foreign currency risk from balance sheet items	0	0	0	0
Foreign currency risk from pending transactions	3,084	1,094	23,100	32
Net exposure – foreign currency positions	**3,084**	**1,094**	**23,100**	**32**
Change in foreign currency positions due to 10% appreciation of the euro	308	109	2,310	3

There are foreign currency risks from the issue of the CHF-denominated bond with a nominal value of CHF 35 million. Interest payments of CHF 1.4 million are due in April each year. Swiss franc liabilities are converted at a rate of 1.0823 CHF/EUR. CHF 39,200 thousand is accumulated over the term of the bond (converted at the closing rate of € 36,218 thousand). If the Swiss franc were to appreciate by 10% to 0.9741 CHF/EUR, this would result in additional expenses of CHF 1,964 thousand.

As of December 31, 2020, the company has ten derivative financial instruments (Swiss franc futures) with a nominal value of CHF 40,600 thousand and maturities from April 2021 to April 2024. There is no hedging relationship with the bond; accordingly, the derivatives are measured at fair value in profit or loss in the amount of € 1,046 thousand. Of these, five derivatives have a positive fair value of € 1,196 thousand, and the other five derivatives have a fair value of € –150 thousand. Derivatives with the same remaining term are shown netted. The derivatives include current and noncurrent items. For reasons of simplification, they are reported as other current assets. However, the strict requirements of a hedging relationship within the meaning of hedge accounting are not met.

Interest Rate Risks

Interest rate risk refers to any change in interest rates that impacts earnings or equity. Interest rate risk primarily arises in connection with financial liabilities.

The interest-bearing financial liabilities mainly have fixed interest rates. Accordingly, changes in the interest rate would only have an effect if the financial instruments were recorded 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.

The interest rate risks associated with variable-rate financial liabilities are measured using cash flow sensitivity techniques. The paragon Group had variable-rate financial liabilities of € 0 thousand (prior year: € 0 thousand) as of December 31, 2020. There is no need for a sensitivity analysis.

Liquidity Risks

Liquidity risk, i.e., the risk that paragon might not be able to meet its payment obligations as they fall due, is managed by means of flexible cash management. As of December 31, 2020, cash and cash equivalents of € 5,664 thousand (prior year: € 9,456 thousand) were available. Unused credit lines totaling € 3,048 thousand were available as of December 31, 2020 (prior year: € 2,458 thousand). In addition to the instruments providing assurance of liquidity described above, the Group follows developments on financial markets on an ongoing basis in order to take advantage of attractive financing opportunities as they become available.

The following table shows the maturity structure of the financial liabilities recorded in the balance sheet as of December 31, 2020:

€ '000	2021	2022 – 2025	2026 and thereafter
Non-derivative financial liabilities			
Liabilities resulting from bonds	32,685	50,563	0
Liabilities to banks	16,659	9,653	7,343
Finance Lease Obligations	3,894	14,822	0
Trade payables	17,493	0	0
Other financial liabilities	20,340	0	0
Non-derivative financial liabilities	**91,072**	**75,038**	**7,343**

The net liquidity and net borrowing are derived from the sum of cash and cash equivalents less liabilities to banks and lease liabilities as shown in the statement of financial position.

€ '000	Dec. 31, 2020	Dec. 31, 2019
Cash and cash equivalents	5,664	9,456
Total liquidity	**5,664**	**9,456**
Current financial liabilities and portions of noncurrent financial liabilities due in the short term	53,238	63,955
Noncurrent financial liabilities	82,382	85,019
Total financial liabilities	**135,620**	**148,974**
Net debt	**-129,956**	**-139,518**

Credit Risks

Credit risk is defined as the financial loss that arises when a contract partner fails to meet its payment obligations. The maximum risk of default is therefore equal to the positive fair value of the respective interest rate instruments. The effective monitoring and control of credit risk is a core task of the risk management system. paragon performs credit checks for all customers requiring credit limits exceeding predefined amounts. The Group monitors credit risk on an ongoing basis.

(40) Capital Management

The primary goal of capital management is to maintain an appropriate equity ratio. The capital structure is managed and adapted to changing economic conditions. No significant changes in capital management goals, methods or processes were made in the fiscal year as of December 31, 2020.

Capital management refers exclusively to paragon GmbH & Co. KGaA's equity as reported in the statement of financial position. Changes in equity are shown in the statement of changes in equity. paragon was not required to comply with any financial covenants by the terms of agreements made with banks providing loan capital during the reporting period up to December 31, 2020.

paragon GmbH & Co. KGaA has committed itself to maintaining an equity ratio of 25% (IFRS consolidated financial statements) as part of the CHF bond issue. At a meeting of the bondholders, the deviation in this year's consolidated financial statements from the equity ratio to be maintained was explained. The equity ratio was also adjusted for future periods. The creditors waived their extraordinary right of termination. We refer to the disclosures in Section (4).

(41) Commitments, Contingent Assets, Contingent Liabilities and Other Financial Obligations

There were no commitments or off-balance sheet contingent assets or contingent liabilities as of December 31, 2020. Other financial liabilities are as follows:

€ '000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	**Dec. 31, 2020**	Dec. 31, 2019
Order commitments	54,506	5,799	0	60,305	42,186
Tenancy obligations	56	16	0	72	349
Other obligations	1,704	563	0	2,267	3,553
Other financial obligations	**56,266**	**6,378**	**0**	**62,644**	**46,088**

The purchase commitment includes purchase order items from noncurrent assets and inventories.

