CONCENTRATION
ANNUAL REPORT 2022

Key Figures paragon Group [1]

€ '000 / as indicated	Jan. 1 to Dec. 31, 2022	Jan. 1 to Dec. 31, 2021	Change
Revenue (continuing operations)	160,318	135,444	18.4%
EBITDA [2] (continuing operations)	11,565	15.107	-23.4%
EBITDA margin in %	7.2	11.2	-35.3%
EBITDA paragon semvox GmbH (non-continuing operations)	4,738	4.869	-2.7%
EBIT (continuing operations)	-3,054	-1.759	-73.6%
EBIT margin in %	-1.9	-1.3	-46.7%
Earnings from continuing operations	-8,676	-7.174	-20.9%
Earnings from discontinued operations	5,309	-4,243	225.1%
Consolidated net income	-3,367	-11,417	70.5%
Earnings per share in € (basic and diluted) from continuing operations	-1.92	-1.58	-20.9%
Earnings per share in € (basic and diluted) from discontinued operations	1.17	-0.94	225.1%
Earnings per share in € (basic and diluted) from continuing and discontinued operations	-0.74	-2.52	70.5%
Investments (CAPEX) [3]	7,726	15,004	-50.4%
Operating cash flow	12,899	13,058	1.2%
Free cash flow [4]	5,174	-1,946	365.9%
€ '000 / as indicated	**Dec. 31, 2022**	**Dec. 31, 2021**	**Change**
Total assets	172,542	159,669	8.1%
Equity	661	3,300	-80.0%
Equity ratio in %	0,4	2.1	-81.5%
Cash and cash equivalents	18,106	1,455	1,144.5%
Interest-bearing liabilities	120,128	115,879	3.7%
Net debt [5]	102,022	114,424	-10.8%
Employees (continuing operations) [6]	882	839	5.1%

1 The paragon Group comprises the Electronics and Mechanics operating segments. Due to the planned sale of the shares in the previously fully consolidated paragon semvox GmbH, the Digital Assistance operating segment is a discontinued operation in accordance with IFRS 5. The prior year's figures have been adjusted accordingly.
2 For information on the calculation of EBITDA, please refer to the explanations in the management report on 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 Cash and cash equivalents – Interest-bearing liabilities
6 Plus 110 temporary workers (December 31, 2021: 61).

Share

	Dec. 31, 2022	Dec. 31, 2021	Change
Closing price in Xetra in €	4.31	7.18	-40.0%
Number of shares issued	4,526,266	4,526,266	0.0%
Market capitalization in € millions	19.5	32.5	-13.0

Highlights from Fiscal Year 2022

- Significant increase in revenue due to completed focus on core automotive business (Electronics and Mechanics segments) in fiscal year 2022
- Revenue up 18.4% to € 160.3 million (excluding Digital Assistance operating segment; prior year: € 135.4 million)
- Digital Assistance operating segment (paragon semvox GmbH) sold to CARIAD SE by notarized agreement dated December 1, 2022. Expected proceeds from sale of around € 40 million will be used to further reduce debt in 2023
- EBITDA from continuing operations came to € 11.6 million and from discontinued operations to € 4.7 million, for a total of€ 16.3 million.
- EBITDA in the fiscal year burdened by noncash one-time effects of € 3.4 million (exchange rate losses, losses on the sale of real estate not required for operations, etc.)
- Operating cash flow at a high level – cost-cutting measures proved sustainably effective
- Development of the new Power operating segment makes progress
- Forecast for 2023: Approx. € 170 million in revenue with EBITDA of € 25 million expected; sale of Digital Assistance operating segment thus compensated in terms of revenue

Content

Letter From the Management

Dear Shareholders, Customers, Business Partners and Employees,

Fiscal year 2022 was the third year in a row that was characterized by the consequences of the COVID-19 pandemic. The resulting continued shortage of key intermediate products (especially semiconductors, but also other intermediate products) led to significant challenges in fiscal year 2022. These were overshadowed by the global consequences of Russia's war of aggression on Ukraine.

We are satisfied that, despite these challenges, we were able to close this fiscal year with gratifying revenue development and with key decisions having been made for the future. Revenue increased by 18.4% to € 160.3 million (excluding the Digital Assistance operating segment; prior year: € 135.4 million). This means that paragon again grew significantly faster than the market as a whole in fiscal year 2022. paragon's revenue performance in this difficult market environment is proof that the company has positioned itself well as a technology provider.

We are pleased that we were able to win a large number of further significant orders for our innovative products in all operating segments in fiscal year 2022, which will guarantee continued revenue growth in the coming years:

- In the Sensors business unit, we received a further order from a leading international automotive manufacturer for the electric anti-virus filter DUSTPROTECT in fiscal year 2022.
- In the Kinematics business unit, we received what is now the fourth order in China from a Chinese car manufacturer to supply adaptive rear spoilers for a future electric car. With this additional selection for a contract, it is clear that adaptive spoilers for electric vehicles are becoming increasingly important as energy-saving features that extend range.
- In the Interior business unit, a German premium manufacturer has selected us to supply display instruments for the next generation of an electric SUV. paragon will provide compasses, stopwatches and design watches for this purpose.
- In the Power business unit, we were verbally nominated for a series order to supply lithium-ion batteries to a leading motorcycle manufacturer in fiscal year 2022. We have received the written order in April 2023.

And, it should be noted, none of our products in the four business unit depend on the internal combustion engine. The transformation of the automotive industry from combustion engines to electric propulsion systems will not have any negative impact on paragon's revenue. Rather, we expect – as can be seen with the adaptive spoilers – that demand for paragon products will increase due to the transformation.

We are pleased to announce that we entered into a strategic partnership with filtration specialist Hengst SE in 2022. The goal is to combine the expertise of the two companies in regard to filtration solutions that keep dust, bacteria, fungi and viruses out of the vehicle interior on a lasting basis. We believe that this strategic partnership will lead to further increases in revenue in the area of air quality management (Sensors business unit).

In December 2022, under a notarized agreement we sold paragon semvox GmbH (Digital Assistance operating segment) to CARIAD SE, the software company of the Volkswagen Group. The conclusion of the sale will take place in 2023 following approval by the competition authorities. We did not take this step lightly. We continuously developed this operating segment since the acquisition of paragon semvox in 2018. With its expertise in artificial intelligence, paragon semvox GmbH developed into a significant market player in the area of digital voice assistance during this time. We decided to sell for two reasons. On the one hand, we continue to see considerable growth potential for paragon semvox GmbH, which a DAX company can implement significantly faster than a medium-sized enterprise like paragon. On the other hand, the cash inflow from the sale will allow the paragon Group to further reduce its debt and is thus a key component in increasing paragon's financial strength.

The second significant building block for increasing financial strength is the successful extension of the € 50 million bond by a further five years in March 2022. With these two components, paragon's financing for future growth is secured.

EBITDA from continuing operations came to € 11.6 million and from discontinued operations to € 4.7 million, for a total of € 16.3 million. We already reported in detail on noncash one-time negative effects when we published our results for the first three quarters of 2022. The sale of noncore activities at our Aachen location and the sale of a production hall that was no longer required resulted in noncash book losses of € 2.3 million, which had a one-time negative effect on our earnings in 2022. An additional negative effect on our EBITDA result came from the development of the CHF/EUR exchange rate. Due to a strong CHF, paragon had to recognize an unrealized noncash exchange rate loss of € 1.1 million. These noncash one-time effects totaling € 3.4 million must be taken into account with regard to the achieved operating EBITDA.

In fiscal year 2023, paragon's organic growth will continue, with forecast revenue of € 170 million. The growth in the four continuing operations will offset the revenue of paragon semvox GmbH in 2023.

We would like to take this opportunity to express our appreciation to our employees and to thank all of them for their commitment in fiscal year 2022. Thanks to their positive attitude, we overcame the challenges in 2022 – in particular ensuring supply capability despite semiconductor shortages and ensuring production despite the rules imposed to contain the coronavirus pandemic. We would like to thank our business partners, customers, bondholders and shareholders for their trust.

Delbrück, Mai 2023

Klaus Dieter Frers
Chairman
of the Board, CEO

Investor Relations

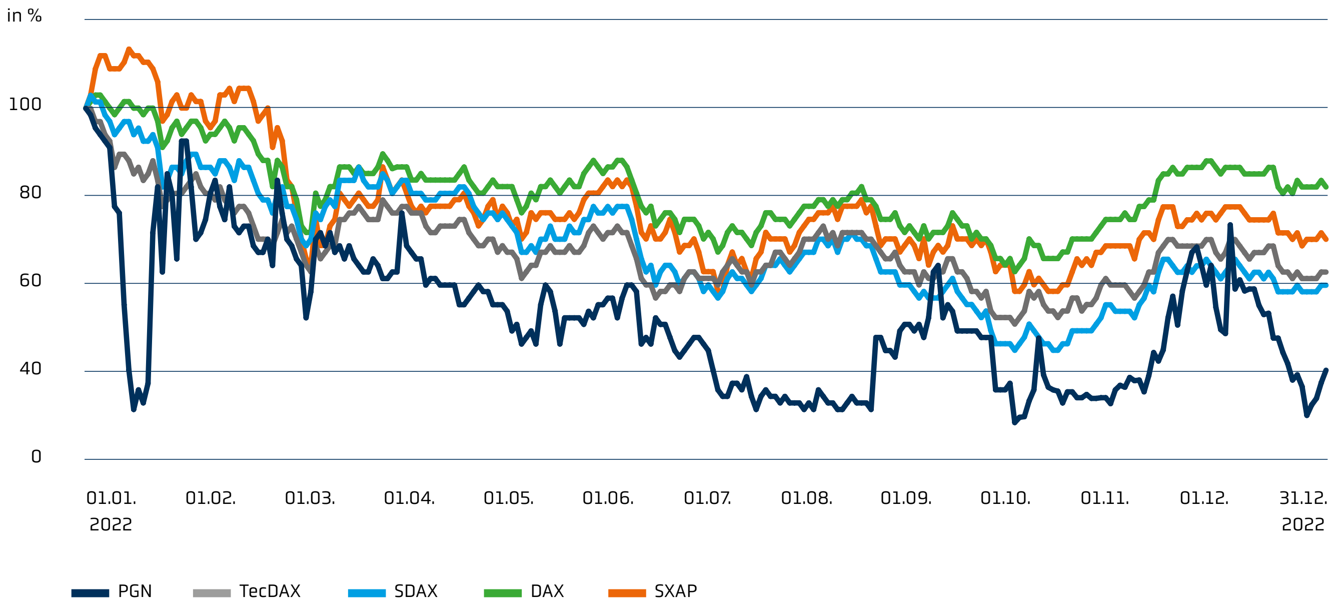
Capital Market Environment

The capital market environment in 2022 was characterized by many uncertainties. These included Russia's war of aggression on Ukraine, high inflation, rising interest rates and China's zero-Covid strategy. Russia's war of aggression led to an energy crisis in Europe. Significantly reduced energy imports from Russia led to high energy prices and fueled fears about supply security. All major indices lost value during 2022. The DAX lost 12 % of its value at the end of fiscal year 2022, closing at 13,924 points. During the year, the German benchmark index lost as much as a quarter of its value. The STOXX Europe 600 Automobiles & Parts (SXAP) index, which lists the most important European automotive industry stocks, posted a significant loss of -20.1 %.

Share: Price Performance and Trading Volumes

In 2022, the paragon share again substantially underperformed the market with a decline in value of 40.0%. Starting from an initial price of € 7.18, the share price fell during 2022 and was quoted at € 4.31 at the end of the year. Accordingly, the market value at this time came to € 19.5 million, which corresponds to a drop in value in 2022 of € 13.0 million.

Performance of paragon share



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 had an interest coupon of 4.5% p.a. for the first five years (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.

On March 10, 2022, a decision was reached at a bond holders' meeting to adjust the bond conditions. In addition to a semi-annual interest payment and a higher interest coupon, the final maturity was postponed by five years. Furthermore, partial repayments of € 25 million were arranged for 2023 to 2025 or upon sale of the operating segments or subsidiaries. It closed the year trading in Frankfurt at 46.2% of the issue price.

Corporate Bond 2019/23

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 originally five years. The bond has been listed on the SIX Swiss Exchange under ISIN CH0419041105 since April 23, 2019, and has been interest-bearing since that date, first payable on April 23, 2020. On April 7, 2021, the maturity 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 arranged. The outstanding nominal volume as of December 31, 2022, was thus still CHF 21.00 million. At the end of the year, the bond closed at 84.0 %.

Investment in Voltabox AG

paragon GmbH & Co. KGaA had already reduced the shares held in the former subsidiary Voltabox AG, which is listed in the Prime Standard segment of the Frankfurt Stock Exchange with the symbol VBX, ISIN DE000A2E4LE9 and WKN A2E4LE, to 400,699 shares at the end of fiscal year 2021 and thus also lost control in fiscal year 2021. All remaining shares were sold at the beginning of 2022. Since then, paragon GmbH & Co. KGaA has not held any shares in Voltabox AG.

Investment paragon semvox GmbH

paragon GmbH & Co. KGaA sold all its shares in paragon semvox GmbH to CARIAD SE, a wholly owned subsidiary of the VW Group, by notarized agreement dated December 1, 2022. The closing took place in May 2023. As a result of the sale, paragon GmbH & Co. KGaA will lose control over the subsidiary paragon semvox GmbH. For this reason, paragon semvox GmbH is accounted for as a "discontinued operation" in accordance with IFRS 5. paragon semvox GmbH represents the Digital Assistance operating segment within the paragon Group.

Financial Communications

paragon GmbH & Co. KGaA regularly and simultaneously informed all of the capital market participants about the economic situation of the company. The continuous reporting included the annual report for fiscal year 2021 (published on April 29, 2022), the interim report as of March 31, 2022 – 1st quarter (published on May 16, 2022), the interim report as of June 30, 2022 – 1st half-year (published on August 22, 2022) and the interim report as of September 30, 2022 – 9 months (published on November 10, 2022), 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 revenue and earnings forecast for 2022 was communicated in December 2021 as between € 150 million and € 165 million in revenue with an EBITDA margin of greater than 15%. This revenue and earnings forecast for fiscal year 2022 was outlined in the Group management report published for fiscal year 2021, including the key assumptions on which the forecasts were based. The revenue and earnings forecast for 2022 was adjusted in August 2022, with the expected revenue increased to € 170 million.

In view of the continuing 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 also by means of virtual events 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 dialogue 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


Prof. Dr. Iris Gräßler

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 2022. The mandates of the Supervisory Board members are listed in the notes.

The Supervisory Board of paragon GmbH & Co. KGaA fulfilled the consulting and monitoring obligations incumbent upon it according to law, the Articles of Association, the German Corporate Governance Code and the rules of procedure with great care in fiscal year 2022. Here, the Supervisory Board supervised the company's Management on an ongoing basis and made sure of its legal and regulatory compliance, appropriateness and economic efficiency. 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 spring 2023, 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.

The Management comprehensively informed the Supervisory Board in written and oral form in the Supervisory Board meetings about all proceedings of material importance, the Company's general performance and its current situation. The Supervisory Board focused in particular on the topics of strategy, planning, business development, financial planning, 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 held in person and video conferences 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 fully informed about exceptional events that were of material importance for assessing the profit for the year.

Supervisory Board Meetings

In fiscal year 2022, the Supervisory Board convened at four ordinary meetings and one extraordinary meeting. Two ordinary meetings were held in person and two ordinary meetings and the extraordinary meeting were held as video conferences. The Supervisory Board meetings were held with the participation of the Management. The entire Supervisory Board was present at every meeting.

The focus of the first meeting of the Supervisory Board in Cologne, held as a video conference on April 28, 2022, was the review and approval of the annual financial statements for fiscal year 2021 as well as the review and approval of the consolidated financial statements for fiscal year 2021. For this purpose, the auditors from Baker Tilly GmbH & Co. KG Wirtschaftsprüfung participated. The Management explained the revenue and asset situation of the year under review and the main factors influencing it both for the paragon Group and for paragon GmbH & Co. KGaA. Furthermore, the Supervisory Board dealt with the nomination of the auditor of the annual and consolidated financial statements for fiscal year 2022 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 developments in the first months of 2022. Russia's war of aggression on Ukraine and the possible effects on paragon were also discussed.

In its second meeting held in Delbrück on June 13, 2022, the Supervisory Board was informed about the company's performance in the first quarter of 2022 and its current prospects. Another topic was the financial structure of the paragon Group and the plans regarding the repayment of the CHF bond and partial repayment of the EUR bond due in 2023. Management presented both the status of the sales activities regarding paragon semvox GmbH and the cooperation and supply agreement with the company ElectricBrands AG. Management confirmed the full-year revenue forecast for 2022 of € 165 million. The potential impact of the Ukraine war was discussed.

In its third ordinary meeting held in Delbrück on September 6, 2022, the Executive Board informed the Supervisory Board about business developments in the first half of 2022. The general increase in costs in the areas of personnel, energy and logistics and the effects on the paragon Group were discussed. The progress of sales activities relating to paragon semvox GmbH was explained by the Management Board.

At an extraordinary meeting of the Supervisory Board on November 10, 2022, the Executive Board informed the Supervisory Board in a video conference about the background to the ad-hoc announcement of the same day regarding the shareholding of Managing Director Klaus Dieter Frers.

In its fourth meeting, in a video conference on December 8, 2022, the Supervisory Board focused on the business development during the first nine months of the year and the company's current prospects. It also discussed the planning for fiscal year 2023 as presented by the Management as well as the scheduling of the financial calendar for 2023.

Forming Committees

As in the past, the three-member Supervisory Board did not form any committees in fiscal year 2022 and dealt with all issues as a single body.

Audit of the Annual Financial Statements and Consolidated Financial Statements for Fiscal Year 2022

Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed by resolution of the Annual General Meeting on June 14, 2022, as auditor for the fiscal year from January 1 to December 31, 2022, and accordingly commissioned by the Supervisory Board Chairman. The auditor provided the Supervisory Board with a statement of independence.

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, 2022, to December 31, 2022, 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, 2022, to December 31, 2022, 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 available to every member of the Supervisory Board 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. The audit was reported on and discussed at the Supervisory Board meeting on April 25, 2023. The auditors participated in the discussions on the annual and consolidated financial statements. They 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 approved the annual and consolidated financial statements.

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 2022.

Delbrück, Germany, April, 2023

For the Supervisory Board,

Prof. Dr. Iris Gräßler
Supervisory Board Chairwoman

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).