(42) Consolidated Statement of Movements on Noncurrent Assets

Consolidated Statement of Movements on Noncurrent Assets as of December 31, 2020

	Acquisition costs					
€ '000	Jan. 1, 2020	Exchange rate change	Additions	Outflows	Transfers	Dec. 31, 2020
Intangible Assets						
Licenses, patents, software, customer list	65,372	-47	540	499	2,274	67,640
Capitalized development costs	80,057	-306	9,738	714	0	88,775
Goodwill	30,395	0	0	0	0	30,395
Advance payments for intangible assets	2,082	0	235	0	-2,274	43
Total intangible assets	**177,905**	**-353**	**10,513**	**1,213**	**0**	**186,852**
Right-of-use assets						
Land and buildings	13,042	31	1,297	562	0	13,808
Technical equipment and machinery	5,106	0	0	0	0	5,106
Other plant, office furniture and equipment	1,872	0	176	161	0	1,887
Total right-of-use assets	**20,021**	**31**	**1,473**	**723**	**0**	**20,801**
Property, plant and equipment						
Land and buildings	39,691	0	0	245	28	39,474
Technical equipment and machinery	45,668	376	347	1,613	1,534	46,312
Other plant, office furniture and equipment	20,973	-22	638	284	51	21,356
Advance payments	5,779	0	1,313	633	-1,613	4,846
Total property, plant and equipment	**112,110**	**354**	**2,298**	**2,775**	**0**	**111,988**
Financial Assets						
Investments	1,726	0	0	0	0	1,726
Total financial assets	**1,726**	**0**	**0**	**0**	**0**	**1,726**
Total	**311,763**	**32**	**14,283**	**4,710**	**0**	**321,367**

*Due to a reclassification of inventories to fixed assets, own work capitalized cannot be directly reconciliated with the consolidated statement of fixed assets.

Depreciation and Amortization						Residual carrying amount	
Jan. 1, 2020	Exchange rate change	Additions	Impairment acc. IAS 36/38	Disposals	Dec. 31, 2020	Dec. 31, 2020	Dec. 31, 2019
40,611	0	3,734	447	299	44,493	23,147	24,761
35,616	0	7,567	10,107	934	52,356	36,419	44,441
8,020	0	0	500	0	8,520	21,875	22,375
0	0	0	0	0	0	43	2,082
84,246	**0**	**11,301**	**11,054**	**1,233**	**105,369**	**81,483**	**93,659**
1,081	0	1,987	0	0	3,068	10,740	11,961
1,627	0	1,651	0	0	3,278	1,828	3,480
805	0	558	0	0	1,363	524	1,067
3,513	**0**	**4,196**	**0**	**0**	**7,709**	**13,092**	**16,508**
11,456	9	1,070	0	245	12,290	27,184	28,235
32,144	0	4,143	0	1,608	34,679	11,633	13,524
15,710	111	1,501	0	137	17,185	4,171	5,262
1	0	790	0	0	791	4,055	5,778
59,311	**120**	**7,504**	**0**	**1,990**	**64,945**	**47,043**	**52,799**
205	0	0	0	0	205	1,521	1,521
205	**0**	**0**	**0**	**0**	**205**	**1,521**	**1,521**
147,276	**120**	**23,001**	**11,054**	**3,223**	**178,228**	**143,139**	**164,487**

Consolidated Statement of Movements on Noncurrent Assets as of December 31, 2019

	Acquisition costs							
€ '000	Jan. 1, 2019	Initial recognition IFRS 16	Exchange rate change	Additions	Additions from company acquisitions	Disposals	Transfers	Dec. 31, 2019
Intangible Assets								
Licenses, patents, software, customer list	63,195	0	0	2,865	0	688	0	65,372
Capitalized development costs	65,124	0	0	14,933	0	0	0	80,057
Goodwill	30,395	0	0	0	0	0	0	30,395
Advance payments for intangible assets	1,747	0	0	335	0	0	0	2,082
Total intangible assets	**160,460**	**0**	**0**	**18,133**	**0**	**688**	**0**	**177,905**
Right-of-use assets								
Land and buildings	0	13,042	0	0	0	0	0	13,042
Technical equipment and machinery	0	5,106	0	0	0	0	0	5,106
Other plant, office furniture and equipment	0	1,872	0	0	0	0	0	1,872
Total right-of-use assets	**0**	**20,021**	**0**	**0**	**0**	**0**	**0**	**20,021**
Property, plant and equipment								
Land and buildings	46,858	0	80	3,257	0	14,291	3,787	39,691
Technical equipment and machinery	38,426	0	0	2,024	0	1,826	7,044	45,668
Other plant, office furniture and equipment	18,826	0	75	1,050	0	404	1,426	20,973
Advance payments	2,365	0	0	16,813	0	1,143	-12,257	5,779
Total property, plant and equipment	**106,475**	**0**	**155**	**23,144**	**0**	**17,664**	**0**	**112,110**
Financial Assets								
Investments	326	0	0	1,400	0	0	0	1,726
Total financial assets	**326**	**0**	**0**	**1,400**	**0**	**0**	**0**	**1,726**
Total	**267,264**	**20,021**	**155**	**42,677**	**0**	**18,352**	**0**	**311,763**

	Depreciation and Amortization						Carrying amount	
	Jan. 1, 2019	Exchange rate change	Additions	Impairment acc. IAS 36/38	Disposals	Dec. 31, 2019	Dec. 31, 2019	Dec. 31, 2018
	25,666	–225	4,704	10,476	11	40,611	24,761	37,529
	12,713	–615	7,129	16,389	0	35,616	44,441	52,412
	0	–50	0	8,070	0	8,020	22,375	30,395
	0	0	0	0	0	0	2,082	1,747
	38,379	**–890**	**11,833**	**34,935**	**11**	**84,246**	**93,659**	**122,083**
	0	0	1,081	0	0	1,081	11,961	0
	0	0	1,627	0	0	1,627	3,480	0
	0	0	805	0	0	805	1,067	0
	0	**0**	**3,513**	**0**	**0**	**3,513**	**16,508**	**0**
	11,829	11	1,395	0	1,779	11,456	28,235	35,029
	29,895	48	3,974	0	1,773	32,144	13,524	8,530
	14,225	149	1,498	0	162	15,710	5,262	4,602
	1	0	0	0	0	1	5,778	2,365
	55,950	**208**	**6,867**	**0**	**3,714**	**59,311**	**52,799**	**50,526**
	0	0	0	205	0	206	1,521	326
	0	**0**	**0**	**205**	**0**	**206**	**1,521**	**326**
	94,329	**–682**	**22,212**	**35,141**	**3,724**	**147,276**	**165,487**	**172,935**

(43) Notes to the Consolidated Cash Flow Statement

The consolidated cash flow statement shows the cash flows within a given fiscal year in order to present information about movements in the company's cash and cash equivalents in accordance with IAS 7 Statement of Cash Flows. The consolidated cash flow statement has been prepared pursuant to the indirect method as defined in IAS 7.18 (b). Cash flows are classified separately as cash flows from operating activities, cash flows from investing activities and cash flows from financing activities.

The current cash inflows and outflows resulting from the factoring agreements entered into have been allocated to the cash flow from operating activities.

The cash and cash equivalents shown in the consolidated cash flow statement include all cash and cash equivalents reported in the statement of financial position that are available for use at short notice.

€ '000	Dec. 31, 2020	Dec. 31, 2019
Bank balances	5,650	9,415
Cash on hand	14	41
Cash and cash equivalents	**5,664**	**9,456**

(44) Segment Reporting

The Group's business activities are allocated to and reported as three operating segments on a recurring basis based on the requirements of IFRS 8. The Electronics operating segment includes the development and sale of sensors, microphones and instruments, primarily for the automotive industry. The companies paragon GmbH & Co. KGaA, paragon electronic GmbH, SphereDesign GmbH, paragon semvox GmbH, paragon electroacoustic GmbH, ETON Soundsysteme GmbH, paragon Automotive Technology Co. Ltd., paragon Automotive Kunshan Co. Ltd., paragon electronic GmbH and Nordhagen Immobilien GmbH are assigned to the Electronics operating segment.

The Mechanics operating segment includes the development and marketing of electromechanical components for the automotive industry and the mechanical manufacturing of the paragon Group's products at paragon movasys GmbH.

The Electromobility operating segment comprises the activities of manufacturing battery systems and battery management systems for various industries within Voltabox AG, Voltabox of Texas, Inc. and Voltabox Kunshan Co., Ltd. The Electromobility operating segment includes 45.53% minority interests.

The various legal entities within the paragon Group enter into supply agreements with one another. Invoices for such supplies are raised on the same basis as with third parties, including an appropriate margin. Internal revenue primarily arises with electronic GmbH, as this company is responsible for all manufacturing processes within the Group, and with paragon GmbH & Co. KGaA, which is responsible for development work and central coordinating activities. This includes, among other things, central purchasing arrangements, human resources and commercial management activities to the extent that these activities are not performed by the individual entities, as well as the Group's central management function. Also included are rentals paid by subsidiaries for the use of land, buildings, plants and other equipment owned by paragon GmbH & Co. KGaA. Charges made between the operating segments are based on the utilization made of the respective items charged. Segment assets and segment liabilities are presented on the same basis. It is not possible to clearly allocate interest revenue, interest expenses and income tax expenses by operating segment; this information is omitted.

	2020						
€ '000	Electronics	Mechanics	Electro-mobility	**Eliminations**	Group	of which Automotive	of which Electro-mobility
Revenue from third parties	87,190	39,989	17,802	0	144,981	127,179	17,802
Intersegment revenue	4,527	975	0	–5,502	0	0	0
Operating segment revenue	**91,718**	**40,963**	**17,802**	**–5,502**	**144,981**	**127,179**	**17,802**
Inventory changes, other operating income & capitalized development services	6,561	–6,057	1,728	–1,323	909	–819	1,728
Expenses from intersegment offsetting	–4,990	–1,637	0	6,626	0	0	0
Cost of materials, personnel expenses and other operating expenses	–79,801	–32,767	–43,807	0	–156,375	–112,568	–43,807
Operating segment EBITDA	**13,488**	**503**	**–24,277**	**–198**	**–10,485**	**13,792**	**–24,277**
Depreciation and amortization (incl. impairment)	–17,311	–7,128	–14,230	0	–38,668	–24,439	–14,230
thereof depreciation and amortization	–14,464	–3,041	–10,110	0	–27,614	–17,505	–10,110
thereof impairments	–2,847	–4,086	–4,120	0	–11,054	–6,934	–4,120
Operating segment EBIT	**–3,823**	**–6,625**	**–38,507**	**–198**	**–49,153**	**–10,646**	**–38,507**
Financial result for Group	n. a.	n. a.	n. a.	n. a.	–7,267	n.a.	n.a.
Group earnings before taxes	**n. a.**	**n. a.**	**n. a.**	**n. a.**	**–56,420**	**n. a.**	**n. a.**
Assets	191,865	14,510	38,799	–44,679	200,495	162,478	38,018
Investments (CAPEX)	5,086	2,577	5,562	–414	12,811	7,663	5,148
Liabilities	**–174,197**	**–27,275**	**–23,937**	**44,419**	**–180,991**	**–157,054**	**–23,937**