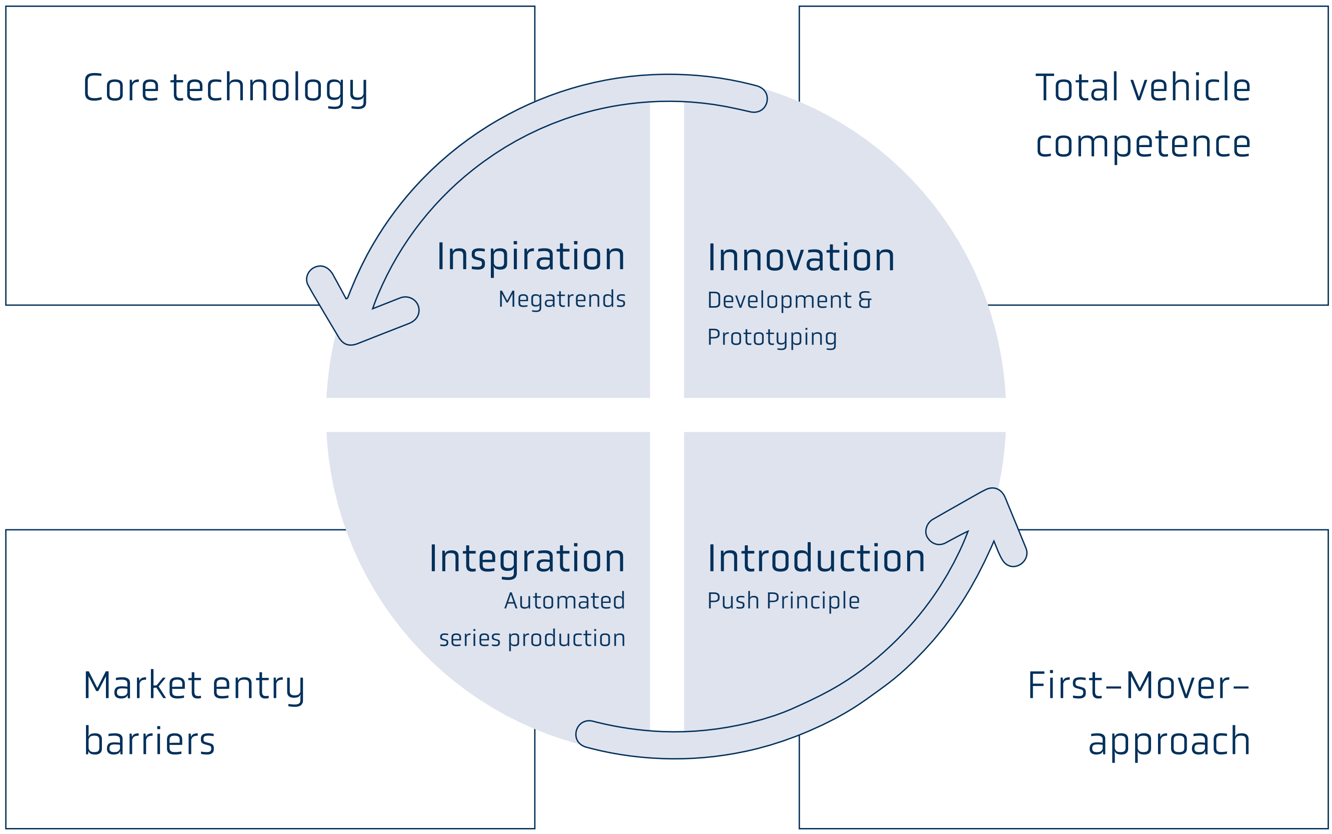
From the global megatrends of climate change, digitization and urbanization, paragon derives the fields of innovation relevant to the automotive value chain in the context of continuous improvements in comfort and health protection for vehicle occupants and the technological consequences of the effort to reduce CO^2 emissions and the transformation to locally emission-free mobility. paragon has set up its activities in the Sensor Technology, Interior, Digital Assistance (discontinued operation, see the comments in the next chapter), Kinematics and Power business unit for this purpose. The new Power business unit primarily addresses the future high demand for state-of-the-art on-board power supply systems based on lithium-ion batteries and is to be developed into paragon's largest business unit in the medium term.

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 a large 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.

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 locations in Suhl (Thuringia, Germany), Landsberg



am Lech and Nuremberg (Bavaria, Germany), St. Georgen (Baden-Württemberg, Germany), Limbach (Saarland, Germany) and Bangalore (India) as well as in 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: 100.0%, prior year: 95.4%), paragon electronic GmbH, paragon electroacoustic GmbH and its subsidiary ETON Soundsysteme GmbH, paragon electrodrive GmbH and Nordhagen Immobilien GmbH. Furthermore, the foreign subsidiaries paravox Automotive Ltd (Bangalore), paragon Automotive Kunshan Co., Ltd, and paragon Automotive Technology (Shanghai) Co., Ltd. are included in the scope of consolidation of the paragon Group.

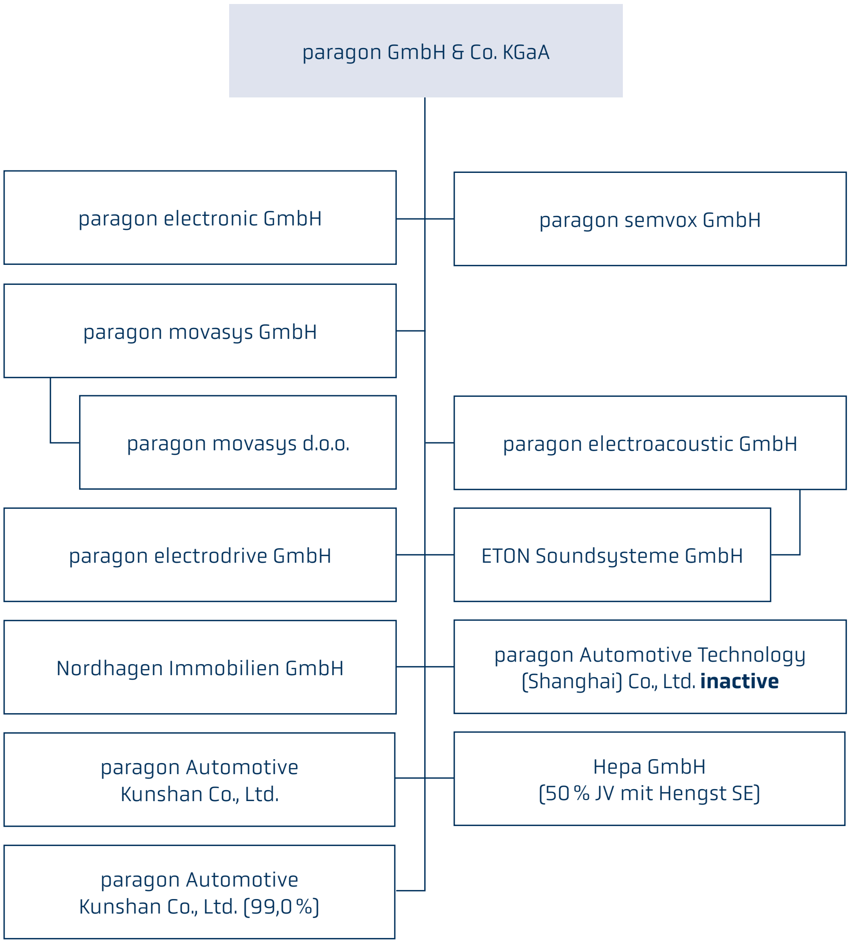
paragon GmbH & Co. KGaA sold all its shares in paragon semvox GmbH to CARIAD SE, a wholly owned subsidiary of the VW Group, by notarized agreement dated December 1, 2022. The closing took place on May 12, 2023. As a result of the sale, paragon GmbH & Co. KGaA will lose control over the subsidiary paragon semvox GmbH. For this reason, paragon semvox GmbH is accounted for as a "discontinued operation" in accordance with IFRS 5. paragon semvox GmbH represents the Digital Assistance operating segment within the paragon Group.

In late 2021, paragon GmbH & Co. KGaA sold its shares in Voltabox AG, which is likewise listed in the Prime Standard segment of the Frankfurt Stock Exchange. Voltabox AG and its subsidiaries were therefore already reported as discontinued operations as of December 31, 2021.

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 to independently develop product innovations for the automotive industry based on the relevant innovation fields of increased comfort and occupant health protection, as well as the technological consequences of the targeted CO^2 reduction, in order to sustainably

Group Structure*



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

* As of December 31, 2022

improve the individual driving experience of the occupants of modern cars as end customers. paragon does not develop and produce products that depend on the internal combustion engine, but rather participates in the transformation towards locally emission-free mobility.

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

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

To enter lucrative submarkets 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 business units 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. paragon continuously examines ways of increasing its own value chain.

b) 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 still predominantly offered in the premium automotive segment of European manufacturers are increasingly in demand in Asia and especially in the Chinese market. paragon was already successful with its first products able to penetrate the high-volume models of Chinese manufacturers.

c) 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, paragon focusses particularly on the high-growth markets in Asia. The Chinese automotive industry is one of the world's major growth drivers in the sector and now promotes the rapid spread of resource-conserving technologies. The Chinese automotive market therefore offers potential for further sales growth for paragon in the medium term.

In addition, America is of interest for paragon's strategic orientation. After successfully becoming established in China, the sales expansion to conquer the U.S. market will be a task for the coming year.

d) Tapping Into New Submarkets With New Product Offers (Diversification)

Another key component of paragon's growth strategy is to tap into new submarkets with innovative product ranges.

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, Delbrück and Limbach is uniformly controlled 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 Landsberg am Lech and Oroslavje (Croatia), where paragon movasys GmbH products such as spoilers and other kinematic components are manufactured.

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, management 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. 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 considers the development of the key figures of revenue, EBITDA, EBITDA margin and free cash flow.

For the individual company paragon GmbH & Co. KGaA, revenue and EBITDA 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.

Starting in 2023, paragon switched to using an absolute EBITDA amount as the key profitability indicator instead of an EBITDA margin.

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 automotive manufacturers.

In this respect, Group revenue is subject to various influences, which are in some cases 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 the result for the year 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.

Gains and losses on the disposal of noncurrent assets and (unrealized) exchange rate gains and/or losses are therefore included in EBITDA.

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.

EBITDA margin is stated 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.

For the 2023 forecast, paragon switched to using an absolute EBITDA amount instead of an EBITDA margin.

Free Cash Flow

Free cash flow (FCF) reflects the internal financing capability of the paragon Group and is therefore a 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, Management employs qualitative indicators in the forecast in regard to the desired level of cash flow.

Free cash flow 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 recruitment, 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.

Employee Development in the paragon Group (including discontinued operations):

	Dec. 31, 2022	Dec. 31, 2021	Change in %
Number of employees	**882**	**839**	**5.1%**
Number of those engaged in development	241	210	14.8%
Number of temporary employees	110	61	80.3%
Number of those engaged in development	0	1	-100.0%

The share of female employees in the Group has decreased slightly to 33.7% (prior year: 34.9%). The number of employees with university degrees has increased to 28.7% (prior year: 27.8%). The share of severely disabled employees was 2.8% (prior year: 2.5%). The average employee age has changed slightly to 42.7 (prior year: 42.4) and the average length of service has decreased marginally, to 5.4 years (prior year: 5.6 years).

Distribution of permanent employees at Group sites:

	Dec. 31, 2022	Dec. 31, 2021	Change in %
Delbrück (corporate headquarters, North Rhine-Westphalia)	160	187	-14.4%
Aachen (North Rhine-Westphalia)	0	7	-100.0%
Landsberg am Lech (Bavaria)	122	102	19.6%
Nuremberg (Bavaria)	2	2	0.0%
Limbach (Saarland)	60	63	-4.8%
St. Georgen (Baden-Württemberg)	39	34	14.7%
Suhl (Thuringia)	259	256	1.2%
Total in Germany	**642**	**651**	**-1.4%**
Kunshan (China)	51	43	18.6%
Oroslavje (Croatia)	16	15	6.7%
Bangalore (India)	20	11	81.8%
Total abroad	**87**	**69**	**26.1%**
Total continuing operations	**729**	**720**	**1.3%**
Limbach (Saarland)	132	106	24.5%
Nuremberg (Bavaria)	17	9	88.9%
Total in Germany	**149**	**115**	**29.6%**
Other European Countries(France, Austria, Italy, Netherlands)	4	4	0.0%
Total abroad	**4**	**4**	**0.0%**
Total discontinued operations	**153**	**119**	**28.6%**
Total Group	**882**	**839**	**5%**

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.

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 2022, paragon spent € 14.7 million (prior year: € 14.3 million) on R&D activities. This corresponds to 9.1% of revenue (prior year: 10.6%). The ratio of capitalized development costs was approximately 32.0% (prior year: 33.6%) of overall research and development costs. In the reporting period, paragon recognized depreciation, amortization and write-downs and impairment losses of € 5.3 million (prior year: € 6.7 million).

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

Dividend Policy

Management has always pursued a dividend policy designed to meet the strategic corporate objective of profitable growth and has therefore in the past mainly reinvested. As part of the extension of the EUR bond, it was agreed with the bondholders in March 2022 that no dividends will be paid by paragon GmbH & Co. KG aA until the final repayment of the EUR bond. In the reporting year, an amount of € 7.9 million (prior year: € 7.9 million) is subject to the distribution restriction.

The Management and the Supervisory Board of paragon GmbH & Co. KGaA therefore propose to the Annual General Meeting that no dividend be paid for fiscal year 2022 (prior year: no dividend payment).

Economic Report

Global Economic Conditions

The development of the global economy in 2022 was characterized on the one hand by Russia's war of aggression against Ukraine and on the other hand by sharply rising inflation rates. The supply chain problems that already existed were further exacerbated by the war of aggression. At the same time, sanctions against Russia led to higher energy, raw material and food prices. China's zero-COVID strategy, which was still in place in 2022, also led to an intensification of supply chain problems. Central banks responded by raising key interest rates to reduce the rise in inflation. Overall, the global economy grew by 3% in 2022.

The Eurozone was especially affected by Russia's war of aggression. The Eurozone economy grew by 3.5% in 2022 compared to the prior year. The inflation rate was 8.4%.

As a supplier to the automotive industry, in fiscal year 2022 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 2022

In its press release of January 18, 2023, the German Association of the Automotive Industry (VDA) notes that the international automotive markets in 2022 were guided by very different dynamics. The European and U.S. markets declined compared with 2021. The Chinese market made gains. The lack of semiconductors, the shortage of intermediate products and raw materials, Russia's war of aggression and the increased cost of energy led to a strain on the automotive industry. Overall, global car sales remained at the prior year's level of 71.2 million vehicles.

The European car market shrank by a further 4% to 11.3 million new vehicles in 2022. It was therefore also unable to stage a recovery in 2022 following its clear pandemic-related slump in 2020. Registrations still totaled 15.8 million vehicles in 2019. While the market in Germany increased slightly by 1% in 2022, the other main sales markets in Europe (United Kingdom, Spain, France and Italy) suffered losses.

The U.S. light vehicle market recorded a significant decline of 10% to 13.7 million vehicles in 2022. While car sales declined by around 15%, the light trucks subsegment declined to 6%. Overall, the light vehicle market in 2022 was significantly below its pre-COVID-19 level of around 17.0 million vehicles in 2019.

The Chinese market grew by 10.0% to 23.2 million cars in 2022. New registrations in China in 2022, as in 2021, will again be above their 2019 precrisis level.

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

In millions of units	2022	2021	Change
USA	13.7	14.9	- 8.0%
Europe	11.3	11.8	-4.0%
China	23.2	21.1	+10.0%

Overall, in the past fiscal year the economic situation in paragon's industry was thus still significantly below its 2019 pre-COVID-19 level in Europe and the U.S.

Business Performance of the Group

For fiscal year 2022, paragon published the following forecast:

- revenue of € 155 to 165 million,
- > 15% EBITDA ratio.

The forecast related to the Electronics and Mechanics segments, including the Digital Assistance business unit (paragon semvox GmbH). Due to the planned sale of paragon semvox GmbH to CARIAD SE, the Digital Assistance business unit is presented as a discontinued operation in fiscal year 2022. The reported actual revenues in 2022 and the EBITDA figures therefore no longer include the revenue and gains and losses of the Digital Assistance business unit.

Revenue:

The business development of the paragon Group in the reporting year was shaped by strong rising demand on the part of the automotive manufacturers for paragon's products. Accordingly, despite the challenges in paragon's economic environment – caused by the effects of the COVID-19 pandemic and the Russian war of aggression against Ukraine, automotive manufacturers' reduced production figures due to the lack of semiconductors and supply difficulties for other intermediate products – paragon's business performance in 2022 showed significant growth of 18.4% in the reporting year compared to the prior year. This growth was achieved thanks to the further customer and market penetration achieved by paragon's products. With actual revenue of € 160.3 million, paragon achieved its revenue forecast for 2022. However, it should be noted that the revenue of € 160.3 million does not include the revenue of the discontinued Digital Assistance operating segment (paragon semvox GmbH) in the amount of € 12.8 million in 2022. These must be added when comparing with the forecast for 2022. It can concluded that the actual revenue achieved in

2022 is significantly higher than the forecast amount in the sense of a like-for-like basis.

Significant effect on the 2022 annual result:

As in the prior year, in fiscal year 2022 paragon's management focused on working capital and stepped up the cost-cutting and efficiency-boosting program which it had already initiated throughout the value chain, in order to ensure the Group's profitability. In the fiscal year, paragon generated EBITDA of € 11.6 million in continuing operations. This corresponds to an EBITDA ratio of 7.2%. The Digital Assistance discontinued operation (paragon semvox GmbH) achieved EBITDA of an additional € 4.7 million in 2022. EBITDA from continuing and discontinued operations thus amounted to € 16.3 million or 9.4%. This means that the forecast for the EBITDA ratio (of > 15%) was not achieved, both on the basis of the reported ratio and on a like-for-like basis.

However, the reported EBITDA ratio in the 2022 reporting year was impacted by various one-time effects in continuing and discontinued operations amounting to € 9.8 million. These one-time effects relate to several factors:

- Following the sale of the shares held in Voltabox AG, Voltabox AG relocated its production activities away from Delbrück. The lease agreement for the production building owned by paragon was terminated. At the same time, paragon has also moved its own movasys kinematics production lines to Landsberg am Lech. The production building was thus unused and was sold in the first half of 2022 including movable assets. In this context, a noncash loss of € 1.8 million had to be recognized in the accounts.

- In the first quarter of 2022, paragon sold its Aachen location to a development service provider in the reporting period, within the scope of a transfer of company ownership. This company's personnel and noncurrent assets were also transferred. The selling price realized was lower than the carrying amount of the noncurrent assets. This resulted in a noncash book loss of € 0.45 million.

- An additional negative effect on our EBITDA result came from the development of the CHF/EUR exchange rate in 2022. Due to a strong CHF, paragon had to recognize an exchange rate loss of € 1.1 million.

- As a result of the acquisition of own bonds under par, paragon was able to record income of € 1.3 million in the reporting year.

- The Digital Assistance operating segment (paragon semvox GmbH) generates a substantial part of its revenue from license sales per car produced on which the software developed by paragon semvox GmbH is installed. In 2022, the number of cars produced by OEM customers fell short of planning, partly due to semiconductor shortages at OEMs. Reduced license sales of approximately € 1.3 million directly led to reduced earnings of the same amount.