€ '000	Electronics	Mechanics	Electro-mobility	Eliminations	Group	of which Automotive	of which Electro-mobility
	2019						
Revenue from third parties	89,820	46,054	56,314	0	192,188	135,874	56,314
Revenue (intersegment)	4,396	234	303	-4,933	0	0	0
Operating segment revenue	**94,216**	**46,288**	**56,617**	**-4,933**	**192,188**	**135,874**	**56,314**
Inventory changes, other operating income & capitalized development services	13,186	1	23,204	-1,360	35,031	11,827	23,204
Expenses from intersegment offsetting	-448	-1,240	-4,628	6,316	0	0	0
Cost of materials, personnel expenses and other operating expenses	-97,742	-44,964	-92,886	0	-235,592	-142,706	-92,886
Operating segment EBITDA	**9,212**	**85**	**-17,693**	**23**	**-8,374**	**9,186**	**-17,559**
Depreciation and amortization (incl. impairment)	-20,026	-4,629	-86,919	0	-111,574	-24,655	-86,919
thereof depreciation and amortization	-14,163	-1,779	-6,271	0	-22,213	-15,942	-6,271
thereof impairments	-5,863	-2,850	-80,648	0	-89,362	-8,713	-80,648
Operating segment EBIT	**-10,814**	**-4,544**	**-104,612**	**23**	**-119,948**	**-15,469**	**-104,478**
Financial result for Group	n. a.	n. a.	n. a.	n. a.	-6.884	n. a.	n. a.
Group earnings before taxes	**n. a.**	**n. a.**	**n. a.**	**n. a.**	**-126.831**	**n. a.**	**n. a.**
Assets	227,228	28,107	133,970	-115,519	273,785	n. a.	n. a.
Investments (CAPEX)	25,004	2,765	15,008	0	42,777	n. a.	n. a.
Liabilities	**-190,370**	**-36,358**	**-89,730**	**113,632**	**-202,826**	**n. a.**	**n. a.**

Information on Geographical Areas

The following table shows a geographical analysis of the Group's revenue with external customers. The revenues generated with external customers for the purposes of the geographical analysis is based on the location of the registered head office of the respective external customer. The vast majority of assets are located in Germany.

€ '000	**Germany**		**EU**		**Third country**		**Total**	
	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019
Revenue	91,830	121,250	35,382	41,708	17,769	29,230	144,981	192,188

Information About Transactions with Key Customers

In fiscal year 2020, two groups of companies exceeded the threshold of 10% with respect to the revenue share for the Automotive segment according to IFRS 8.34. Of these, one group of companies, which is to be regarded as one customer because of its joint control, had a revenue share of 49.6% (prior year: 36.6%). Another group of companies, which is to be regarded as one customer due to its joint control, had a revenue share of 16.6 % (prior year: 14.2 %). With a revenue share of 10.1%, a further third group exceeded the threshold of 10% in 2019.

(45) Directors and Officers

The management of paragon GmbH & Co. KGaA has been exercised through general partner paragon GmbH, Delbrück, since August 1, 2018. paragon GmbH has share capital of € 100 thousand. The Management of paragon GmbH and thus of paragon GmbH & Co. KGaA is exercised by the following two Managing Directors:

- Klaus Dieter Frers (Chairman), full-time Managing Director of paragon GmbH, business strategy and development, Manufacturing, Finance, Human Resources and the operating segments Mechanics and Electromobility, Supervisory Board Chairman of Voltabox AG.
- Dr. Matthias Schöllmann, Paderborn, full-time wwwwww.

The following persons are members of the Supervisory Board:

Name	Occupation	Memberships in Supervisory Boards and Other Supervisory Committees
Prof. Dr. Lutz Eckstein (Chairman)	Univ.-Prof. Dr.-Ing., Head of the Chair and Institute for Automotive Engineering (ika), RWTH Aachen University	Supervisory Board mandates: • ATC – Aldenhofen Testing Center of RWTH Aachen University GmbH (Member of the Supervisory Board) Further mandates: • VOSS Holding GmbH & Co. KG (Member of the Advisory Board) • Advisory Board of Forschungsgesellschaft Kraftfahrwesen Aachen mbH (fka) • Driving Innovation GmbH (Managing Director)
Hermann-Josef Börnemeier	Dipl. Financial Consultant and Tax Advisor, Managing Director of Treu-Union Treuhandgesellschaft mbH	Supervisory Board mandates: • Voltabox AG (member) Further mandates: • Börnemeier & Loh GmbH (Managing Director)
Walter Schäfers	Lawyer, Partner at Societät Schäfers Rechtsanwälte und Notare	Supervisory Board mandates: • Voltabox AG (Member)

(46) Related Party Disclosures

Related parties as defined in IAS 24 Related Party Disclosures include members of the Management, the Supervisory Board and their immediate families as well as affiliated companies.
Treu-Union Treuhandgesellschaft mbH, Steuerberatungsgesellschaft, Paderborn, billed services totaling € 147 thousand under an ongoing agreement in fiscal year 2020 (prior year: € 142 thousand). As of the reporting date, there are liabilities in the amount of € 80 thousand. Hermann-Josef Börnemeier, a member of the Supervisory Board of paragon GmbH & Co, KGaA, is also managing director of the above company.