- The profitability of the Kinematics operating segment deviates by approximately € 6.5 million from the 2022 expectations. The manifold reasons are mainly in the operational area and led to a considerable negative impact on earnings due to its simultaneity. The challenging relocation of several production lines to the plant in Landsberg am Lech was identified as the main cause. This relocation initially led to quality issues due to insufficient newly trained personnel. The cause and effect led to high scrap rates, higher quality costs, expensive extra shifts, high special runs and significant external consultant costs. High sick leave due to COVID further intensified this strained situation. Furthermore, there was an increase in volume for a product that, for historical reasons, was not adequately priced. It was not until the middle of the second half of the year that paragon succeeded in renegotiating the prices for the remaining term of the product. Based on the optimistic results of the measures initiated and the management change at the Landsberg am Lech site, as well as the price increases that will take full effect from 2023, the Management expects the Kinematics operating segment to make a noticeably positive contribution to the comprehensive income of the paragon Group in fiscal year 2023.

Revenue and EBITDA developed as follows in the Electronics and Mechanics[1] operating segments compared with the prior year:

Operating segment € '000 or as indicated	Electronics 2022	Electronics 2021	Δ in %	Mechanics 2022	Mechanics 2021	Δ in %
Revenue with third parties	107,882	95,288	13.2	52,436	40,156	30.6
Intersegment revenue	986	2,944	–66.5	266	5	5,560.5
Revenue	**108,868**	**98,232**	**10.8**	**52,703**	**40,161**	**31.2**
EBITDA	15,455	14,249	8.5	–3,890	673	–678.1
EBITDA margin	14.2%	14.5%	–2.2	–7.4%	1.7%	–540.5

Operating segment € '000 or as indicated	Eliminations 2022	Eliminations 2021	Δ in %	Group 2022	Group[2] 2021	Δ in %
Revenue with third parties	0	0	0.0	160,318	135,444	18.4
Intersegment revenue	–1,252	–2,948	–57.5	0	0	0.0
Revenue	**–1,252**	**–2,948**	**–57.5**	**160,318**	**135,444**	**18.4**
EBITDA	0	185	–100.0	11,565	15,107	–23.4
EBITDA margin	0.0%	–6.3%	–100.0	7.2%	11.2%	–35.3

1 Represented by the Kinematics unit.

2 The Digital Assistance operating segment which was sold in fiscal year 2022 is presented as a discontinued operation in accordance with IFRS 5. The prior-year figures have been adjusted accordingly.

The largest business units, Electronics (comprised of Sensors, Interior and Power), continued to dominate the Group's activities with revenue of € 108.9 million (prior year: € 98.2 million). Of this amount, € 107.9 million (prior year: € 95.3 million) was attributable to third-party revenue in the Sensors, Interior and Power business units. This business unit realized revenue growth of 10.8%.

Breakdown of revenue € '000	2022	Share in %	2021	Share in %	Change in %
Sensors	50,609	31.6	45,386	33.5	11.5
Interior	55,240	34.5	49,196	36.3	12.3
Power	2,033	1.3	706	0.5	143.3
Kinematics	52,436	32.7	40,156	29.6	30.6
Total	**160,318**	**100.0**	**135,444**	**100.0**	**18.4**

Revenue in the Sensors business unit increased by 11.5% to € 50.6 million in the reporting year compared to fiscal year 2021 (prior year: € 45.4 million). This significant increase reflects the gratifyingly high level of orders of the Dustdetect® particulate matter sensor throughout 2022.

Revenue in the Interior business unit rose by 12.3% to € 55.2 million (prior year: € 49.2 million). This increase is mainly attributable to the very successful display instruments that are being ordered by customers in higher volumes.

The new Power business unit contributed € 2.0 million to its segment revenue (prior year: € 0.7 million), representing an increase of 143.3%. This was due to higher volumes of lithium-ion batteries for a motorcycle and for a "hyper performance car" from a leading German automotive manufacturer.

EBITDA in the Electronics segment amounted to € 15.5 million (prior year: € 14.2 million). The EBITDA margin accordingly came to 14.2% (prior year: 14.5%).

Segment revenue in the Mechanics segment amounted to € 52.7 million (prior year: € 40.2 million). This represents a 31.2% increase in revenue compared to fiscal year 2021. EBITDA for the operating segment amounted to € -3.9 million (prior year: € 0.7 million), which corresponds to an EBITDA margin of -7.4% (prior year: 1.7%). The gratifying revenue development was based on higher customer orders and new program start-ups. Regarding the results, please refer to the corresponding comments above, in which the various one-time effects – triggered by the challenging relocation – are explained.

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

In line with the Group's business performance, the business performance of paragon GmbH & Co. KGaA (HGB financial statements) was characterized by a rising demand from automotive manufacturers in the 2022 reporting year. Despite the automotive manufacturers' shortage of semiconductors and supply difficulties for other intermediate products, growth of 7.5% was achieved in the reporting year by comparison with the prior year, due to a higher level of market and customer penetration.

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

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 orders for certain air quality sensors and an increase in the output volume of display instruments and adjustable spoilers. At the same time, production volumes for older product generations fell as part of their lifecycle.

Assets, Financial Position and Earnings

Earnings of the paragon Group

The paragon Group generated revenue in continuing operations of € 160.3 million in fiscal year 2022 (prior year: € 135.4 million). The growth dynamics manifested in prior years continued. All of the Group's units increased their revenue. This thus included the Electronics and Mechanics segments. Overall, Group revenue increased by 18.4% by comparison with fiscal year 2021.

The company published a forecast for the reporting year. The revenue forecast was achieved. The EBITDA forecast was not achieved because of the various one-time effects. In this context, we refer to the relevant text passages above in the section "Business Performance of the Group."

Other operating income increased to € 4.6 million (prior year: € 4.3 million). This increase is mainly attributable to the recognition of income from the acquisition of own bonds amounting to € 1.3 million (prior year: € 0.3 million). The amount of own work capitalized changed only marginally (2022: € 5.1 million; prior year: € 4.8 million). The cost of materials increased to € 94.6 million (prior year: € 72.5 million). The materials input ratio rose from 53.5% in the prior year to 59.0% in the reporting year. The reason for this is the change in the product mix. The share of revenue accounted for by Kinematics products with a higher input of material made an above-average contribution to total sales of 32.7% in the reporting year (prior year 29.6%).

The personnel costs in the reporting year increased by 8.7% to € 41.0 million (prior year: € 37.7 million). Revenue thus grew significantly faster than personnel expenses in terms of percentage. As a result, the personnel expense ratio decreased to 25.6% (prior year: 27.8%). This is due to two effects. Increases in efficiency have been successfully implemented in fiscal year 2022, and a changed product mix led to lower personnel expenses (and higher material expenses).

Other operating expenses rose by 18.1% to € 23.3 million (prior year: € 19.7 million). In particular, this reflected increased exchange rate losses, losses on the sale of noncurrent assets and higher consulting costs as well as increased third-party services. Earnings before interest, taxes, depreciation and amortization (EBITDA) thus decreased to € 11.6 million (prior year: € 15.1 million), which corresponds to an EBITDA margin of 7.2% (prior year: 11.2%).

Depreciation and amortization of property, plant and equipment and intangible assets remained unchanged from the prior year at € 14.3 million. Impairment losses on noncurrent assets amounting to € 0.3 million (prior year: € 2.0 million) mainly relate to impairment losses on capitalized development costs, within the scope of the annual impairment tests.

The financial result amounted to € -7.7 million and increased as a result of higher refinancing costs (prior year: € -5.9 million). The interest costs of the EUR bond with a nominal volume of € 50 million should be noted here. The interest rate was 4.5% until July 4, 2022, and since then 9.25%.

Taking into account income taxes amounting to € 2.1 million (prior year: € 0.5 million), the result from continuing operations amounts to € -8.7 million (prior year: € -7.2 million). Earnings from discontinued operations are € 5.4 million (prior year: € -4.2 million). This results in consolidated net income of € -3.4 million (prior year: € -11.4 million). The total comprehensive income in fiscal year 2022 amounts to € -2.6 million (prior year: € -11.3 million)

Net Assets of the paragon Group

The assets and liabilities reported in the statement of financial position can only be compared with the prior period to a limited extent, as in the reporting year the amounts reported individually were reduced due to the reporting of the Digital Assistance operating segment as a discontinued operation compared with the reporting year 2021.

Noncurrent assets decreased to € 76.0 million (December 31, 2021: € 115.5 million). In particular, noncurrent assets show a -31.5% decrease in intangible assets to € 37.4 million (December 31, 2021: € 54.5 million), of -73.7% in goodwill to € 5.7 million (December 31, 2021: €21.9 million) and of -18.9% in property, plant and equipment to € 30.8 million (December 31, 2021: € 38.0 million). This is mainly attributable to the effects of the IFRS 5 disclosure of paragon semvox GmbH and the disposal of property, plant and equipment.

Thus, in the 2021 reporting year, of the € 21.8 million of goodwill reported, € 16.1 million was attributable to paragon semvox GmbH and € 5.7 million to continuing operations.

In the reporting year, paragon semvox GmbH accounted for € 13.8 million of intangible assets, which are part of the balance sheet item "Assets classified as held for sale" in the reporting year. Taking into account this change in reporting, intangible assets decreased by only € 3.4 million. This is mainly attributable to depreciation and amortization and the contribution of certain IP rights to the joint venture with Hengst SE.

The reduction in property, plant and equipment is attributable to depreciation and amortization and the disposal of a production building no longer in use in the first half of 2022.

Current assets increased to € 96.5 million (December 31, 2021: € 44.2 million). This is due in particular to the recognition of the asset classified as held for sale at € 35.8 million (December 31, 2021: € 0 million).

Trade receivables decreased from € 10.9 million in the prior year to € 7.7 million in the reporting year, mainly attributable to the change in reporting resulting from IFRS 5. Inventories, on the other hand, rose from € 24.0 million in the prior year to € 25.2 million in the reporting year, which is in line with the increase in revenue. Other assets also increased from € 7.7 million in the prior year to € 9.6 million in the reporting year. The main reason for this is repayable development costs to ElectricBrands AG.

Cash and cash equivalents increased from € 1.5 million in the prior year to € 18.1 million in the reporting year. The increase in cash and cash equivalents to € 18.1 million (December 31, 2021:€ 1.5 million) results from a new loan, which is intended as interim financing for the repayment of bond liabilities in 2023.

Due to the negative consolidated net income, equity decreased to € 0.7 million (December 31, 2021: € 3.3 million). The equity ratio decreased accordingly to –0.4% as of the end of the reporting period (December 31, 2021: 2.1%). The main reason for this was the negative consolidated net income.

As a result, paragon reports a very low equity in the consolidated financial statements as of December 31, 2022. Due to the successful sale of paragon semvox GmbH to CARIAD SE, a significant gain has been realized in May 2023 (i.e., after the balance sheet date). This ensures the reporting of positive equity from the second quarter of 2023.

Noncurrent provisions and liabilities increased to € 67.4 million in the reporting year (December 31, 2021: € 28.3 million). This is mainly due to the fact that the EUR bond with a nominal volume of € 50.0 million has been fully reported under current liabilities in the prior year. Following the successful extension in March 2022, € 5.0 million is due in the short term in April 2023 and € 45.0 million is due in the long term. The long term portion of € 45.0 million is now reported under the item "Noncurrent bonds."

Noncurrent liabilities from leases increased by € 1.6 million to € 11.1 million (December 31, 2021: € 9.5 million). Deferred taxes amount to € 1.6 million (December 31, 2021: € 5.7 million) and decreased by 72.0% by comparison with the prior year. This results from the change in the presentation of liabilities directly associated with assets classified as held for sale. Thus, deferred taxes of paragon semvox GmbH amounted to € 3.4 million in the reporting year. This amount is included in the balance sheet item "Liabilities directly associated with assets classified as held for sale."

Current provisions and liabilities decreased from € 128.1 million to € 104.5 million. This is mainly due to the change in the long-term recognition of the German EUR bond in the amount of € 45 million. In the reporting year, only € 5.0 million is reported as current. In the prior year, this was still € 50.0 million, while current loans increased to € 30.6 million (December 31, 2021:€ 14.6 million) due to a new loan for interim financing to repay bond liabilities. Trade payables increased by € 11.1 million to € 25.0 million (December 31, 2021:€ 13.9 million) due to agreed extended payment terms and deferral agreements with suppliers. Other current liabilities increased by € 1.2 million to € 16.3 million (December 31, 2021:€ 15.0 million); this increase is mainly attributable to the deferral of tax liabilities.

Financial Position of the paragon Group

Cash flow from operating activities in continuing operations decreased slightly in the reporting period to € 12.9 million (prior year: € 13.1 million). The starting point for the cash flow from operating activities was the negative earnings before income taxes, which deteriorated from € –7.7 million in the prior year to € –10.7 million in the reporting year. The financial result increased from € 5.9 million in the prior year to € 7.7 million in the reporting year. This resulted in particular from a higher interest rate for the EUR bond. In addition, trade payables and other liabilities increased by € 11.8 million in the reporting year (prior year: € 4.8 million). This results both from the granting of longer payment periods by suppliers and from agreed deferrals. This was offset by a decrease in provisions of € –1.6 million (prior year: € 0 million) and an increase in trade receivables and other assets of € –1.1 million (prior year: € 0.2 million). The increase in inventories by € –1.2 million (prior year: € –2.4 million) and an increase in interest paid from € 4.7 million in the prior year to € 6.5 million in the reporting year also led to this result.

Cash flow from investing activities in continuing operations decreased in the reporting period to € 0.6 million (prior year: € 5.2 million). In the prior year, cash receipts from the disposal of property, plant and equipment (€ 11.9 million) and cash receipts from the disposal of consolidated companies (€ 8.4 million) had an impact on cash flow from investing activities. In the reporting year, cash receipts from disposals of property, plant and equipment amounted to € 6.4 million and related to the sale of a production building no longer required and of the location in Aachen. The investments in intangible assets in the fiscal year relate to own work capitalized. The prior year's figure also included the cash outflow for the acquisition of the FSD technology from Voltabox AG.

Free cash flow (defined as cash flow from operating activities less payments for investments in property, plant and equipment, less payments for investments in intangible assets) thus amounts to € 5.2 million (prior year: € –1.9 million). This change results in particular from the investment in FSD technology.

The cash flow from financing activities of € 3.6 million (prior year:€ –20.4 million) is characterized by the cash inflow from interim financing in the amount of EUR 21.5 million. This is earmarked to finance the repayment of the bond liabilities due in April 2023 (final maturity of CHF bond in the amount of CHF 21.0 million and partial repayment of the EUR bond in the amount of EUR 5.0 million). On the other hand, payments for repayments of the CHF bond and EUR bond in the amount of 11.7 million euros and for the repayment of financial loans in the amount of 7.4 million euros characterise the cash flow from financing activities.

Cash and cash equivalents increased accordingly by € 17.1 million to € 18.1 million as of the end of the reporting period (prior year: € 1.0 million for continuing operations) this figure also includes the cash inflow from interim financing, which is used to repay the bonds.

In this context, please refer to the further explanations regarding the pending refinancing in the "Risks Threatening the Existence of the Group" section of this report.

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

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

- significant sales growth in all operating segments;
- a negative consolidated net income, which is burdened by high financing expenses, high depreciation and amortization and high other operating expenses;
- very low equity, which is firmly positive again due to the gain from the successful sale of paragon semvox GmbH to CARIAD SE in May 2023;
- positive cash flow from operating activities, which is partly due to longer payment periods and deferral agreements with suppliers. These are scheduled to be repaid in 2023.

In the Management's view, business development in the 2022 reporting year

- for the Electronics segment is encouraging. Revenue increased in this segment and the EBITDA margin was maintained at a high level.
- Business development in the Mechanics segment is viewed as not satisfactory. Although revenue increased, the earnings target was clearly missed.
- For the Group as a whole, it is considered unsatisfactory due to excessively high financing costs, depreciation and amortization and various negative one-time effects.

Financial Performance of paragon GmbH & Co. KGaA

The revenue of paragon GmbH & Co. KGaA in the HGB financial statements was € 117.0 million in the reporting year and thus increased by 7.4% compared to the prior year (prior year: € 108.9 million). Increased revenue was achieved due to higher demand for products in the Electronics segment. In particular, revenue of air quality products and display instruments increased encouragingly in the reporting year.

In the fiscal year, internally generated intangible assets were capitalized via own work capitalized of € 3.5 million (prior year: € 3.3 million).

Other operating income decreased in particular because the prior year results from the sale of business premises under a sale and lease back agreement amounting to € 4.2 million were reported. In the reporting year, other operating income mainly includes book profit on the repurchase of the company's own bonds, income from the reversal of valuation allowances, income from the disposal of assets and income from the use of vehicles by employees.

At 71.0% (prior year: 68.2%), the cost of materials ratio increased compared to the prior year due to a change in the product mix. Personnel expenses decreased slightly to € 13.4 million (prior year: € 13.9 million).

Other operating expenses amounted to € 19.5 million in the reporting year (prior year: € 14.4 million); the increase was mainly due to a book loss on the disposal of fixed assets, higher consultancy expenses, exchange rate losses and third-party services. The book loss on the disposal of fixed assets relates to the sale of a production building in Delbrück (book loss of € 2.1 million) and the sale of activities in Aachen to a development service provider (book loss of € 0.45 million). The merger of paragon GmbH & Co. KGaA with SphereDesign GmbH resulted in a merger loss of € 0.8 million in the separate financial statements of paragon GmbH & Co. KGaA. The exchange rate losses relate to the CHF bond in the amount of € 1.1 million. For information on these one-time negative effects, please refer to the section "Business Performance of the Group."

In the reporting year, write-downs of intercompany receivables amounting to € 4.2 million (prior year: € 0.0 million) were recognized. These relate to receivables of paragon GmbH & Co. KGaA against Nordhagen Immobilien GmbH, paragon electroacoustic GmbH and paragon electrodrive GmbH. These write-downs were necessary because paragon electroacoustic GmbH and paragon electrodrive GmbH no longer generate independent revenue.

The transfer of profit mainly results from the transferred profit by paragon electronic GmbH in the amount of € 2.2 million (prior year: € 1.8 million). In the reporting year, non-cash deprecation of financial assets were incurred in the amount of € 3.1 million (prior year: € 0.0 million). They relate to adjustments to the carrying amounts of investments in the subsidiaries paragon electroacoustic GmbH and paragon electrodrive GmbH.

Taking into account income taxes and other taxes, paragon GmbH & Co. KGaA thus reported a net loss for the year of € 8.8 million (prior year: net profit of € 6.9 million). EBITDA (earnings before interest, taxes, depreciation and amortization) for paragon GmbH & Co. KGaA came to € 8.5 million in the reporting year (prior year: €17.3 million). The EBITDA margin in the reporting year was 7.3% (prior year: 15.9%). This reduction can be explained by the one-time effect from the sale of business premises under a sale-and-lease-back agreement in the prior-year period, and by the negative one-time effects in the current reporting year explained above.

The revenue forecast of € 115.0 million for 2022 was achieved. Reported EBITDA in the reporting year 2022 came to € 8.5 million. This corresponds to an EBITDA margin of 7.3%. Thus the EBITDA forecast of > 15% was not achieved. However, the above-mentioned one-time effects (merger loss, exchange rate losses, sale of production building and activities in Aachen) must be taken into account.