In fiscal year 2020, Societät Schäfers, Rechtsanwälte und Notare, Paderborn, calculated services in the amount of € 11 thousand (prior year: € 0 thousand). Walter Schäfers, a member of the Supervisory Board at paragon GmbH & Co. KGaA, is also a partner in this company.

Members of the Supervisory Board held 4,000 shares (prior year: 4,000 shares) out of a total of 4,526,266 shares as of the balance sheet date. Klaus Dieter Frers held 2,232,263 shares (prior year: 2,232,263 shares) as of the reporting date and thus holds 49.3% of the company's limited liability capital. He has a voting proxy for a further 30,871 shares, which is not subject to any directives. This means that 2,263,134 shares in the Company are attributable to him (Sec. 34 (1) No. 6 WpHG), which is 50% plus 1 share of the limited partner shares of paragon GmbH & Co. KGaA. In accordance to IAS 24.18 a, Mr. Frers is considered the "ultimate controlling party" of the parent company. As of the reporting date, Dr. Matthias Schöllmann held 2,920 shares (prior year: 2,920 shares).

Mr. Frers is the sole owner of Artega GmbH. In fiscal year 2020, paragon GmbH & Co. KGaA conducted business with Artega GmbH worth € 240 thousand (prior year: € 192 thousand), mainly by passing on costs. With respect to the receivables from Artega GmbH of € 432 thousand, a valuation allowance of € 364 thousand was formed so that the balance owed to Artega GmbH as of the reporting date is € 68 thousand (prior year: € 187 thousand).

Klaus Dieter Frers is the sole owner of Frers Grundstücksverwaltungs GmbH & Co. KG. In fiscal year 2020, Frers Grundstücksverwaltungs GmbH & Co. KG was granted a loan secured by property charges in the total amount of € 3,700 thousand, which bears interest at 1.5% p.a. and will be paid back in monthly payments of € 10 thousand and € 12 thousand until December 2035.

In the period under review, Frers Grundstücksverwaltungs GmbH & Co. KG rented out areas to paragon GmbH & Co, KGaA in two of the buildings used by paragon GmbH & Co. KGaA and Voltabox AG. This resulted in rental expenses of € 277 thousand. One of the lease agreements was terminated with effect from November 30, 2020. The other lease agreement with a monthly rent of € 15 thousand was signed for an indefinite period and can be terminated with effect from the end of the respective year with a notice of six months. Starting in 2023, the rent will be adjusted in line with the German consumer price index of the Federal Statistical Office. Of this lease, € 455 thousand is capitalized as a right-of-use building and € 457 thousand recognized as a lease liability (assuming a remaining useful life of three years); the negative impact on earnings from interest expenses and depreciation and amortization amounts to € 177 thousand. Frers Grundstücksverwaltungs GmbH & Co. KG signed a lease agreement for a developed property with Voltabox AG. This resulted in rental payments of € 115 thousand, a capitalized right-of-use building of € 411 thousand and a lease liability of € 422 thousand in fiscal year 2020. The negative impact on earnings from interest expenses and depreciation and amortization amounts to € 125 thousand.

As of the balance sheet date, performance guarantees with a maximum amount of € 153 thousand had been provided by Klaus Dieter Frers with respect to paragon GmbH & Co. KGaA's liabilities to banks (prior year: € 153 thousand). Related commission in the amount of € 2 thousand (prior year: € 2 thousand) was paid in the year under review.

There are other receivables from Klaus Dieter Frers in the amount of € 319 thousand (prior year: € 319 thousand) from a payment to the capital reserves of paragon GmbH & Co. KGaA that has yet to be made.

Brigitte Frers (wife of Klaus Dieter Frers) is employed as Head of Communication. The company has concluded an employment contract with her subject to normal market terms and conditions. She receives annual remuneration in the amount of € 155 thousand (prior year: € 162 thousand), which is comparable with similar positions in the company.

For their activities as members of the Supervisory Board of Voltabox AG, Mr. Klaus Dieter Frers received remuneration of € 20 thousand (prior year: € 20 thousand), Mr. Herrmann Börnemeier received € 10 thousand (prior year: € 10 thousand) and Mr. Walter Schäfers received € 10 thousand (prior year: € 10 thousand).

In the fiscal year, paragon GmbH received remuneration of € 1,574 thousand (prior year: € 950 thousand) for taking over the management of the company; the expenses were reported as other operating expenses.

The remuneration report is presented in the management report.

(47) Share Based Remuneration

The Stock Option Plan 2012 expired on May 8, 2017.

(48) Auditor's Fee

The total fee charged by the auditor Baker Tilly GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft in the reporting period from January 1 to December 31, 2020, amounts to € 432 thousand (prior year: € 472 thousand). It has been recognized as an expense. € 424 thousand (prior year: € 390 thousand) of this fee was paid for audit services, € 0 thousand (prior year: € 82 thousand) for other assurance services and € 8 thousand (prior year: € 0 thousand) for other services.