Net Assets of paragon GmbH & Co. KGaA

The assets of paragon GmbH & Co. KGaA in the HGB separate financial statements are at € 152.1 million as of the reporting date above the prior year's level (prior year: € 147.3 million).

Fixed assets decreased slightly, by € 4.6 million to € 92.7 million (prior year: € 97.3 million). The main reason for this decrease is the above-mentioned write-down of financial assets and the sale of a production building in Delbrück.

Receivables and other assets increased to € 39.6 million (prior year: € 49.2 million). The main reason for this reduction was the repurchase of the automotive business from a subsidiary (prior year: sale of the business to this subsidiary, € 8.6 million).

Cash and cash equivalents were € 17.8 million as of the end of the reporting period (prior year: € 0 million).

Due to the net loss for the year, equity decreased by € 13.1 million from € 8.8 million to € 4.3 million.

The provisions of paragon GmbH & Co. KGaA amounted to € 5.1 million as of the reporting date (prior year: € 6.1 million). Liabilities increased to € 142.1 million (prior year: € 127.5 million), mainly due to a new loan for interim financing. This loan serves to finance the repayment of the bond liabilities due in April 2023 (final maturity of CHF bond in the amount of CHF 21.0 million and partial repayment of the EUR bond in the nominal amount of € 5.0 million).

Financial Position of paragon GmbH & Co. KGaA

The development of the annual result (a net loss for the year of € 8.8 million in the reporting year, compared to net income for the year of € 6.9 million in the prior year) is mainly attributable to the impairment of receivables from affiliated companies in the amount of € 4.2 million and to the impairment of carrying amounts of investments in the amount of € 3.1 million. Earnings in the prior year included income of € 4.2 million from the sale of business premises under a sale and lease back agreement.

The scheduled repayment of bank loans and the partial repayment of the CHF bonds resulted in a negative cash flow from financing activities.

Cash and cash equivalents increased to € 17.8 million as of the reporting date (prior year: € 0 million) as a result of interim financing with a volume of € 21.5 million following the signing of the notarized agreement relating to the sale of paragon semvox GmbH to CARIAD SE.

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

On the one hand, the development of the net assets, financial position and earnings of paragon GmbH & Co. KGaA in the past fiscal year was shaped by noncash impairment of financial assets and receivables from affiliated companies. On the other hand, the result was negatively affected by losses due to the disposal of property, plant and equipment and exchange rate losses. A net loss for the year thus arose. In the Management's view, business development in the 2022 reporting year was satisfactory.

Opportunity and Risk Report

Risks and opportunities are defined as potential future developments or events which may result in a negative or positive deviation from the Group's forecasts or targets.

paragon has established a comprehensive risk management system to identify opportunities and risks. All the operating segments regularly issue risk reports, from which the 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 (38)).

Opportunity Report

Opportunities

The market research institute IHS expects a 6% increase in global car and light commercial vehicle sales in 2023 by comparison with 2022. 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 opportunities for paragon in 2023 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.

Marketing of numerous new product developments in the four continuing operating segments is ongoing in 2023. Due to its strategic positioning, in the future paragon will be able to benefit from changes in the automotive value chain associated with the megatrends of increased comfort and protecting the health of car users as well as the technological consequences of the desired reduction in CO^2. paragon does not develop or manufacture any products which are dependent on the combustion engine and is instead participating in the process of transformation leading to emission-free mobility when on the road.

paragon considers the following opportunities to be significant:

- 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.

- The new Power operating segment represents the strongest source of revenue potential for the paragon Group over the next few years. paragon is currently producing state-of-the-art lithium-ion on-board batteries for a well-known motorcycle manufacturer as well as for a German automotive manufacturer's "hyper performance car." On the basis of its "Flow-Shape Design" technology, the company is working on an innovative on-board battery for a leading German mass manufacturer. The A- and B-sample phases have already been successfully completed. If a series order is placed, this would catapult paragon into an entirely new league from the point of view of revenue.

- With paragon Automotive Kunshan Co., Ltd., paragon has its own local production facility in China. The Chinese government's current five-year plan (2021-2026) 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. There are also further opportunities for the Kinematics unit, since adaptive spoiler systems are increasingly popular in China. Four significant orders have already been picked up here. paragon is thus also the market leader for adaptive spoiler systems in the Chinese market. Further orders are expected in this area.

- paragon's increased efforts in recent years to establish itself in the Chinese market are now clearly paying off. In particular, this is reflected in paragon gaining new customers and the resulting series launches, especially for its Kinematics products. Opportunities will also arise for paragon through its increased efforts to enter into partnerships with further Chinese automotive suppliers. In the future, this could lead to projects in order to jointly develop the market. paragon sees itself as well positioned for this.

- In its next phase, paragon will benefit from the fact that, following the launch of its activities in the Chinese market in 2015, it is now set to expand its business to include the American continent. It took the first few steps here at the end of 2022 through a partnership with an established sales company in Detroit (USA), as a result of which paragon is already working on a promising project for a U.S. manufacturer.

- The Kinematics unit's growing product portfolio is providing a significant contribution to vehicles' safety and energy efficiency. Opportunities also present themselves from our initial, successful 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.

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 2022, both external and internal opportunities have been identified or confirmed that have a positive impact on the financial performance indicators forecast for fiscal year 2023.

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 reciprocal compensatory effects may arise. 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

Central risk management plays an important role in the risk management and control process. 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 serves 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. Measures for future risk management or the improvement of existing measures are accordingly 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 of 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 risk management 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
- Management and Organizational Risks

In the prior year, in the company's opinion a financial risk threatened the existence of the company and the Group, at the level of the single-entity financial statements and at Group level. This risk related to the repayment of the CHF bond in April 2023. In late December 2022, paragon received € 21.5 million via interim financing. This interim financing was used to redeem the CHF bond in April 2023. This interim financing was then repaid following the closing of the sale of paragon semvox GmbH to CARIAD SE. As a result of the interim financing and the repayment of the bond in April 2023, for the 2022 financial statements this risk is no longer considered to endanger the company's continued existence.

In the current reporting year, in the company's opinion a financial risk threatens the existence of the company and the Group, at the level of the single-entity financial statements and at Group level. This risk relates to the contractually agreed purchase of the EUR bond in July 2023. Please see the separate section "Risks Threatening the Existence of the Group" for further information.

Risks

Risks Threatening the Existence of the Group

In March 2022 – thus prior to the preparation of the consolidated financial statements for fiscal year 2021 – at a meeting of creditors the term of the € 50 million bond was extended for a period of five years until July 2027. At the same time, partial repayments for up to 50% of the nominal value were agreed. In addition, revenues from the sale of subsidiaries must also be used for partial repayments of up to 50% of the nominal volume.

The Annual Report 2021 reported here that, despite the improved liquidity situation, equity and debt providers are still only prepared to a limited extent to provide additional resources to support the company's further growth. The following financing requirements arose for paragon as of its preparation of the consolidated financial statements for fiscal year 2021:

- Repayment of the CHF bond in the amount of CHF 8.75 million was necessary in April 2022.
- Repayment of the CHF bond in the amount of CHF 21.0 million was required in April 2023.
- An initial partial payment of € 5.0 million was agreed for the EUR bond for April 2023.

The financing requirements in April 2022 for the repayment of the CHF bond (CHF 8.75 million) were covered by means of cash inflows from operating activities as well as the proceeds from the sale of a production building which was no longer required.

The company's liquidity situation has improved in fiscal year 2022 but is still not entirely back to normal. Over the course of fiscal year 2022, debt and equity providers were still only prepared to a limited extent to provide additional resources to support the company's further growth. However, deferral agreements and extended payment periods were successfully negotiated with suppliers.

At the same time, the successful sale of the subsidiary paragon semvox GmbH to CARIAD SE is a key aspect of the strategy for meeting the company's financing requirements. The sale of the subsidiary was notarized on December 1, 2022. The closing was completed on May 12, 2023. Following the successful signing of the notarized agreement, before the end of 2022 paragon obtained interim financing from a third party up to payment of the purchase price by CARIAD SE. This interim financing served both the scheduled repayment of the CHF bond (CHF 21.0 million) and the financing of a first partial repayment of the EURO bond. Through a public buyback offer and OTC transactions, the EURO bond was reduced by € 4.8 million by the end of April. This interim financing was repaid concurrently with payment of the purchase price by CARIAD SE.

Following the closing of the sale of the subsidiary paragon semvox GmbH to CARIAD SE, the EUR bond terms revised at the creditors' meeting in March 2022 require the purchase of bonds with a nominal value of € 20.0 million. The bond terms stipulate that this purchase must occur prior to the next interest payment date, i.e., July 5, 2023. The company is planning to submit a public bid with a bid price in line with market conditions. In the event that bonds with a nominal value of less than € 20.0 million are offered for sale in response to this public bid, paragon will implement a stock exchange buyback program while complying with the provisions of the market abuse regulation.

The rate of acceptance for this public bid can only be estimated to a limited extent, but it will be in proportion to the bid price. paragon will determine the bid price. paragon's financing requirements will depend on the bid price and the rate of acceptance. If the bid is fully or largely accepted, this would give rise to further financing requirements in the mid-single digit million range. paragon plans to cover these possible financing requirements by taking out new bank loans.

In addition, the company assumes that, over the course of fiscal year 2023, in view of its planned revenue and forecast operating profitability it will return to its original payment agreements with suppliers and will settle deferred liabilities. In addition, the company plans to settle tax liabilities of € 10.9 million in short term in 2023 which were deferred during the coronavirus pandemic.

The cash outflow from the sale of paragon semvox GmbH to CARIAD SE will not fully cover the financing requirements for these measures. Financing is to be provided by optimizing the inventories at all of the company's production plants, by taking out new bank loans in the mid-single-digit million range and through operating cash flow. Overall, the Management is convinced that financing of operating activities, the repayment of deferred liabilities including tax liabilities and the financing of the public repurchase offer of the EUR bond can be achieved according to plan and that the short- and medium-term solvency of the company and the Group is thus fully secured.

Should it not be possible to realize this as planned, this would jeopardize the existence of the company.

Strategic and Environmental Risks

Overall economic development is observed in the risk management system due to its possible influence on demand on the part of consumers, as the end customers in 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 submarkets 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 chain. As the paragon Group has its own production facilities in China and as it has a specific customer/product structure, the Management views the overall risk of protectionist influence on earnings as low.

The future development of the coronavirus (SARS-CoV-2) situation and the associated COVID-19 illnesses also continue to represent a macroeconomic risk. In 2020, the resulting measures to contain the virus and its pandemic development led to a collapse in global economic growth within a very short time. Risks exist for the paragon Group depending on the further impact on the sales trend for its main customers, which could have a corresponding direct impact on the earnings and liquidity situation. A scenario involving the pandemic situation once again deteriorating cannot be ruled out, in particular due to mutations of the virus. 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.

Russia's invasion of Ukraine on February 24, 2022, constitutes an additional risk which currently remains unquantifiable. It remains unclear how the war will continue and what impact it will have on the industry in Germany and on the European automotive industry.

Market Risks

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 recovered slightly in 2021, following a significant downturn in 2020 due to the COVID-19 pandemic. In 2022, global car sales were slightly lower than in 2021. The market research institute IHS expects to see a 6% increase in global production of cars and light commercial vehicles in fiscal year 2023.

The automotive market continued to respond dynamically to supply chain challenges over the course of 2022. The scarcity of the semiconductors which are required for the production of vehicles affected the 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. Russia's invasion of Ukraine has in some cases significantly impacted the supply chains for other necessary components.

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 mitigated, as it is in close consultation with customers and suppliers regarding changes in order planning, in order to optimally safeguard paragon's operations.

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.

In fiscal year 2022, paragon generated 56.0% and 22.1% of its revenue with its two largest customer groups. 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 multiple-year contract terms for the individual series (and customers' heterogeneous organizational structures, with legally independent brands), the impending loss of a key customer would become clear 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 via 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 as end customers 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 the projected unit volumes or may not find a market, may be less economically successful than originally planned or may alternatively achieve this economic success later than 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.

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 purchasing volumes from European contract partners, while the rest is purchased directly in Asia and the U.S. The major purchasing currency is the euro, with only a small proportion of invoices billed in U.S. dollars in the reporting year. 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 entails many opportunities as well as risks, such as system failures or unauthorized external access to company data and information (cyber attacks). In cooperation with specialized service partners, paragon has implemented established security solutions to avert potential threats to its IT infrastructure and critical data.

In terms of supply chains, further restrictions are possible in relation to our customers' automotive production activities. As well as semiconductors, this also concerns other necessary primary materials. This production risk of our customers is further increased by just-in-time and just-in-sequence deliveries – in some cases, together with a single source strategy. This risk would result in reduced revenue for paragon. In addition, a procurement risk also applies for paragon in regard to semiconductors and other primary materials.

No goodwill impairment has been necessary in the current fiscal year. In particular, a deterioration in the business outlook at the subsidiary paragon movasys GmbH could lead to a need for impairment.

Unexpected customer plant closures due to COVID-19 or a lack of components may adversely affect paragon in the forecast period.

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 processes.

paragon sold its subsidiary paragon semvox GmbH to CARIAD SE on December 1, 2022. The transaction was closed in May 2023. As of the closing, the agreed purchase price will only be adjusted in accordance with the precise volume of working capital.

Financial Risks

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

Interest rate risks are virtually meaningless for paragon, as fixed interest rates are currently agreed upon for most of its long-term liabilities. The company monitors possible currency risks on the procurement and sales side by continuously tracking foreign currency exchange rate expectations. paragon does not use financial instruments to hedge currency risks on the procurement and sales side.

Financial covenants have been agreed for the CHF bond issued in 2019. This refers to the equity ratio (the ratio of equity to consolidated total assets), which may not fall below a contractually defined value. As of December 31, 2022, there is a formal shortfall with regard to the equity ratio. However, the remaining outstanding principal amount of the bonds was repaid at par value in April 2023.

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 commercial credit insurance. paragon is increasingly obliged to respond to its customers' intention of prefinancing development services, tools or operating resources. The Management has also taken appropriate measures to harmonize the significantly more stringent 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's liquidity situation improved in fiscal year 2022 but is still not entirely back to normal. Over the course of fiscal year 2022, debt and equity providers were still only prepared to a limited extent to provide additional resources to support the company's further growth. However, deferral agreements and extended payment periods were successfully negotiated with suppliers.

Please refer to the separate section entitled "Risks Threatening the Existence of the Group" for information on the risk arising from the financing of the public repurchase offer.

Management and Organizational Risks

In this risk category, paragon currently 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 corporate governance have been laid out in order to prevent cases of lacking 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 retain key executives, senior executives and employees in key positions or attract new executives and employees with similar 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 recruit sufficient qualified 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 especially will become increasingly important as business activities expand.

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

In the future, paragon will continue to protect itself against general market risks in the automotive industry. For paragon, the market risk represents a significant individual risk. In the reporting year, paragon has continued to realize a high proportion of its revenue through its two most important customers acc. IFRS 8.34. 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 must be assumed that car manufacturers will pass on to suppliers the continuously 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.

In 2020, the coronavirus (SARS-CoV-2) evolved from an epidemiological phenomenon to a global pandemic. The further course of the pandemic cannot be reliably predicted, particularly due to current developments regarding mutations of the virus. In this respect, there is still a risk, albeit to a much lesser extent than in prior years, that suppliers and customers will have to curtail their production activities.

In terms of supply chains – in particular, semiconductors and other primary materials – further restrictions are possible in relation to our customers' automotive production activities. It is not yet possible to provide a meaningful assessment of the possible further effects of the war in Ukraine in relation to energy prices and the availability of materials.

The cash outflow from the sale of paragon semvox GmbH to CARIAD SE will not fully cover the financing requirements for the further partial repayment of the bond and the repayment of the deferred liabilities. Further financing is to be provided by means of various measures, including taking out new bank loans. Overall, the Management is convinced that the company's financing can be achieved according to plan and that the short- and medium-term solvency of the company and the Group is thus fully secured. Should it not be possible to realize this as planned, this would jeopardize the existence of the company. In this regard, we refer to the more detailed explanations in the section "Risks Threatening the Existence of the 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 has 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 the management that are aimed at the organizational implementation of the 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 pecuniary losses)
b) Ensure the regularity and reliability of internal and external accounting
c) Comply with the legal regulations and rules of the Articles of Association 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, the 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 the combined 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 of equity to consolidated total assets), which may not fall below a contractually defined value of 10% for fiscal year 2022. A shortfall would grant creditors a right of termination. The equity ratio fell below 10% as of December 31, 2022. However, this breach of covenant is irrelevant following the repayment of the bond in April 2023. Please refer to the section "Financial Risks" in the risk report.
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 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 rate expectations. The individual risks are explained in "Financial Risks" in the risk report.

Forecast

The following sections of this report describe the expected development of the paragon Group. Risks and opportunities which may result in a deviation from the forecast trends are presented in the report on risks and opportunities.

The following report sections do not include the possible effects of the war in Ukraine. It is not currently possible to quantify the effects on paragon's course of business in a meaningful way. We refer to our comments in the report on risks and opportunities.

Market Development in 2023

For 2023, the International Monetary Fund (IMF) predicts further global economic growth of 2.9%, which would represent a slowdown by comparison with 2022 (+3.4%). A possible worsening of the COVID-19 situation in China, an escalation of Russia's war of aggression and a potential debt crisis due to the central banks' more stringent monetary policy are seen as risks which might result in a low volume of growth in 2023. A global inflation rate of 6.6% is estimated for 2023. A growth rate of 0.7% is predicted for the Eurozone, while growth in Germany is expected to amount to just 0.1%.

In terms of the automotive industry, we expect the global car market to grow slightly in 2023. The market research institute IHS even expects that global production of cars and light commercial vehicles will increase by 6%.

The following assumptions are considered to be important for establishing the paragon Group's forecast:

- Increase in production figures within the global automotive industry due to the high order backlog and stable, positive trend for paragon's core markets (Europe and particularly Germany) together with the low level of internationalization of the paragon Group to date means a low level of vulnerability to macroeconomic events
- Improvement in the level of availability of primary products and semiconductors
- Continued robustness of the premium segment in the face of cyclical influences on the automotive industry
- Maintenance of production with continued latent threat of renewed public restrictions due to COVID-19
- Continuing trend towards e-mobility, primarily through the replacement of lead-acid batteries with lithium-ion batteries in the automotive submarkets currently occupied

paragon Group

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 2023 and the known sales expectations of automotive customers according to IHS Markit and their existing orders of paragon products for the first half of 2023. Accordingly, paragon's Management expects to generate revenue in the Automotive business of € 170 million in fiscal year 2023, with an EBITDA margin of between 12% and 15%.

A key driver of revenue growth will be the strong level of demand for air quality sensors in the Sensors unit and for display instruments in the Interior business unit. These products are being installed in more and more model series and paragon's air quality sensors have recently attracted increased attention from manufacturers as a result of the intense debate in society about particulate matter levels in inner cities. The company continues to see the expansion of activities in the Sensors and Kinematics unit in the Chinese market as a further growth driver. In fiscal year 2023, revenue in China will continue to increase as a result of the start of various Kinematics series orders.