(49) Risk Management

The company's risk management is described in the management report.

(50) Application of the Exemption Provisions of Section 264 (3) of the German Commercial Code (HGB)

The following fully consolidated domestic subsidiaries make use of some of the exemption provisions for the year under review (disclosure and audit):

paragon electronic GmbH, Delbrück
SphereDesign GmbH, Bexbach

(51) Declaration Pursuant to Section 160 (1) No. 8 of the German Stock Corporation Act (AktG)

Voting Right Notifications

In the year under review, the company received no notifications pursuant to Section 26 (1) of the German Securities Trading Act (WpHG) that require disclosure in accordance with Section 160 (1) No. 8 of the German Stock Corporation Act (AktG).

Directors' Dealings

The company received no reports on proprietary transactions by executives in accordance with Art. 19 of the EU regulation No 596/2014 (MAR) on market abuse (market abuse regulation) during the reporting period.

Corporate Governance Declaration

The Declaration of Conformity with the German Corporate Governance Code (GCGC) required under Section 161 of the German Stock Corporation Act (AktG) was most recently submitted on February 28, 2021, and is available to shareholders on a permanent basis on the company's website (https://www.paragon.ag/). For the listed subsidiary Voltabox AG, the Declaration of Conformity with the German Corporate Governance Code (GCGC) required under Section 161 of the German Stock Corporation Act (AktG) was most recently submitted in February 2021 and is available to shareholders on a permanent basis on the company's website (https://www.voltabox.ag/).

Delbrück, July 19, 2021
paragon GmbH & Co. KGaA

The Management

Klaus Dieter Frers	Dr. Matthias Schöllmann
Chairman	Managing Director of Automotive

AUDITOR'S REPORT

paragon GmbH & Co. KGaA, Delbrück, Germany

Report on the audit of the consolidated financial statements and the combined management report

Audit Opinions

We have audited the consolidated financial statements of paragon GmbH & Co. KGaA and its subsidiaries (the Group), which comprises the consolidated balance sheet as of December 31, 2020, the consolidated statement of comprehensive income (incl. the consolidated income statement), the consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year starting January 1 and ending December 31, 2020, as well as the notes to the consolidated financial statements, including a summary of important accounting policies. We have also audited the combined management report of paragon GmbH & Co. KGaA for the fiscal year from January 1 to December 31, 2020.

In accordance with German legal requirements, we have not audited the content of the corporate governance statement contained in the section "Corporate Governance Statement Pursuant to Section 315d and Section 289f (1) of the German Commercial Code" of the combined management report or the nonfinancial declaration pursuant to Section 289b of the German Commercial Code contained in the section "Declaration of Compliance of paragon GmbH & Co. KGaA with the German Corporate Governance Code" and the section "Sustainability Reporting."

In our opinion, based on the findings of our audit,

- the enclosed consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements pursuant to Section 315e (1) of the German Commercial Code (HGB), and provide a true and fair view of the net assets and financial position of the Group as of December 31, 2020, as well as its earnings for the fiscal year starting January 1 and ending December 31, 2020, in accordance with these requirements.
-
- The enclosed combined management report provides a suitable view of the Group's position. The combined management report is consistent with the consolidated financial statements, complies with all statutory regulations and suitably presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any objections to the regularity of the consolidated financial statements and the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 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 the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities according to those requirements are further described in the "Auditor's Responsibility for the Audit of the Consolidated Financial Statements and 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 law and professional rules of conduct, and we have fulfilled our other German professional responsibilities in compliance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided any nonaudit 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 the combined management report.

Material Uncertainty in Connection with the Continuation of Business Operations

First, we refer to the disclosures in the notes in the section "Going Concern" and in the section "Risk Report" of the combined management report under "Risks Threatening the Existence of the Group," in which the legal representatives describe that the liquidity situation of the company and the Group remains strained, partly due to the ongoing consequences of the coronavirus pandemic. The financial resources required to secure medium-term financing are to be made available through the measures outlined in the management report. As discussed in the aforementioned sections of the notes and combined management report, these events and circumstances, together with other matters discussed therein, indicate the existence of material uncertainty that could cast significant doubt on the company's ability to continue as a going concern and which represents a risk threatening the existence of the company within the meaning of Section 322 (2) sentence 3 HGB. Our audit opinions have not been altered in respect to this matter.

The consolidated financial statements of paragon GmbH & Co. KGaA have been prepared under the going concern assumption. As explained in the previous section, circumstances exist that may jeopardize the existence of the paragon Group and paragon GmbH & Co. KGaA. Due to the significance for the consolidated financial statements and the combined management report and due to the existing uncertainty about the occurrence of the assumptions and conditions underlying the medium-term Group planning, the assessment of the appropriateness of the going concern assumption was a key audit matter for us in the context of our audit.

Audit Approach and Findings

Based on the medium-term earnings and liquidity planning presented, we have assessed whether the Management Board's assessment of the paragon Group's ability to continue as a going concern is appropriate. To this end, we first checked the planning for formal consistency (mathematical accuracy, correct implementation of the underlying premises). In addition, we compared the earnings planning (in particular the appropriateness of the revenue forecast) with existing (framework) agreements with customers and checked the plausibility of the forecasts for the main cost categories. Furthermore, we obtained and assessed evidence on the measures taken by the Management (including: (partial) sale of further investments, sale-and-rent-back of real estate owned) to refinance the Group. Based on the results of our audit, we consider the going concern assumption used by the legal representatives to be appropriate.

Other 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 and of the combined management report for the fiscal year from January 1 to December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters. In addition to the matter described in the section "Material Uncertainty in Connection with the Continuation of Business Operations," we have identified the matter described below as a key audit matter to be disclosed in our audit opinion:

Our presentation of these key audit matters has the following structure:

1.) Specific matter and problem
2.) Audit approach and findings
3.) Further information

I. Impairment of Goodwill

1.) In the consolidated financial statements of paragon GmbH & Co. KGaA, € 21.9 million is reported under the balance sheet item "goodwill," which is subject to an impairment test by the company as of December 31 of each fiscal year. The fair values are determined using a valuation model based on the discounted cash flow method. The result of this valuation depends to a large extent on the estimation of future cash inflows by the legal representatives and the discount rate used and is therefore subject to considerable uncertainty. Against this background, the assessment of the recoverability of goodwill within the scope of our audit was particularly important.

2.) We first investigated the appropriateness of the planning process for the significant cash-generating units to which goodwill has been allocated by assessing how the planning is prepared and approved. To this end, we held discussions with those responsible for planning and for cash-generating units to which significant goodwill has been allocated. We assessed the planning and the assumptions underlying it for comprehensibility and consistency with our knowledge of the unit and other audit findings. We also reviewed and assessed the valuation method (discounted cash flow method) used to determine the recoverable amount of the cash-generating units, and in particular the discount rates used. In addition, we independently estimated the respective values for cash-generating units to which significant goodwill has been allocated based on the approved plans for these units using our own valuation models. Our independent estimates confirmed the results obtained by the management.

3.) The company's disclosures on goodwill are included in sections "9 Use of Estimates and Assumptions" and "22 Goodwill" of the notes to the consolidated financial statements.

II. Measurement of Capitalized Development Work

1.) As of December 31, 2020, the Group has reported capitalized development work in its balance sheet as intangible assets in the amount of € 36.4 million. Due to the significant overall effects of this item on the Group's net assets and earnings and the complexity of accounting and measurement, the capitalized development work was particularly important for the purpose of our audit.

2.) Within the scope of our audit of the capitalized development work, on a test basis we conducted disclosure-related audit activities and a system audit in order to review the measurement of capitalized development work. We reviewed the methodological approach applied in the measurement of development work capitalized and evaluated this calculation in terms of its amount. For this purpose, for the selected samples the project documentation was analyzed, discussions were held with the project manager responsible and the related planned profit contribution calculation was analyzed. Our audit did not give rise to any objections to the recognition of own work capitalized in the balance sheet.

3.) The company's disclosures concerning the effects of the capitalization of development work are included in the Notes to the consolidated financial statements, mainly in the following sections: "(9) Description of Accounting Policies and Measurement Methods – Intangible Assets," "(10) Use of Estimates and Assumptions – Capitalized Development Work," "(13) Other Own Work Capitalized" and "(21) Intangible Assets."

Other Information

The company's legal representatives and the Supervisory Board are responsible for the other information. The other information includes the corporate governance statement provided in the section "Corporate Governance Statement pursuant to Section 315d in conjunction with Section 289f (1) HGB" of the combined management report pursuant to Section 315d (5) in conjunction with Section 289f (1) HGB, the nonfinancial declaration pursuant to Section 289b HBG contained in the section "Sustainability Reporting" and the declaration pursuant to Section 161 AktG contained in the section "Declaration of Compliance of paragon GmbH & Co. KGaA with the German Corporate Governance Code" of the combined management report. This other information likewise includes the remaining parts of the Annual Report, with the exception of the audited consolidated financial statements, the audited combined management report and our auditor's report, and also

- the assurance provided by the company's legal representatives under Section 264 (2) sentence 3 HGB concerning the consolidated financial statements and the assurance under Section 289 (1) sentence 5 HGB regarding the combined management report,

- the following sections of the Annual Report of paragon GmbH & Co. KGaA, Delbrück, for the fiscal year ending December 31, 2020, which did not require auditing:

  – At a Glance
  – Letter From the Management
  – paragon Investor Relations
  – Supervisory Board Report

Our audit opinions on the consolidated financial statements and the combined management report do not cover this other information, and consequently we do not express an audit opinion or any other form of audit conclusion thereon.

In connection with our audit, our responsibility is to read this other information and, in so doing, to consider whether this other information

- is materially inconsistent with the consolidated financial statements, the combined management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibility of the Company's Legal Representatives and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The company's legal representatives are responsible for the preparation of the consolidated financial statements that comply with the IFRS as adopted by the EU as well as the German supplementary statutory regulations applicable under Section 315e (1) HGB in all significant respects and for ensuring that the consolidated financial statements provide a true and fair view of the net assets, financial position and earnings of the Group in accordance with these provisions. In addition, the company's legal representatives are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the company's legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also 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, the company's legal representatives are 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 company's legal representatives are responsible for such arrangements and measures (systems) as they have 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 Responsibility for the Audit of the Consolidated Financial Statements and 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 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 audit opinions on the consolidated financial statements and 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 the audit of financial statements promulgated by 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 made on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements and 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 audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one 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 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 audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the company's legal representatives and the reasonableness of estimates made by the company's legal representatives and related disclosures.