Development of key performance indicators:

€ '000 / as indicated	2022	2021	Change in %	2023 forecast
Financial performance indicators				
Group revenue	160,318	135,444	18.4	€ 170 million
EBITDA of continuing and non-continuing operations	16,303	19,976	-18.4	€ 20 to 25 million

paragon has opted to define its EBITDA target for 2023 as an absolute figure instead of a relative figure, as was previously the case. In addition, for the coming fiscal year a forecast will no longer be provided for free cash flow as a key financial ratio.

paragon GmbH & Co. KGaA

In the current fiscal year, the Management expects paragon GmbH & Co. KGaA to report a positive revenue trend in its HGB financial statements, with an improved EBITDA figure compared to the prior year. As indicated above, the absolute EBITDA figure will be predicted rather than the EBITDA margin.

€ '000 / as indicated	2022	2021	Change in %	2023 forecast
Financial performance indicators				
Revenue	116,965	108,906	7.5%	€ 120 million
EBITDA margin	8,534	17,339	-50.8%	€ 12 million

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 bearer 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

According to the voting rights notification of November 16, 2022, 29.94% of the voting rights are attributable to Mr. Ralf Haller. This attribution is made on the basis of the indirect interest held in ElectricBrands AG pursuant to Section 34 (1) Clause 1 No. 1 of the German Securities Trading Act (WpHG). According to the voting rights notification of November 18, 2022, the overall voting rights share held by Mr. Klaus Dieter Frers (Managing Director of paragon GmbH and founder of the predecessor company) has decreased to 20.06%. This includes 30,871 shares for which he has a voting proxy which is not subject to any instruction.

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 this.

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 an “innate” 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) in conjunction with Section 179 (2) Clause 2 of the German Stock Corporation Act (AktG).

Authorization of the Management to Issue Shares

By resolution of the Annual General Meeting on August 31, 2021, the general partner was authorized, with the consent of the Supervisory Board, to increase the company's share capital on one or more occasions, by up to € 2,263,133.00 until August 30, 2026, by issuing up to 2,263,133 new no-par-value bearer shares in exchange for contributions in cash and/or in kind (Authorized Capital 2021/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) AktG. However, the general partner is authorized, with the consent of the Supervisory Board, to exclude the statutory subscription rights of shareholders in defined cases.

The general partner has been authorized by the Annual General Meeting on August 31, 2021, with the consent of the Supervisory Board, to issue on one or more occasions bearer or registered convertible bonds and/or bonds with warrants or a combination of these instruments with a total nominal amount of € 150,000,000.00 and with a term of up to ten years and to grant the holders or creditors of convertible bonds and bonds with warrants conversion rights or options for up to 2,263,133 new no-par-value bearer shares of the company (Conditional Capital 2021/I).

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.

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.

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 in conjunction with 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 AktG, relevant information on corporate governance practices and a description of the working methods of the Management and the 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.

Delbrück, May 22, 2023
paragon GmbH & Co. KGaA

The Management

Klaus Dieter Frers
Chairman

Consolidated Income Statement

€ '000	Notes	Jan. 1– Dec. 31, 2022 [1]	Jan. 1– Dec. 31, 2021
Revenue	10, 44	160,318	135,444
Other operating income	11	4,642	4,289
Increase or decrease in inventory of finished goods and work in progress		407	411
Other own work capitalized	12	5,063	4,841
Total operating performance		170,431	144,986
Cost of materials	13	–94,590	–72,463
Gross profit		75,841	72,523
Personnel expenses	14	–40,983	–37,688
Depreciation of property, plant and equipment and amortization of intangible assets	16	–14,279	–14,346
Impairment of current assets		–22	–500
Impairment of property, plant and equipment and intangible assets	16	–318	–2,020
Other operating expenses	15	–23,293	–19,728
Earnings before interest and taxes (EBIT)		–3,054	–1,759
Financial income	17	42	64
Financial expenses	17	–7,728	–5,974
Financial result		–7,686	–5,909
Earnings before taxes (EBT)		–10,740	–7,669
Income taxes	18	2,063	495
Earnings from continuing operations		–8,676	–7,174
Earnings from discontinued operations		5,309	–4,243
Consolidated net income		–3,367	–11,417
Earnings per share in € (basic and diluted) from continuing operations	20	–1.92	–1.58
Earnings per share in € (basic and diluted) from discontinued operations		1.17	–0.94
Earnings per share in € (basic and diluted) from continuing and discontinued operations		–0.74	–2.52
Average number of shares outstanding (basic and diluted)	20	4,526,266	4,526,266

1 paragon GmbH & Co. KGaA sold all its shares in paragon semvox GmbH to CARIAD SE by notarized agreement dated December 1, 2022. The closing took place in May 2023. It is for this reason that paragon semvox GmbH is presented as a discontinued operation pursuant to IFRS 5. The prior-year figures in the income statement have therefore been adjusted.

Consolidated Statement of Comprehensive Income

€ '000	Notes	Jan. 1– Dec. 31, 2022	Jan. 1– Dec. 31, 2021
Consolidated net income		**–3,367**	**–11,417**
Actuarial gains and losses from continuing operations	29	698	525
Currency translation reserve from continuing operations		31	–16
Currency translation from discontinued operations		0	–399
Total comprehensive income		**–2,639**	**–11,307**

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

Consolidated Statement of Financial Position

€ '000	Notes	Dec. 31, 2022	Dec. 31, 2021
ASSETS			
Noncurrent assets			
Intangible assets	21	37,360	54,533
Goodwill	22	5,745	21,875
Property, plant and equipment	23	30,830	37,998
Investments in associates and joint ventures	23	1,642	574
Other assets		468	473
		76,046	**115,453**
Current assets			
Inventories	25	25,188	23,965
Trade receivables	26	7,660	10,859
Income tax assets		217	221
Other assets	27	9,553	7,717
Cash and cash equivalents	28	18,106	1,455
Assets classified as held for sale		35,771	0
		96,496	**44,216**
Total assets		**172,542**	**159,669**

€ '000	Notes	Dec. 31, 2022	Dec. 31, 2021
EQUITY AND LIABILITIES			
Equity			
Subscribed capital	29	4,526	4,526
Capital reserve	29	15,485	15,485
Revaluation reserve	29	21	–677
Profit/loss carried forward	29	–16,284	–10,323
Consolidated net income	29	–3,367	–5,960
Currency translation differences	29	281	250
		661	**3,300**
Noncurrent provisions and liabilities			
Noncurrent lease liabilities	30	11,085	9,496
Noncurrent loans	31	7,313	10,182
Noncurrent bonds	32	45,000	0
Deferred taxes	18	1,596	5,692
Pension provisions	33	2,383	2,931
		67,378	**28,301**
Current provisions and liabilities			
Current portion of lease liabilities		4,895	2,582
Current loans and current portion of noncurrent loans	30	30,550	14,580
Trade payables	31	24,950	13,870
Liabilities to affiliated companies		0	17
Short-term bonds	32	21,284	79,038
Other provisions	36	1,057	2,015
Income tax liabilities	37	288	927
Other current liabilities	34	16,253	15,037
Liabilities directly associated with assets classified as held for sale		5,226	0
		104,503	**128,068**
Total equity and liabilities		**172,542**	**159,669**

Consolidated Cash Flow Statement

in TEUR	Anhang	1. Jan. bis 31. Dez. 2022[1]	1. Jan. bis 31. Dez. 2021
Earnings before taxes (EBT)		**–10,740**	**–7.669**
Depreciation/amortization of noncurrent assets		14,278	14.345
Financial result		7,686	5.910
Gains (–)/losses (+) from the disposal of property, plant and equipment and financial assets		2,213	–582
Increase (+)/decrease (–) in other provisions and pension provisions		–1,597	23
Income from the reversal of the special item for investment grants		0	–742
Other noncash income and expenses		–1,828	1.711
Increase (–)/decrease (+) in trade receivables, other receivables and other assets		–1,050	240
Depreciation of noncurrent assets (+)		318	2,020
Increase (–)/decrease (+) in inventories		–1,238	–2,417
Increase (+)/decrease (–) in trade payables and other liabilities		11,793	4,842
Interest paid		–6,500	–4,724
Income tax expense (+)/income (–) without deferred taxes		–437	573
Income tax payments		0	–473
Cash flow from operating activities (continuing)	42	**12,899**	**13,058**
Cash flow from operating activities (discontinued)		**3,084**	**1,750**
Cash receipts from the disposal of property, plant and equipment (+)		6,395	11,876
Cash payments for investments in property, plant and equipment (–)		–2,677	–2,226
Cash payments for investments in intangible assets (–)		–5,048	–12,778
Cash receipts from the sale of consolidated companies and other business units (+)		0	8,351
Cash receipts from the sale of intangible assets		1,500	0
Cash receipts from the sale of long-term securities		416	0
Cash flow from investing activities (continuing)	42	**585**	**5,223**
Cash flow from investing activities (discontinued)		**–4,460**	**–3,547**
Loan repayments (–)		–7,267	–12,040
Proceeds from loans (+)		21,638	0
Bond repayments (–)		–11,710	–5,812
Cash payments for leases (–)		–748	–3,952
Proceeds from lease liabilities (+)		2,696	0
Payments for rollover coste EUR bond (–)		–1,695	0
Change in OCI		727	0
Net proceeds from the sale of shares (+)		0	1,442
Cash flow from financing activities (continuing)	42	**3,640**	**–20,362**
Cash flow from financing activities (discontinued)		**905**	**–165**
Changes in cash and cash equivalents (continuing)		17,125	–2,081
Cash and cash equivalents at beginning of period (continuing)		980	3,061
Cash and cash equivalents at end of period (continuing)	27, 42	18,105	980

1 By notarised agreement dated 1 December 2022, paragon GmbH & Co. KGaA sold all shares in paragon semvox GmbH to CARIAD SE. The closing took place in May 2023. Against this background, paragon semvox GmbH is presented as a discontinued operation in accordance with IFRS 5. The previous year's figures in the income statement were therefore adjusted.

Statement of Changes in Equity

€ '000	Subscribed capital	Capital reserve	Revaluation reserve	Currency translation reserve	Profit carried forward	Net income for the year	Total
As of Jan, 1, 2022	**4,526**	**15,485**	**-677**	**250**	**-10,323**	**-5,960**	**3,300**
Appropriation of net profit	0	0	0	0	-5,960	-5,960	0
Net income for the year	0	0	0	0	0	-3,367	-3,367
Actuarial gains and losses	0	0	698	0	0	0	698
Currency translation	0	0	0	31	0	0	31
Total other comprehensive income	**0**	**0**	**698**	**31**	**0**	**0**	**728**
Total comprehensive income	0	0	698	31	-5,960	2,593	-2,639
As of Dec, 31, 2022	**4,526**	**15,485**	**21**	**281**	**-16,284**	**-3,367**	**661**

€ '000	Subscribed capital	Capital reserve	Revaluation reserve	Currency translation reserve	Profit carried forward	Net income for the year	Minority interests	Total
January 1, 2021	**4,526**	**485**	**-1,202**	**-191**	**-11,179**	**0**	**5,792**	**13,231**
Earnings from continuing operations	0	0	0	0	0	-5,498	0	-5,498
Earnings from discontinued operations	0	0	0	457	0	-462	-5,980	-5,984
Actuarial gains and losses	0	0	525	0	0	0	0	525
Currency translation	0	0	0	-16	0	0	-399	-416
Total other comprehensive income	0	0	525	-16	0	0	-399	109
Total comprehensive income	**0**	**0**	**525**	**441**	**0**	**-5,960**	**-6,379**	**-11,373**
Decreased shareholding in Voltabox	0	0	0	0	855	0	587	1,442
December 31, 2021	**4,526**	**15,485**	**-677**	**250**	**-10,323**	**-5,960**	**0**	**3,300**

Notes to the Consolidated Financial Statements 2022

(1) General Information

paragon GmbH & Co. KGaA is a partnership limited by shares established under German law. The company's headquarters are in Delbrück, Bösendamm 11, 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 (hereinafter also "paragon" or "company") is the research and development of microelectronics, the manufacture and sale of electronic devices, their corresponding peripherals and component groups and the management of patents, licenses and utility models.

The Management of paragon GmbH, the general partner of paragon GmbH & Co. KGaA, authorized the consolidated financial statements as of December 31, 2022, and the management report for the period from January 1 to December 31, 2022, for submission to the Supervisory Board on May 22, 2023.

The consolidated financial statements and management report of paragon GmbH & Co. KGaA for the period from January 1 to December 31, 2022, 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/).

paragon GmbH & Co. KGaA sold all its shares in paragon semvox GmbH to CARIAD SE by notarized agreement dated December 1, 2022. The sale closed in May 2023. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiary paragon semvox GmbH. For this reason, paragon semvox GmbH is accounted for as a "discontinued operation" in accordance with IFRS 5. It represented the Digital Assistance operating segment within the paragon Group. The application of IFRS 5 to paragon semvox GmbH results in changes in the prior-year column in the income statement, the consolidated statement of comprehensive income and the consolidated cash flow statement; the balance sheet from the prior year is presented unchanged. The earnings from discontinued operations are shown in total in a separate line.

paragon GmbH & Co. KGaA sold its shares in the Voltabox subgroup in 2021. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiaries Voltabox AG, Votabox of Texas Inc., Voltabox of North America Inc., Voltabox Kunshan Co. Ltd and the minority interest in ForkOn GmbH. For this reason, the profit contribution of the former Voltabox subgroup is already shown in the consolidated income statement in 2021 as a discontinued operation in accordance with IFRS 5. It represented the Electromobility operating segment in the paragon Group.

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

The consolidated financial statements of paragon GmbH & Co. KGaA as of December 31, 2022, 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, 2022, 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 partial repayment of the EUR bond in July 2023. Further details on this can be found in the risk report in the “Risks Threatening the Existence of the Group” section of the summarized 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, 2022, were authorized by the Management and submitted to the Supervisory Board for approval on May 22, 2023. The following major events occurred in the period up to this date:

paragon GmbH & Co. KGaA redeemed its own CHF bonds as part of a public buyback program. The remaining nominal volume decreased CHF 8.4 million, from CHF 21 million to CHF 12.6 million. This was repaid in April 2023.

The company redeemed a total of € 1.7 million of its EUR bond as part of a public buyback program. The outstanding nominal value of the bond program reduced from € 50 million to € 45.2 million, after accounting for own holdings.

The sale of paragon semvox GmbH to CARIAD SE, documented by notarized agreement dated December 1, 2022, closed in May 2023. This has led to a deconsolidation gain in the lower double-digit million range.

(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.

paragon GmbH & Co. KGaA applied the following standards, interpretations and amendments to existing standards adopted for mandatory application for the first time in fiscal year 2022:

IFRS 4 – Extension of the Temporary Exemption from Applying IFRS 9

The expiration of the temporary exemption in IFRS 4 from applying IFRS 9 was deferred to fiscal years beginning on or after January 1, 2023. This has not had any effect on the consolidated financial statements.

IFRS 16 – COVID-19-Related Rent Concessions – Extension

Change to extend the applicable period for the exemption from assessing whether a COVID-19-related rent concession is a lease modification. Applicable as of April 1, 2021. These amendments have not had any significant impact on the consolidated financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, IBOR reform (Phase 2)

The amendments relate to the modification of financial assets, financial liabilities and lease liabilities, hedge accounting requirements and disclosure requirements.

These amendments take effect in fiscal years beginning on or after January 1, 2021. They have not had any effect on the consolidated financial statements.

paragon is continuously analyzing the following standards, interpretations and amendments which have been published, but which paragon has not yet adopted, in terms of any effect they might have on paragon's consolidated financial statements:

IAS 1 – Classification of Liabilities as Current or Noncurrent

These amendments to IAS 1 take effect on January 1, 2024, and will not affect the consolidated financial statements.

IAS 1 – Disclosure of Accounting Policies

These amendments to IAS 1 and IFRS Practice Statement 2 take effect on January 1, 2023, and will likely have minimal impact on the consolidated financial statements.

(6) Scope of Consolidation

In addition to the parent company, paragon GmbH & Co. KGaA, Delbrück, all material 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	100.00 %	Fully consolidated subsidiary
Nordhagen Immobilien GmbH, Delbrück, Germany	100.00 %	Fully consolidated subsidiary
paragon movasys GmbH, Delbrück, Germany	100.00 %	Fully consolidated subsidiary
paragon semvox GmbH, Saarbrücken, Germany [1]	100.00 %	Fully consolidated subsidiary
paragon electroacoustic GmbH, Neu-Ulm, Germany	100.00 %	Fully consolidated subsidiary
ETON Soundsysteme GmbH, Neu-Ulm, Germany	100.00 %	Fully consolidated subsidiary
paragon electrodrive GmbH, Delbrück, Germany	100.00 %	Fully consolidated subsidiary
India		
Paravox Automotive Ltd., India	100.00 %	Fully consolidated subsidiary
China		
paragon Automotive Technology (Shanghai), Co., Ltd.	100.00 %	Fully consolidated subsidiary
paragon Automotive (Kunshan), Co. Ltd.	100.00 %	Fully consolidated subsidiary
Investments in associates and Joint Venture: Hepa GmbH	50.00 %	at equity consolidated
The following companies were not consolidated in 2022:		
paragon movasys d.o.o. Croatia	100.00 %	Waived inclusion due to immateriality

1 paragon semvox GmbH is presented as a held-for-sale operation in the reporting year.

The shareholding in paragon semvox GmbH increased by 4.6% to 100.0% as a result of the exercise of contractually agreed options in the course of the fiscal year. paragon semvox GmbH is presented as a held-for-sale operation in the reporting year.

Due to the current immateriality of paragon movasys d.o.o., this company was not consolidated in fiscal year 2022.

Company	Share	Revenue 2022 € '000	Equity 2022 € '000	2022 earnings according to IFRS
Parent company				
paragon electronic GmbH, Delbrück	n.a.			
Consolidated subsidiary				
ETON Soundsysteme GmbH, Neu-Ulm	100.00%	0	709	-37
Nordhagen Immobilien GmbH, Delbrück	100.00%	0	-1,316	-75
paragon Automotive Co., Ltd., KunShan	100.00%	8,486	840	1,877
paragon Automotive Technology (Shanghai) Co. Ltd., China	100.00%	135	43	0
paragon electroacoustic GmbH, Neu-Ulm	100.00%	0	-1,057	-215
paragon electrodrive GmbH, Delbrück	100.00%	974	-2,349	-1,187
paragon electronic GmbH, Delbrück	100.00%	74,132	7,819	0
paragon movasys GmbH, Landsberg am Lech	100.00%	52,038	-12,858	-6,333
paragon semvox GmbH, Saarbrücken	100.00%	12,780	5,360	5,311
paravox Automotive Ltd., India	100.00%	549	113	84
Investments in Joint Ventures equity-consolidiated:				
Hepa GmbH	50.00%	0		
The following companies are not consolidated:				
paragon movasys d.o.o. Croatia	100.00%	644	73	28
Investments in associates				
Bilster Berg Drive Resort GmbH & Co. KG [1]	€ 120,000			

[1]The financial key figures of the investments and securities were not yet available by the time the annual financial statements were prepared.

Company	Share	Revenue 2021 € '000	Equity 2021 € '000	2021 earnings according to IFRS
Parent company				
paragon electronic GmbH, Delbrück	n.a.			
Consolidated subsidiary				
paragon electronic GmbH, Delbrück	100.00%	65,473	9,711	0
SphereDesign GmbH, Bexbach	100.00%	426	327	–20
Nordhagen Immobilien GmbH, Delbrück	100.00%	0	–1,240	–159
paragon movasys GmbH, Delbrück	100.00%	39,843	–6,668	–4,145
paragon semvox GmbH, Saarbrücken[1]	95.40%	11,585	5,008	2,601
paragon electroacoustic GmbH, Neu-Ulm	100.00%	4,717	–843	–1,594
ETON Soundsysteme GmbH, Neu-Ulm	100.00%	0	746	–160
paragon electrodrive GmbH, Delbrück	100.00%	520	–1,162	–791
paragon Automotive Technology (Shanghai) Co. Ltd., China	100.00%	121	41	1
paragon Automotive Co., Ltd., KunShan	100.00%	5,896	–1,667	968
Consolidation was waived for the following companies:				
paravox Automotive Ltd., India	100.00%	186	32	25
paragon movasys d.o.o., Croatia	100.00%	452	45	25
Investments in associates				
Bilster Berg Drive Resort GmbH & Co. KG1	€ 120,000			
Securities				
Voltabox AG, Delbrück[1]	€ 453,266			

[1]The financial key figures of the investments and securities were not yet available by the time the annual financial statements were prepared.

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

Consolidation Methods

The consolidated financial statements are based on the separate financial statements of the companies included in the Group, which were prepared as of December 31, 2022, using uniform accounting policies under IFRS. 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, 2022, 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 in accordance with 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, an elimination of intercompany profits and consolidation of income and expenses were performed. 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.
The investment in Hepa GmbH that was acquired during the fiscal year was accounted for using the equity method in accordance with IAS 28.

(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.

In the consolidated statement of comprehensive income, exchange rate losses and gains from operating activities are included in 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 € 41 thousand (prior year: € 42 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 exchange rates of the currencies relevant to the paragon Group developed as follows:

Foreign currency for € 1	Statement of financial position average exchange rate on Dec. 31, 2022	Income statement average rate 2022	Statement of financial position average exchange rate on Dec. 31, 2021	Income statement average rate 2021
US dollar (USD)	1.0704	1.0586	1.1343	1.1302
Swiss franc (CHF)	0.9899	0.9873	1.0355	1.0404
Chinese renminbi yuan (RMB)	7.3836	7.3849	7.2158	7.1987
Indian rupee (INR)	88.5689	87.3031	N/A	N/A

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

(8) 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, 2022. 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. Land, 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, that is, 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 recorded on a straight-line basis. The useful life for depreciation purposes ranges from 20 to 33 years for buildings, 5 to 10 years for technical plants and 3 to 10 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

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 present value 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 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 over the term of the lease or its shorter useful life, adjusted for remeasurements 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 direct the use of the underlying asset and obtain substantially all the remaining economic benefits from it, 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 that 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.

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.

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.

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

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

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

- 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 and cash flow criteria for financial assets is routinely carried out for each set of quarterly financial statements.

Financial assets are classified as measured at amortized cost (AC) 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 payments. 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 payments, 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 classified 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.

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

Financial liabilities are classified as 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.

Upon initial recognition, financial instruments are measured at fair value, except in the case of trade receivables that are recognized at their transaction price plus the directly allocable transaction costs.

Financial liabilities are initially recognized at fair value less the directly attributable transaction costs. Noncurrent liabilities are measured on the basis of the effective interest method less 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 that is appropriate for the respective term.

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.

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. Since receivables that are intended for sale to a factoring bank are assigned immediately as and when they arise, the consolidated financial statements do not include any FVOCI financial assets. 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 to lifetime expected credit loss.

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 that also transfers all material risks and opportunities associated with the ownership of this financial asset. 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.

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 (which are used unchanged).

Level 2: input data observable either directly or indirectly for the asset or liability and 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 that is not based on observable market data (non-observable input data).

The fair values were determined using quantitative valuation methods based on the market conditions available on the reporting date. They correspond to the prices that would be paid to sell an asset or to transfer a liability between independent market participants.

Reclassifications between the levels of the fair value hierarchy are taken into account at the respective reporting dates. In fiscal years 2022 and 2021, no reclassifications were implemented between Level 1, Level 2 or Level 3.

Income Taxes

Income taxes contain taxes payable on income as well as 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.

Inventories

Inventories are measured at the lower of cost and net realizable 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, if possible and intended by the Management, assigned within the framework of factoring contracts. As a result, trade receivables are held as part of a business model whose objective is to hold the receivables in order to collect the cash flows resulting from the receivables. Accordingly, these receivables are measured at amortized cost (AC). On the other hand, trade receivables are held under the "factoring" business model, which is characterized by the fact that these receivables are exclusively held for sale. These receivables are thus measured at fair value through profit or loss (FVTPL). Upon initial recognition, receivables in the AC category are reported at their transaction price plus the directly allocable transaction costs less necessary impairment. Receivables in the FVTPL category are measured at fair value at the time of initial recognition. In subsequent measurement, impairment losses for receivables in the AC category are determined in the form of specific valuation allowances using the simplified lifetime expected credit loss approach and take sufficient account of the expected default risks. Specific defaults lead to 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. Subsequent measurement of receivables in the FVTPL category is recognized in profit or loss.

Other current assets are measured at amortized cost, taking into account necessary 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 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 can be converted at any time into cash amounts that can 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.

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 takes

into account not only 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. The interest cost included in pension expenses is recorded in the financial result.
The valuation as of December 31, 2022, was discounted using the expected long-term market rate of interest of 1.10 to 3.26% (prior year: 0.50 to 0.95%). 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, as in the prior year, 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 economic 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.

At the beginning of 2021, reduced working hours were still being used to compensate for pandemic-related declines in sales; in the year under review, however, this tool was only used in one department. 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 € 10 thousand (prior year: € 157 thousand). In addition, paragon received investment grants reported in profit or loss in accordance with IAS 20 for the reimbursement of reduced working hours benefits (employer's contribution) in the amount of € 0 thousand (prior year: € 113 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 and 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 using 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. When capitalizing borrowing costs, the weighted average of borrowing costs for such loans of the company serves as a reference.

(9) 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 balance sheet 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. Then the recoverable amount of the cash-generating unit is to be estimated. 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, that is, 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 were based on the estimated probability of the future outflow of benefits and on past experience, and on the facts and circumstances known as of the balance sheet 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 that 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. The 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 disclosure of a 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.

(10) 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 € 160,318 thousand (prior year: € 135,444 thousand). Of this, € 106,324 thousand (prior year: € 90,756 thousand) were generated domestically and € 53,994 thousand (prior year: € 44,688 thousand) abroad.

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

2022

€ '000	Electronics	Mechanics	Total
Realization at a specific point in time	107,882	52,436	160,318
Realization over time	0	0	0
Total for operating segments	**107,882**	**52,436**	**160,318**

2021

€ '000	Electronics	Mechanics	Total
Realization at a specific point in time	95,288	40,156	135,444
Realization over time	0	0	0
Total for operating segments	**95,288**	**40,156**	**135,444**

In the Electronics segment, paragon achieved revenue as a direct supplier to the automotive industry. The Electronics segment's portfolio includes innovative air quality management, 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 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 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.

As of December 31, 2022, there were trade receivables in the amount of € 7,660 thousand (December 31, 2021: € 10,859 thousand). In the fiscal year, contract assets in the Mechanics operating segment decreased by € 22 thousand (prior year: € 500 thousand) to € 0 thousand (December 31, 2021: € 22 thousand) due to valuation allowances.

Other revenue of € 7,894 thousand (prior year: € 7,169 thousand) was generated from development services in the reporting period.

(11) Other Operating Income

Other operating income mainly comprises the following items:

Other operating income

€ '000	Jan. 1– Dec. 31, 2022	Jan. 1– Dec. 31, 2021
Income from exchange rate differences	1,468	634
Income from the reversal of provisions and valuation allowances	1,574	511
Use of company cars by employees	306	323
Income from the sale of fixed assets	299	582
Income from the reversal of special items	0	742
Miscellaneous (e.g., income from the sale of scrap metal, income from grants)	995	1,497
Total	**4,642**	**4,289**

(12) 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– Dec. 31, 2022	Jan. 1– Dec. 31, 2021
Project-related development costs	4,743	4,326
Production costs for test equipment	320	515
Other own work capitalized	**5,063**	**4,841**

(13) Cost of Materials

€ '000	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021
Raw materials, consumables and supplies	88,813	70,058
Expenses for purchased services	5,777	2,405
Cost of materials	**94,590**	**72,463**

(14) Personnel Expenses

Personnel expenses consist of the following:

€ '000	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021
Wages and salaries	29,809	28,856
Social contributions/pensions	5,653	5,557
Staff leasing	5,521	3,275
Personnel expenses	**40,983**	**37,688**

Personnel expenses in the reporting year include subsidies for short-time working benefits (employer's contribution) from the Federal Employment Agency in the amount of € 10 thousand (prior year: € 113 thousand) recognized in profit or loss.

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

	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021
Salaried employees	379	392
Hourly-paid employees	460	388
Number of employees	**839**	**780**

(15) Other Operating Expenses

Other operating expenses mainly comprise the following items:

Other operating expenses

€ '000	Jan. 1– Dec. 31, 2022	Jan. 1– Dec. 31, 2021
Damage compensation and valuation allowances	3,080	1,672
Legal, consulting costs and close-out costs	3,084	3,452
Asset disposal expenses	2,525	0
EDP and telephone	2,041	2,188
Freight and packaging costs	1,817	479
Energy and water costs	1,779	1,090
Exchange rate losses	1,641	1,564
Remuneration of the general partner	1,499	1,753
Third-party services	1,800	1,135
Repair and maintenance	913	864
Insurance	811	871
Vehicle and travel expenses	701	843
Bad debt losses	424	513
Building costs	421	647
Contributions and levies	95	284
Miscellaneous	663	2,375
Total	**23,293**	**19,728**

(16) Depreciation and Amortization

A breakdown of depreciation and impairment of property, plant and equipment and amortization of intangible assets and financial assets can be found in the consolidated statement of fixed assets. Impairment of intangible assets is shown in the following overview:

€ '000	Balance sheet item	Jan. 1–Dec. 31, 2022 Devaluation amount	Jan. 1–Dec. 31, 2021 Devaluation amount
Impairment of capitalized development costs in the automotive sector	Intangible assets	318	1,370
Other intangible assets	Intangible assets	0	650
		318	**2,020**

The impairment of current assets in the reporting year amounted to € 22 thousand (prior year: € 500 thousand).

(17) Financial Result

in TEUR	Jan. 1–Dec. 31, 2022 Devaluation amount	Jan. 1–Dec. 31, 2021 Devaluation amount
Financial income	**42**	**64**
Interest revenue	42	64
Financial expenses	**-7.728**	**-5,974**
Other financial and interest expenses	-7,728	-5,974
Financial result	**-7,686**	**-5,909**

Other financial and interest expenses include interest expenses to banks of € 1,610 thousand (prior year: € 2,128 thousand). Interest expenses for bond liabilities amount to € 4,543 thousand (prior year: € 3,477 thousand). This item also includes interest expenses for leases, interest expenses for discounting pension provisions and bank fees related to financial assets and liabilities.

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 the separate note "Additional Disclosures on Financial Instruments."

€ '000	Jan. 1– Dec. 31, 2022	Jan. 1– Dec. 31, 2021
Financial assets		
Measured at amortized cost	42	64
Measured at fair value through profit or loss	0	0
	42	**64**
Financial liabilities		
Measured at amortized cost	–6,852	–5,977
Measured at fair value through profit or loss	–876	–128
	–7,728	**–6,105**

Interest expenses of € 903 thousand (prior year: € 128 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.

(18) Income Taxes

Domestic deferred taxes were calculated as of December 31, 2022, 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. In China, a combined income tax rate of 34.6% (prior year: 34.6%) was applied.

€ '000	Jan. 1– Dec. 31, 2022	Jan. 1– Dec. 31, 2021
Current taxes	**–156**	**526**
Current taxes – Germany	–156	526
Current taxes – other countries	0	0
Deferred taxes	**–1,907**	**–1,021**
Deferred taxes – Germany	–1,907	–1,021
Deferred taxes – other countries	0	0
Income taxes (income)	**–2,063**	**–495**

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

€ '000	Dec. 31, 2022 Deferred tax assets	Dec. 31, 2022 Deferred tax liabilities	Dec. 31, 2021 Deferred tax assets	Dec. 31, 2021 Deferred tax liabilities
Intangible assets	0	8,122	0	13,503
Property, plant and equipment	982	0	1,260	0
Receivables and other assets	0	289	0	233
Provisions for pensions	296		431	
Bonds	0	570	0	97
Loss carryforwards	6,107	0	6,450	0
Deferred tax assets and liabilities before offsetting	**7,385**	**8,981**	**8,141**	**13,833**
Offsetting	–7,385	–7,385	–8,141	–8,141
Deferred tax assets and liabilities after offsetting	**0**	**1,596**	**0**	**5,692**

Deferred tax assets amount to € 0 thousand in the reporting year (prior year: 0). As of the end of the reporting period, of deferred tax liabilities in the amount of € 1,596 thousand (prior year: € 5,692 thousand), € 1,596 thousand (prior year: € 5,692 thousand) relates to Germany and € 0 thousand (prior year: € 0 thousand) relates to other countries.

In the reporting period, deferred taxes of € 299 thousand (prior year: € –95 thousand) for pension provisions were recorded directly in equity within the revaluation reserve. This also corresponds to the amount of deferred taxes 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– Dec. 31, 2022	Jan. 1– Dec. 31, 2021
Earnings before tax	**–10,740**	**–7,669**
Calculated tax income with a tax rate of 30.0% (prior year: 30.0%)	3,222	2,301
Effects from the use or nonrecognition of deferred tax assets	–1,367	–1,890
Current taxes relating to other periods	156	0
Miscellaneous	52	84
Actual tax expense (tax income)	**2,064**	**494**

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 for the additional German loss carryforwards at paragon movasys GmbH.

(19) Earnings from Discontinued Operations

paragon GmbH & Co. KGaA sold all its shares in paragon semvox GmbH to CARIAD SE by notarized agreement dated December 1, 2022. The sale closed in May 2023. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiary. For this reason, paragon semvox GmbH is accounted for as a "discontinued operation" in accordance with IFRS 5. It represented the Digital Assistance operating segment within the paragon Group. The earnings from discontinued operations are shown in total on a separate line.

The earnings of the Digital Assistance operating segment comprise the following:

€ '000	2022	2021
Revenue	**12,780**	**11,585**
Other operating income	321	519
Increase or decrease in inventory of finished goods and work in progress	77	–47
Other own work capitalized	4,400	2,525
Cost of materials	–255	–465
Personnel expenses	–10,165	–7,003
Depreciation, amortization and impairment	–1,992	–2,334
Other operating expenses	–2,419	–2,244
Financial result	–56	–209
Earnings before taxes (EBT)	**2,691**	**2,327**
Income taxes	2,621	–651
Earnings from discontinued operations	**5,311**	**1,676**

paragon GmbH & Co. KGaA lost control over Voltabox AG in 2021. Earnings from discontinued operations in fiscal year 2021 includes earnings from the Voltabox subgroup. The earnings comprise the following:

The earnings comprise the following:

€ '000	2022	2021
Revenue	**3,365**	**17,802**
Other operating income	118	2,775
Increase or decrease in inventory of finished goods and work in progress	–84	–5,271
Other own work capitalized	781	4,225
Cost of materials	–1,534	–17,714
Personnel expenses	–2,889	–10,714
Depreciation, amortization and impairment	–2,971	–14,230
Other operating expenses	–2,155	–15,380
Financial result	–51	–755
Earnings before taxes (EBT)	**–5,420**	**–39,262**
Income taxes	–9	2,197
Earnings from continuing operations (Voltabox)	–5,429	–37,065
Earnings from discontinued operations (Voltabox Texas)	–5,708	0
Deconsolidation gain	5,218	0
Earnings from discontinued operations	**–5,919**	**–37,065**

(20) Earnings per Share

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

Based on the result attributable to the owners of the paragon Group for the period of € –3,367thousand (prior year: € –11,417 thousand), the basic earnings per share (continuing and discontinued operations) (basic) amount to € –0.74 per share (prior year: € –2.52). Earnings per share in continuing operations amount to € –1.92 (prior year: € –1.58). This is calculated by dividing the result from continuing operations of € –8,676 thousand by the number of shares outstanding of 4,526,266. Earnings per share from discontinued operations was € 1,17 (prior year: € –0.94).

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, 2022. Dilutive effects are thus not currently applicable.

(21) Intangible Assets

The changes in and analysis of intangible assets, property, plant and equipment and financial assets are shown in the consolidated statement of fixed assets in the Consolidated Statement of Movements on Noncurrent Assets. A description of investments made can be found in the management report.

Capitalized Development Costs

Intangible assets include capitalized development costs of € 26,436 thousand (prior year: € 32,384 thousand). Total development costs in the period amounted to € 14,654 thousand (prior year: € 14,291 thousand). This includes internal development costs of € 4,743 thousand (prior year: € 4,841 thousand) capitalized as intangible assets in the reporting period.

Amortization of these internal development costs in the reporting period amounted to € 5,014 thousand (prior year: € 5,275 thousand). 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 € 318 thousand in the reporting year (prior year: € 1,370 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. A risk-adjusted discount factor of a uniform 9.39% (prior year: 8.34%) is applied to the estimated cash flows.

(22) Goodwill

The goodwill is composed as follows:

€ '000	Dec. 31, 2022	Dec. 31, 2021	Impairment loss for 2022
SphereDesign GmbH (merged into paragon GmbH & Co. KGaA in 2022)	343	343	0
paragon movasys GmbH	5,067	5,067	0
paragon semvox GmbH	0	16,130	0
paragon electroacoustic GmbH/ ETON Soundsysteme GmbH	335	335	0
Total	**5,745**	**21,875**	**0**

The goodwill of paragon semvox GmbH reported in the prior year is included in the balance sheet item "Assets classified as held for sale" in accordance with IFRS 5.

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 the paragon Group involve comparing the residual carrying amounts of individual cash-generating units (CGUs) with their respective recoverable amounts, that is, 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 the 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 area. 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, that is, information that can be obtained from capital markets. To account for the different return and risk profiles of the Group's various 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, that is, WACC before taxes used to discount cash flows, amounted to 9.39% (prior year: 8.97%). The growth rate following the detailed planning period is 1.00% (prior year: 1.00%).

No need for impairment was identified in the impairment test.

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, the growth rate was assumed to be one percentage point lower. The third sensitivity analysis involved a lump deduction of the EBITDA assumed in perpetuity of 10.0%. These changes would not result in an impairment for any group of cash-generating units.