- Draw conclusions regarding the appropriateness of the company's legal representatives' 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 audit opinions. Our conclusions are based on 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 such that the consolidated financial statements give a true and fair view of the net assets, financial position and earnings of the Group in compliance with IFRS 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 audit opinions on the consolidated financial statements and the combined management report. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain 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 that it provides.

- Perform audit procedures regarding the prospective information presented by the company's legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the company's legal representatives as a basis for the prospective information, and evaluate whether this prospective information has been properly derived from these assumptions. We do not express a separate audit opinion on this prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We discuss 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 also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and discuss with them any relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

On the basis of the matters discussed with the persons charged with governance, we determine the matters that were of most significance in the audit of the consolidated financial statements for the current period under review and are therefore the key audit matters. We describe these matters in our auditor's report unless any law or other regulation precludes public disclosure of this matter.

Other legal and regulatory requirements

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

Audit Opinion

In accordance with Section 317 (3b) HGB, we have performed an audit with reasonable assurance to determine whether the reproductions of the consolidated financial statements and the combined management report (hereinafter also referred to as the "ESEF documents") contained in the attached file "paragon_191516.zip" (SHA256-hash value: 729F5BB680F526021F0C8E2BE7C14D4FF32A1D5CB9A089C7D872D012006073B1) and prepared for disclosure purposes comply in all material respects with the requirements of Section 328 (1) HGB regarding the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit extends only to the conversion of the information in the consolidated financial statements and the combined management report into the ESEF format and therefore neither to the information contained in these reproductions nor to any other information contained in the aforementioned file.

In our opinion, the reproductions of the consolidated financial statements and the combined management report contained in the aforementioned file and prepared for disclosure purposes comply in all material respects with the electronic reporting format requirements of Section 328 (1) HGB. Other than this audit opinion and our audit opinions on the accompanying financial statements and on the accompanying combined management report for the fiscal year from January 1, 2020 to December 31, 2020 included in the "Report on the Audit of the Consolidated Financial Statements and Combined Management Report" above, we do not express any opinion on the information included in these reproductions or on any other information included in the aforementioned file.

Basis for the Audit Opinion

We conducted our audit of the reproductions of the consolidated financial statements and the combined management report contained in the aforementioned attached file in accordance with Section 317 (3b) HGB and in compliance with the draft of the IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3B) HGB (IDW EPS 410). Our responsibility thereafter is further described in the section "Auditor's Responsibility for the Audit of ESEF Documents." Our auditing firm has applied the same quality assurance system requirements from the IDW Quality Assurance Standard: Requirements for Quality Assurance in Auditing Firms (IDfW QS 1).

Responsibility of the Company's Legal Representatives and the Supervisory Board for the ESEF Documents

The company's legal representatives are responsible for the preparation of the ESEF documents containing the electronic reproductions of the consolidated financial statements and the combined management report in accordance with Section 328 (1) sentence 4 no. 1 HGB.

Furthermore, the company's legal representatives are responsible for the internal controls that they deem necessary to enable the preparation of ESEF documents that

are free from material violations, whether intentional or unintentional, of the requirements of Section 328 (1) HGB regarding the electronic reporting format.
The company's legal representatives are also responsible for submitting the ESEF documents together with the auditor's report and attached audited consolidated financial statements and audited combined management report as well as other documents to be disclosed to the operator of the Federal Gazette.

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

Responsibility of the Auditor for the Audit of the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material violations, whether intentional or unintentional, of the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material violations, whether intentional or unintentional, of the requirements of Section 328 (1) HGB, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

- Obtain an understanding of internal control relevant to the audit of ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls.

- Assess the technical validity of the ESEF documents, i.e., whether the file containing the ESEF documents complies with the requirements of the Delegated Regulation (EU) 2019/815 in its respective current version at the reporting date regarding the technical specification for this file.

- Assess whether the ESEF documents provide a contentequivalent XHTML reproduction of the audited consolidated financial statements and the audited combined management report.

Further Information Pursuant to Article 10 of the EU Audit Regulation

We were elected as the auditor of the consolidated financial statements by the Annual General Meeting held on September 15, 2020. We were engaged by the Supervisory Board on January 25, 2021. We have audited the consolidated financial statements of paragon GmbH & Co. KGaA without interruption since fiscal year 2013.

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

German public accountant responsible for the audit

The public accountant responsible for conducting the audit is Christoph Tyralla.

Düsseldorf, July 19, 2021

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Stephan Martens	Christoph Tyralla
Public accountant	Public accountant

Declaration by the Legal Representatives

We declare that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the assets, financial position and earnings of the Group, and that the Group management report presents the development of business, including the business results and the position of the Group, in such a way that a true and fair view is conveyed and the significant opportunities and risks of the Group's foreseeable development are described.

Klaus Dieter Frers	Dr. Matthias Schöllmann
Chairman	Managing Director of Automotive

Financial Calendar

February 24, 2021	ODDO BHF Corporates & Markets – Small & Mid Cap Conference, virtual
May 17–19, 2021	EquityForum Spring Conference, virtual
July 20, 2021	2020 Annual Report – Consolidated Financial Statements
July 20, 2021	Group Interim Report as of March 31, 2021 – First Quarter
August 24, 2021	Group Interim Report as of June 30, 2021 – Half-year
August 31, 2021	Annual General Meeting, virtual/Delbrück
November 22, 2021	Group Interim Report as of September 30, 2021 – Nine-months
November 22–24, 2021	Equity Forum, virtual/Frankfurt am Main

LEGAL NOTICEs

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