(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 the Consolidated Statement of Movements on Noncurrent Assets. Depreciation in the reporting period (without right-of-use assets in accordance with IFRS 16) amounts to € 4,737 thousand (prior year: € 5,328 thousand). Land and buildings are subject to land charges as collateral for long-term bank loans. Depreciation of right-of-use assets according to IFRS 16 amounts to € 2,010 thousand (prior year: € 1,309 thousand).

Certain items of movable noncurrent assets are financed by lease arrangements. Generally, these leases have terms of three to five years. The payment obligations for future lease installments amounted to € 12,078 thousand (prior year: € 15,980 thousand) and are recognized as liabilities at their present value.

Advance payments for machinery and equipment amounting to € 1,876 thousand were made in the reporting year (prior year: € 1,695 thousand).

The loss and gain on disposal of property, plant and equipment (disposal of acquisition/production costs minus accumulated depreciation) amounted to a loss of € 2,529 thousand (prior year: € 0 thousand) and a gain of € 299 thousand (prior year: € 582 thousand).

(24) Inventories

Inventories consist of the following:

€ '000	Dec. 31, 2022	Dec. 31, 2021
Raw materials, consumables and supplies	17,633	16,832
Work in progress/finished goods, services and merchandise	6,720	6,357
Advance payments for inventories	836	776
Inventories	**25,188**	**23,965**

Inventories primarily relating to salvage inventories and inventories of spare parts with a carrying value of € 4,331 thousand were written down in the reporting period (prior year: € 2,611 thousand). As in the prior year, no reversals were recognized in the reporting period. As of the reporting date, inventories of € 0 thousand (prior year: € 0 thousand) served as collateral for liabilities.

(25) Trade Receivables

The carrying amount of trade receivables is derived as follows:

€ '000	Dec. 31, 2022	Dec. 31, 2021
Gross trade receivables	10,280	13,672
Less valuation allowances	–2,620	–2,814
Trade receivables	**7,660**	**10,859**

As of the reporting date, there are no receivables that will be assigned within the scope of factoring in the following reporting year.

In the financial year, bad debts amounting to TEUR 424 (previous year: TEUR 513) were derecognised through other operating expenses.

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, 2022					
Gross trade receivables	10,280	4,894	672	158	4,557
Valuation adjustments	–2,620	–79	–202	–106	–2,233
Trade receivables	7,660				

€ '000	Carrying amount	0 – 30 days and not yet due	30 – 60 days	60 – 90 days	> 90 days
Dec. 31, 2021					
Trade receivables	13,672	7,808	479	1,991	3,394
Valuation adjustments	–2,813	–80	–120	–645	–1,968
Trade receivables	10,859				

As of the reporting date, there were no indications 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.

(26) Other Current Assets

Other current assets were as follows:

€ '000	Dec. 31, 2022 AC	FVPL	FVOCI	Total
Other current assets				
Purchase price retention due to factoring	724	0	0	724
Deferrals	424	0	0	424
Creditors with debit balances	1,888	0	0	1,888
CHF forward exchange	0	964		964
Receivables from related parties	1,294	0	0	1,294
Tax receivables	217	0	0	217
Outstanding payments to the capital reserves	319	0	0	319
Refundable development cost contributions ElectricBrands	2,723	0	0	2,723
Insurance receivable – formerly asset value	436	0	0	436
Receivables from increases in material costs	520	0	0	520
Other assets	43	0	0	43
Other current assets	**8,588**	**964**	**0**	**9,552**

€ '000	Dec. 31, 2021 AC	FVPL	FVOCI	Total
Other current assets				
Purchase price retention due to factoring	712	0	0	712
Deferrals	169	0	0	169
Creditors with debit balances	1,170	0	0	1,170
CHF forward exchange	0	1,004		1,004
Receivables from related parties	3,252	0	0	3,252
Tax receivables	209	0	0	209
Outstanding payments to the capital reserves	319	0	0	319
Other assets	882	0	0	882
Other current assets	**6,713**	**1,004**	**0**	**7,717**

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, 2022			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
Other current assets	**9,552**	9,552	0	0	0	0
Dec. 31, 2021			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
Other current assets	**7,717**	7,717	0	0	0	0

Other current assets of € 1,294 thousand include a loan receivable from Frers GmbH & Co KG (formerly Frers Grundstücksverwaltungs GmbH & Co. KG) (related party). For further details, please see the section "Related Party Disclosures." As of December 31, 2022, there were no indications that significant amounts included in other current assets would not be collectible. We refer to the disclosures in the section "Management of Risks Associated with Financial Instruments – Foreign Currency Risks" with respect to the CHF forward exchange deals.

(27) Cash and Cash Equivalents

Cash on hand and bank deposits are recognized at their book values. Cash and cash equivalents include € 8 thousand (prior year: € 9 thousand) in cash on hand and € 18,098 thousand (prior year: € 1,446 thousand) in bank deposits. Changes in cash and cash equivalents are presented in the consolidated cash flow statement.

(28) Equity

The changes in the individual components of equity for the fiscal year from January 1 to December 31, 2021, and for the reporting period from January 1 to December 31, 2022, are presented in the consolidated statement of changes in equity.

Share Capital

paragon GmbH & Co. KGaA's share capital as of December 31, 2022, amounted to € 4,526 thousand (prior year: € 4,526 thousand) and is divided into 4,526,266 no-par-value bearer shares with a notional share in the share capital of € 1.00 each.

Conditional Capital

Conditional Capital 2021/I Pursuant to the Resolution by the Annual General Meeting on August 31, 2021

The resolution passed by the Annual General Meeting on August 31, 2021, authorized the general partner, 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 bearer shares of the company, as stipulated in the terms of these bonds in the period up to and including August 30, 2026. 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 payment of the amount due upon maturity of bonds that include a conversion or option right (this includes maturity due to termination).

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 2021/I Pursuant to the Resolution by the Annual General Meeting on August 31, 2021

By resolution of the Annual General Meeting on August 31, 2021, the general partner 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 August 30, 2026, by issuing up to 2,263,133 new no-par-value bearer shares in exchange for contributions in cash and/or in kind (Authorized Capital 2021/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). However, the Management Board or Management is authorized, with the consent of the Supervisory Board, to exclude the statutory subscription rights of shareholders in defined cases.

Capital Reserve

The capital reserve amounted to € 15,485 thousand as of December 31, 2022 (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 bearer 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 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 have been reclassified to 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 payment of a dividend for the reporting period ending on December 31, 2022.

(29) 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 range of interest rates is 7.22% for leased land, 7.22% to 8.98% for technical equipment and 9.64% to 11.40% for operating and office equipment. The interest expense from lease liabilities for fiscal year 2022 amounts to € 903 thousand (prior year: € 396 thousand). The rental expense from unrecognized low-value and short-term leases reported in other expenses is insignificant.

The carrying amount of the lease liability is increased by the interest expense and reduced by payments made as of the reporting date. A remeasurement of the lease liability is immediately taken into account. In the year under review, cash outflows for leases amounted to € 4,072 thousand (prior year: € 3,417 thousand).

€ '000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2022	Dec. 31, 2021
Minimum lease payments	5,765	10,506	2,068	18,339	13,498
Future interest payments	–871	–1,357	–131	–2,359	–1,420
Liabilities from leases (repayment portion)	**4,894**	**9,149**	**1,937**	**15,980**	**12,078**
thereof reported under noncurrent liabilities				11,085	9,496
thereof reported under current liabilities				4,895	2,582

The development of right-of-use assets can be seen in the Consolidated Statement of Movements on Noncurrent Assets.

(30) Liabilities to Banks

Current and noncurrent liabilities to banks totaled € 37,864 thousand (prior year: € 24,762 thousand).

Liabilities to banks are secured by nonfinancial assets in the form of mortgages for loan liabilities in the amount of € 7,309 thousand (prior year: € 14,250 thousand) and by security assignment over property, plant and equipment of € 2,092 thousand (prior year: € 8,458 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, 2022	Dec. 31, 2021
Liabilities to banks	**30,550**	**3,644**	**3,670**	**37,864**	**24,762**
thereof reported under noncurrent liabilities				7,313	10,182
thereof reported under current liabilities				30,550	14,580

There is no exposure to interest rate risk for the loans with fixed interest rates (see "Financial Result" section).

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

(31) 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 6.75% (plus a PIK component of 2.5%) and a basic term until July 5, 2027. Partial repayments of 50% of the bond volume are intended to be made in 2023, 2025 and 2026. The transaction costs of € 1,695 thousand incurred in connection with the prolongation are being amortized over the term of the bond using the effective interest method. Own holdings of € 3.1 million at the end of the reporting period will be deducted from the reported repayment amount. The carrying amount of the bond as of the reporting date amounted to € 47,721 thousand (prior year: € 50,931 thousand) including the accrued interest liability for fiscal year 2022 amounting to € 2,332 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. A partial repayment of CHF 5.25 million was made in 2021, and another partial repayment of CHF 8.75 million was made in 2022. The nominal volume therefore amounts to CHF 21.00 million. Own holdings of € 2.9 million at the end of the reporting period will be deducted from the reported repayment amount. This financial instrument is measured at its redemption amount of € 18,563 thousand (prior year: € 28,107 thousand) and has been reported in the short-term bonds item in the liabilities section. As of the reporting date, interest expenses in the amount of € 502 thousand (prior year: € 815 thousand) have been deferred and reported under bond liabilities.

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

(32) 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 € 1,876 thousand (prior year: € 2,636 thousand) and a further commitment in the amount of € 507 thousand (prior year: € 295 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, 2022	Dec. 31, 2021
Discount rate	1.10–3.26	0.50–0.95
Pension increase	2.00	2.00

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 the level of equity. The net pension provisions have been calculated as follows:

Present value of the defined benefit obligation:

€ '000	Dec. 31, 2022	Dec. 31, 2021
Present value of the defined benefit obligation at the start of the year	3,382	3,743
Service costs	0	52
Interest expense	33	14
Payments	-32	0
Actuarial gains (-), losses (+)	**-997**	**-429**
Present value of the defined benefit obligation as of the reporting date	2,385	3,382

The actuarial gains incurred in fiscal year 2022 were recognized directly in equity in the revaluation reserve in accordance with 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, 2022	Dec. 31, 2021
Present value of the defined benefit obligation	2,383	3,382
Less fair value of the plan assets	0	–451
Uncovered defined benefit obligation on reporting date	**2,383**	**2,931**

Movements on the net amount were as follows:

€ '000	Dec. 31, 2022	Dec. 31, 2021
Uncovered defined benefit obligation at the start of the year	2,931	3,345
Pension expenses	449	15
Actuarial gains (–), losses (+)	–997	**–429**
Uncovered defined benefit obligation on reporting date	**2,383**	**2,931**

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

€ '000	Dec. 31, 2022	Dec. 31, 2021
Service costs	0	52
Interest expense	33	14
Losses from settlements	417	
Actuarial gains (–), losses (+)	–997	–429
Pension expenses/income	**–547**	**–363**

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

The provisions for 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, 2022	Dec. 31, 2021
DBO as of Dec. 31, 2022, interest rate 3.01% (prior year: interest rate 0.70%)	1,933	2,735
DBO as of Dec. 31, 2022, interest rate 3.51% (prior year: interest rate 1.20%)	1,821	2,543
DBO as of Dec. 31, 2022, pension increase 1.75% (prior year: pension increase 1.75%)	1,822	2,546
DBO as of Dec. 31, 2022, pension increase 2.25% (prior year: pension increase 2.25%)	1,932	2,730

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.

(33) Other Liabilities

Other current liabilities were as follows:

€ '000	Dec. 31, 2022	Dec. 31, 2021
Other current liabilities		
Financial liabilities		
Purchase price liability from company acquisition (discounted)	0	859
Deferred income	0	5
Other liabilities	4,978	6,161
Liabilities from other taxes	11,275	8,011
Other current liabilities	**16,253**	**15,037**

Current liabilities primarily relate to tax liabilities. The other current liabilities contain social security liabilities and debtors with credit balances.

Other liabilities mature as follows:

€ '000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2022	Dec. 31, 2021
Other liabilities	**16,253**	**0**	**0**	**16,253**	**15,037**
thereof reported under noncurrent liabilities				0	0
thereof reported under current liabilities				16,253	15,037

(34) Special Item for Investment Grants

This represents investment grants recorded as deferred income in accordance with IAS 20. In fiscal year 2021, the special item in the amount of € 742 thousand was derecognized since the basis for its original recognition no longer applied.

(35) Other Provisions

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

€ '000	Jan. 1, 2022	Utilization	Release	Allocation	Dec. 31, 2022
Guarantees and goodwill settlements	338	0	6	0	332
Outstanding invoices	1,452	1,452	0	725	725
Impending loss provisions	225	0	225	0	0
Other provisions	**2,015**	**1,452**	**231**	**725**	**1,057**

(36) Income Tax Liabilities

This relates to trade tax and corporate income tax for prior reporting periods in the amount of € 288 thousand (prior year: € 697 thousand) as well as trade tax and corporate income tax for the current reporting period in the amount of € 0 thousand (prior year: € 230 thousand).

(37) 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, 2022	Dec. 31, 2021
Financial assets		
Measured at amortized cost	35,787	19,579
Measured at fair value through profit or loss	1,085	1,578
	36,872	**21,157**
Financial liabilities		
Measured at amortized cost	161,467	144,785
Measured at fair value through profit or loss	0	859
	161,467	**145,644**

paragon has not implemented any reclassification between these categories in fiscal year 2022.

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

Dec. 31, 22	AC		FVPL		FVOCI	
€ '000	BW	FV	BW	FV	BW	FV
ASSETS						
Cash and cash equivalents	18,106	18,106	0	0	0	0
Trade receivables	7,660	7,660	0	0	0	0
Other assets	10,021	10,021	964	964		
Investments in associates and joint ventures	0	0	1,642	1,642		
Total assets	**35,787**	**35,787**	**2,606**	**2,606**	**0**	**0**
EQUITY AND LIABILITIES						
Liabilities to banks	37,864	37,864	0	0	0	0
Bonds	66,420	40,011	0	0	0	0
Finance leases	15,980	15,980	0	0	0	0
Trade payables	24,950	24,950	0	0	0	0
Other liabilities	16,253	16,253	0	0	0	0
Total equity and liabilities	**161,467**	**135,058**	**0**	**0**	**0**	**0**

Dec. 31, 21	AC		FVPL		FVOCI	
€ '000	BW	FV	BW	FV	BW	FV
ASSETS						
Cash and cash equivalents	1,455	1,455	0	0	0	0
Trade receivables	10,859	10,859	0	0	0	0
Other assets	7,186	7,186	1,004	1,004		
Investments	0	0	121	121		
Long-term securities	0	0	453	453		
Total assets	**19,500**	**19,500**	**1,578**	**1,578**	**0**	**0**
EQUITY AND LIABILITIES						
Liabilities to banks	24,762	24,762	0	0	0	0
Bonds	79,038	39,910	0	0	0	0
Lease liabilities	12,078	12,078	0	0	0	0
Trade payables	13,870	13,870	0	0	0	0
Other liabilities	15,037	15,037	859	859	0	0
Total equity and liabilities	**144,785**	**105,657**	**859**	**859**	**0**	**0**

paragon does not hold any cash collateral. Balances and liabilities to banks are reported gross in the consolidated statement of financial position. 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 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. Uncollectible 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 measured at amortized cost according to the aforementioned categories:

Dec. 31, 2022 € '000	Credit quality	Treatment	Gross carrying amount	Valuation allowance	Net carrying amount
Other assets	Collectible	12-month ECL	10,021	0	10,021
	Collectible	lifetime ECL	0	0	0
	Non-performing	lifetime ECL	0	0	0
			10,021	**0**	**10,021**
Trade receivables	Lifetime ECL	simplified approach	4,894	-79	4,815
	Lifetime ECL	simplified approach[1]	5,386	-2,541	2,845
	Non-performing	lifetime ECL	0	0	0
			10,280	**-2,620**	**7,660**
Cash and cash equivalents	Collectible	12-month ECL	18,106	0	18,106
	Collectible	lifetime ECL	0	0	0
	Non-performing	lifetime ECL	**0**	**0**	**0**
			18,106	**0**	**18,106**

[1] Level 2 receivables

Dec. 31, 2021 € '000	Collectible	Treatment	Gross carrying amount	Valuation allowance	Net carrying amount
Other assets	Collectible	12-month ECL	8,411	0	8,411
	Non-performing	lifetime ECL	0	0	0
	notleidend	lifetime ECL	0	0	0
			8,411	**0**	**8,411**
Trade receivables	Lifetime ECL	simplified approach	7,808	-80	7,728
	Lifetime ECL	simplified approach [1]	5,380	-2,342	3,038
	Non-performing	lifetime ECL	484	-391	93
			13,672	**-2,813**	**10,859**
Cash and cash equivalents	Collectible	12-month ECL	1,455	0	1,455
	Collectible	lifetime ECL	0	0	0
	Non-performing	lifetime ECL	**0**	**0**	**0**
			1,455	**0**	**1,455**

[1] Level 2 receivables

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		2,241
Jan. 1, 2022		
Adjustments due to changes in credit rating parameters	Increase due to remeasurement of receivables	0
	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	572
Dec. 31, 2022		2,813

€ '000		2,641
Jan. 1, 2021		
Adjustments due to changes in credit rating parameters	Increase due to remeasurement of receivables	0
	Reduction due to reversals of impairments	0
Adjustments due to changes in the gross amount of assets	Reduction due to the derecognition of assets	-400
	Increase due to the capitalization of assets	0
Dec. 31, 2021		2,241

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 up to 25%. The valuation allowance for receivables with a maturity of 61—90 days is up to 50%. The valuation allowance for receivables with a maturity over 90 days is up to 75%. Stage 3 comprises uncollectible receivables. The valuation allowance for these receivables is usually up to 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, among others.

(38) 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 may include 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 the assumptions made.

Foreign Currency Risks

paragon's ongoing business operations are exposed to foreign currency risks. To limit foreign currency risks, the company may also use derivative financial instruments in individual cases. 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 foreign currencies. 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:

	Dec. 31, 2022		Dec. 31, 2021	
€ '000	USD	Other	USD	Other
Transaction-related foreign currency risk				
Foreign currency risk from balance sheet items	4,137	254	1,773	358
Foreign currency risk from pending transactions	0	0	0	0
Net exposure – foreign currency positions	**4,137**	**254**	**1,773**	**358**
Change in foreign currency positions due to 10% appreciation of the euro	414	25	177	36

There are foreign currency risks from the issue of the CHF-denominated bond with a nominal value of CHF 18.04 million. In addition to the public repurchase offer in January 2023, the final repayment of the outstanding amount with interest was made in April 2023.

Swiss franc liabilities are converted at a rate of 1.01018 CHF/EUR. CHF 18,500 thousand is accumulated over the term of the bond (converted at the closing rate € 18,692 thousand). If the Swiss franc were to appreciate by 10% to 1.11120 CHF/EUR, this would result in additional expenses of € 1,869 thousand.

As of December 31, 2022, the company has six derivative financial instruments (Swiss franc futures) with a nominal value of CHF 75,600 thousand (two times CHF 37,800 thousand). There is no hedging relationship with the bond; accordingly, the derivatives are measured at fair value in profit or loss in the amount of € 964 thousand (prior year: € 1,004 thousand). Of these, three derivatives have a positive fair value of € 5,103 thousand (prior year: € 2,619 thousand), and the other three derivatives have a fair value of € –4,140 thousand (prior year: € –1,615 thousand). Derivatives with the same remaining term are shown netted. The derivatives include current and noncurrent items. For reasons of simplification, they are reported in 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, 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, 2022. There is no need for a sensitivity analysis.

Liquidity Risks

Liquidity risk, that is, 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, 2022, cash and cash equivalents of € 18,106 thousand (prior year: € 1,455 thousand) were available. Unused credit lines totaling € 127 thousand were available as of December 31, 2022 (prior year: € 890 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, 2022:

€ '000	2023	2024 – 2027	2028 and thereafter
Non-derivative financial liabilities			
Liabilities resulting from bonds	21,284	45,000	0
Liabilities to banks	30,550	3,644	3,669
Liabilities from leases	4,895	9,148	1,937
Trade payables	24,950	0	0
Other financial liabilities	16,253	0	0
Non-derivative financial liabilities	**97,933**	**57,792**	**5,606**

€ '000	2022	2023 – 2026	2027 and thereafter
Non-derivative financial liabilities			
Liabilities resulting from bonds	79,038	0	0
Liabilities to banks	14,580	6,269	3,913
Liabilities from leases	2,582	9,496	0
Trade payables	13,870	0	0
Other financial liabilities	15,896	0	0
Non-derivative financial liabilities	**125,966**	**15,765**	**3,913**

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, 2022	Dec. 31, 2021
Cash and cash equivalents	18,106	1,455
Total liquidity	**18,106**	**1,455**
Current financial liabilities and portions of noncurrent financial liabilities due in the short term	56,730	96,200
Noncurrent financial liabilities	63,398	19,679
Total financial liabilities	**120,128**	**115,879**
Net debt	**–102,022**	**–114,424**

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.

(39) 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, 2022.

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, 2022.

paragon GmbH & Co. KGaA has committed itself to maintaining an equity ratio of 10% (IFRS consolidated financial statements) as part of the CHF bond issue. It did not achieve this ratio as of the reporting date. The CHF bond was repaid in full in April 2023.

(40) 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, 2022. Other financial liabilities are as follows:

€ '000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	**Dec. 31, 2022**	Dec. 31, 2021
Order commitments	73,935	13,452	0	87,387	54,988
Tenancy obligations	247	0	0	247	650
Other obligations	555	110	0	665	519
Other financial obligations	**74,737**	**13,562**	**0**	**88,299**	**56,158**

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

(41) Consolidated Statement of Movements on Noncurrent Assets

Consolidated Statement of Movements on Noncurrent Assets as of December 31, 2022

	Acquisition costs						
€ '000	Jan. 1, 2022	Exchange rate change	Additions	Additions from company acquisitions	Disposals	Transfers	Dec. 31, 2022
Intangible assets							
Licenses, patents, software, customer list	57,771	11,167	0	306	408	0	46,502
Capitalized development costs	52,140	8,123	0	4,742	1,500	–1,500	45,759
Goodwill	23,875	16,130	0	0	0	0	7,745
Advance payments for intangible assets	6	0	0	0	0	0	6
Total intangible assets	**133,793**	**35,420**	**0**	**5,048**	**1,908**	**–1,500**	**100,012**
Right-of-use assets							
Land and buildings	2,780	0	0	3,027	0	0	5,807
Technical equipment and machinery	2,642	0	0	904	0	0	3,546
Other plant, office furniture and equipment	1,585	0	0	1,413	0	0	2,998
Total right-of-use assets	**7,007**	**0**	**0**	**5,344**	**0**	**0**	**12,351**
Property, plant and equipment							
Land and buildings	25,820	0	14	0	8,422	0	17,412
Technical equipment and machinery	42,172	7	0	495	2,510	743	40,893
Other plant, office furniture and equipment	16,095	277	34	1,089	958	170	16,153
Advance payments	2,416	0	0	1,093	0	–913	2,596
Total property, plant and equipment	**86,503**	**284**	**48**	**2,677**	**11,890**	**0**	**77,054**
Financial assets							
Investments in associates and joint ventures	120	1	0	22	0	1,500	1,641
Total financial assets	**120**	**1**	**0**	**22**	**0**	**1,500**	1,641
	227,423	35,705	48	13,090	13,797	0	191,058
Total							

Depreciation and Amortization							Carrying amounts	
Jan. 1, 2022	Exchange rate change	Additions	Additions from company acquisitions	Impairment acc. IAS 36/38	Disposals	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
35,629	5,187	0	2,527	0	384	32,585	13,918	22,142
19,756	2,764	0	5,014	318	0	22,324	26,436	32,384
2,000	0	0	0	0	0	2,000	5,745	21,875
0	0	0	0	0	0	0	6	6
57,385	**7,951**	**0**	**7,541**	**318**	**384**	**56,909**	**43,105**	**76,408**
2,172	0	0	766	0	0	2,938	2,870	607
1,625	0	0	705	0	0	2,330	1,216	1,017
1,410	0	0	539	0	0	1,949	1,049	175
5,207	**0**	**0**	**2,010**	**0**	**0**	**7,217**	**5,135**	**1,800**
2,889	0	7	644	0	1,603	1,937	15,476	22,931
32,859	7	0	3,262	0	1,154	34,960	5,933	9,313
13,837	264	40	821	0	692	13,742	2,411	2,259
721	0	0	0	0	0	721	1,875	1,695
50,305	**271**	**47**	**4,727**	**0**	**3,449**	**51,360**	**25,695**	**36,198**
–1	0	0	0	0	0	–1	1,642	121
–1	**0**	**0**	**0**	**0**	**0**	**–1**	**1,642**	**121**
112,896	8,222	47	14,278	318	3,833	115,485	75,577	114,527

Consolidated Statement of Movements on Noncurrent Assets as of December 31, 2021

	Acquisition costs						
€ '000	Jan. 1, 2021	Exchange rate change	Additions	Additions from company acquisitions	Disposals	Transfers	Dec. 31, 2021
Intangible assets							
Licenses, patents, software, customer list	49,389	0	8,514	0	224	92	57,771
Capitalized development costs [1]	45,288	0	6,852	0	0	0	52,140
Goodwill	23,875	0	0	0	0	0	23,875
Advance payments for intangible assets	43	0	55	0	0	–92	6
Total intangible assets	**118,596**	**0**	**15,421**	**0**	**224**	**0**	**133,793**
Right-of-use assets							
Land and buildings	2,228	0	552	0	0	0	2,780
Technical equipment and machinery	1,448	0	1,194	0	0	0	2,642
Other plant, office furniture and equipment	1,592	0	0	0	7	0	1,585
Total right-of-use assets	**5,268**	**0**	**1,746**	**0**	**7**	**0**	**7,007**
Property, plant and equipment							
Land and buildings	39,024	–46	3,776	0	16,958	24	25,820
Technical equipment and machinery	41,931	0	639	0	2,747	2,349	42,172
Other plant, office furniture and equipment	15,991	378	447	0	752	31	16,095
Advance payments	4,681	0	1,769	0	1,631	–2,403	2,416
Total property, plant and equipment	**101,627**	**332**	**6,631**	**0**	**22,088**	**1**	**86,503**
Financial assets							
Investments in associates	120	0	0	0	0	0	120
Total financial assets	**120**	**0**	**0**	**0**	**0**	**0**	**120**
Total	**225,612**	**332**	**23,797**	**0**	**22,318**	**1**	**227,423**

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

Depreciation and Amortization							Carrying amounts	
Jan. 1, 2021	Exchange rate change	Additions	Additions from company acquisitions	Impairment acc. IAS 36/38	Disposals	Dec. 31, 2021	Dec. 31, 2021	Dec. 31, 2020
31,178	0	4,021	0	650	220	35,629	22,142	18,211
12,393	0	5,993	0	1,370	0	19,756	32,384	32,895
2,000	0	0	0	0	0	2,000	21,875	21,875
0	0	0	0	0	0	0	6	43
45,570	**0**	**10,014**	**0**	**2,020**	**220**	**57,385**	**76,408**	**73,024**
1,700	0	473	0	0	0	2,173	607	528
1,023	0	602	0	0	0	1,625	1,017	426
1,176	0	234	0	0	0	1,410	175	416
3,898	**0**	**1,309**	**0**	**0**	**0**	**5,207**	**1,800**	**1,370**
11,839	–72	900	0	0	9,778	2,889	22,931	27,185
31,947	0	3,579	0	0	2,667	32,859	9,313	9,984
13,292	416	865	0	0	737	13,836	2,259	2,699
790	0	0	0	0	69	721	1,695	3,891
57,868	**344**	**5,344**	**0**	**0**	**13,251**	**50,305**	**36,198**	**43,759**
–1	0	0	0	0	0	–1	121	121
–1	**0**	**0**	**0**	**0**	**0**	**–1**	**121**	**121**
107,336	**344**	**16,667**	**0**	**2,020**	**13,471**	**112,896**	**114,527**	**118,274**

Consolidated statement of changes in noncurrent assets with continuing operations as of December 31, 2021

	Acquisition costs		
€ '000	Acquisition costs as of Dec. 31, 2021	thereof from discontinued operations	thereof from continuing operations
Intangible assets			
Licenses, patents, software, customer list	57,771	11,167	46,604
Capitalized development costs	52,140	8,123	44,017
Goodwill	23,875	16,130	7,745
Advance payments for intangible assets	6	0	6
Total intangible assets	**133,793**	**35,420**	**98,372**
Right-of-use assets			
Land and buildings	2,780	0	2,780
Technical equipment and machinery	2,642	0	2,642
Other plant, office furniture and equipment	1,585	0	1,585
Total right-of-use assets	**7,007**	**0**	**7,007**
Property, plant and equipment			
Land and buildings	25,820	0	25,820
Technical equipment and machinery	42,172	7	42,165
Other plant, office furniture and equipment	16,095	277	15,818
Advance payments	2,416	0	2,416
Total property, plant and equipment	**86,503**	**284**	**86,219**
Financial assets			
Investments in associates	120	1	119
Total financial assets	**120**	**1**	**119**
Total	**227,423**	**35,705**	**191,718**

Depreciation and Amortization			Carrying amounts		
Depreciation, amortization and write-downs as of Dec. 31, 2021	thereof from discontinued operations	thereof from continuing operations	Carrying amounts as of Dec. 31, 2021	thereof from discontinued operations	thereof from continuing operations
35,629	5,187	30,442	22,142	5,980	16,162
19,756	2,764	16,992	32,384	5,359	27,025
2,000	0	2,000	21,875	16,130	5,745
0	0	0	6	0	6
57,385	**7,951**	**49,434**	**76,408**	**27,469**	**48,938**
2,173	0	2,172	607	0	608
1,625	0	1,625	1,017	0	1,018
1,410	0	1,410	175	0	175
5,207	**0**	**5,207**	**1,800**	**0**	**1,801**
2,889	0	2,889	22,931	0	22,931
32,859	7	32,852	9,313	0	9,313
13,836	264	13,572	2,259	13	2,246
721	0	721	1,695	0	1,695
50,305	**271**	**50,034**	**36,198**	**13**	**36,185**
-1	0	-1	121	1	120
-1	**0**	**-1**	**121**	**1**	120
112,896	**8,222**	**104,674**	**114,527**	**27,483**	**87,044**

(42) 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, 2022	Dec. 31, 2021
Bank balances	18,098	1,446
Cash on hand	8	9
Cash and cash equivalents	**18,106**	**1,455**

(43) Segment Reporting

The Group's business activities are allocated to and reported as two segments on a recurring basis based on the requirements of IFRS 8. The Electronics 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, paragon electroacoustic GmbH, ETON Soundsysteme GmbH, paragon Automotive Technology Co. Ltd., paragon Automotive Kunshan Co. Ltd. and Nordhagen Immobilien GmbH are assigned to the Electronics segment.

The Mechanics 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 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 paragon electronic GmbH, as this company is responsible for the manufacturing processes of all operating segments, 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 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.

	2022			
€ '000	Electronics	Mechanics	Eliminations	Group
Revenue from third parties	107,882	52,436	0	160,318
Intersegment revenue	986	266	-1,252	0
Operating segment revenue	**108,868**	**52,702**	**-1,252**	**160,318**
Inventory changes, other operating income & capitalized development services	9,244	1,190	-321	10,113
Expenses from intersegment offsetting	-266	-1,307	1,573	0
Cost of materials, personnel expenses and other operating expenses	-102,390	-56,475	0	-158,866
Operating segment EBITDA	**15,455**	**-3,890**	**0**	**11,565**
Depreciation and amortization (incl. impairment)	-14,678	-2,867	2,926	-14,618
thereof depreciation and amortization	-14,397	-2,830	2,926	-14,300
thereof impairments	-280	-38	0	-318
Operating segment EBIT	**777**	**-6,757**	**2,926**	**-3,054**
Financial result for Group	N/A	N/A	N/A	0
Group earnings before taxes	**N/A**	**N/A**	**N/A**	**0**
Assets	211,837	12,040	-51,335	172,542
Investments (CAPEX)	21,160	1,771	0	22,931
Liabilities	-189.459	-35,010	54,183	-170.285

€ '000	2021 Electronics	Mechanics	Eliminations	Group
Revenue from third parties	95,288	40,156	0	135,444
Intersegment revenue	2,944	5	-2,949	0
Operating segment revenue	**98,232**	**40,161**	**-2,949**	**135,444**
Inventory changes, other operating income & capitalized development services	8,034	2,170	-662	9,542
Expenses from intersegment offsetting	-2,209	-1,587	3,796	0
Cost of materials, personnel expenses and other operating expenses	-89,809	-40,070	0	-129,879
Operating segment EBITDA	**14,248**	**674**	**185**	**15,107**
Depreciation and amortization (incl. impairment)	-12,332	-4,534	0	-16,866
thereof depreciation and amortization	-11,691	-3,805	0	-15,496
thereof impairments	-641	-729	0	-1,370
Operating segment EBIT	**1,917**	**-3,860**	**185**	**-1,759**
Financial result for Group	n.a.	n.a.	n.a.	0
Group earnings before taxes	n.a.	n.a.	n.a.	**0**
Assets	206,607	12,138	-59,076	159,669
Investments (CAPEX)	22,085	1,713	0	23,798
Liabilities	-181,678	-28,052	59,053	-150,677

Information on Geographical Areas

The following table shows a geographical analysis of the Group's revenue with external customers. For the purpose of geographical analysis, the allocation of revenues generated with external customers is based on the location of the registered head office of the respective external customer. The vast majority of customers' registered offices are located in Germany.

€ '000	Germany		EU		Third country		Total	
	Jan. 1– Dec. 31, 2022	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2022	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2022	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2022	Jan. 1– Dec. 31, 2021
Revenue	106,324	90,756	30,871	29,228	23,123	15,460	160,318	135,444

Information About Transactions with Key Customers

In fiscal year 2022, 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 56.0% (prior year: 54.8%). Another group of companies, which is to be regarded as one customer due to its joint control, had a revenue share of 22.1% (prior year: 22.1%). With a revenue share of 10.7%, a further third group exceeded the threshold of 10% in 2021.

(44) Directors and Officers

The management of paragon GmbH & Co. KGaA has been irrevocably 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 was exercised by the following two Managing Directors during the fiscal year:

- Klaus Dieter Frers (Chief Executive Officer), Delbrück
- Dr. Matthias Schöllmann, Paderborn, until May 30, 2022

The Supervisory Board consisted of the following persons:

Name	Occupation	Memberships in Supervisory Boards and Other Supervisory Committees
Prof. Dr. Iris Gräßler (Chairwoman since Aug. 31, 2021)	Prof. Dr., Prof. for product development in the faculty of mechanical engineering at the Heinz Nixdorf Institute of the University of Paderborn	Supervisory Board mandates: • none Further mandates: • none
Hermann-Josef Börnemeier	Dipl. Financial Consultant and Tax Advisor, Managing Director of Treu-Union Treuhandgesellschaft mbH	Supervisory Board mandate: • Voltabox AG (member) until November 12, 2021 Further mandates: • Börnemeier & Loh GmbH (Managing Director)
Walter Schäfers	Lawyer, Partner at Societät Schäfers Rechtsanwälte und Notare	Supervisory Board mandate: • Voltabox AG (member) until November 12, 2021
Prof. Dr. Lutz Eckstein (Chairman until Aug. 31, 2021)	Prof. Dr., 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)

(45) Information on Related Companies and Persons

Related parties as defined in IAS 24 Related Party Disclosures include members of the Management and the Supervisory Board. Related parties are also understood to include immediate family members of directors and officers and persons with significant influence as well as affiliated companies.

Treu-Union Treuhandgesellschaft mbH, Steuerberatungsgesellschaft, Paderborn, billed services totaling € 88 thousand under an ongoing agreement in fiscal year 2022 (prior year: € 82 thousand). As of the reporting date, there are liabilities in the amount of € 63 thousand. Hermann-Josef Börnemeier, a member of the Supervisory Board of paragon GmbH & Co, KGaA, is also a managing director of the above company.

In fiscal year 2022, Societät Schäfers, Rechtsanwälte & Notare, Paderborn, rendered services in the amount of € 2 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.

In the fiscal year, Forschungsgesellschaft Kraftfahrwesen Aachen mbH performed a development contract worth € 19 thousand (prior year: 0) that was still included in liabilities on the reporting date. Former Chairman of the Supervisory Board Lutz Eckstein was also a member of the advisory board of 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 877,263 shares (prior year: 2,232,263 shares) as of the reporting date and thus holds 19.4% of the company's limited liability capital. He has a voting proxy for a further 30,871 shares that is not subject to any instruction. That means 908,134 shares of the company are attributable to him (Section 34 (1) No. 6 of the German Securities Trading Act (WpHG)). He is the ultimate controlling party of the parent company.

Mr. Frers was the sole owner of Artega GmbH until it was sold in its entirety at the end of February 2022. In fiscal year 2022, paragon GmbH & Co. KGaA conducted € 90 thousand (prior year: € 766 thousand) in business with Artega GmbH that consisted of reciprocal cost transfers for the realization of synergies. The company had a liability with Artega GmbH amounting to € 9 thousand on the reporting date (prior year: 0). Artega GmbH was sold to ElectricBrands AG.

Klaus Dieter Frers is the sole owner of Frers Grundstücksverwaltungs GmbH & Co. KG, which was renamed from Frers Grundstücksverwaltungs GmbH & Co. KG in 2022. A secured loan to Frers GmbH & Co. KG was repaid in fiscal year 2022, leaving only a loan of € 1,294 thousand (prior year: € 3,595 thousand) that is secured by land charges as of the reporting date. This loan bears interest at 1.5% p.a. and will be paid back in monthly payments of € 10 thousand until December 2034. Due to the possibility of termination within 6 months, this receivable is classified as current.

In the 2022 reporting period, Frers GmbH & Co. KG rented out areas to paragon GmbH & Co. KGaA in three of the buildings used by paragon GmbH & Co. KGaA. This resulted in rental expenses of € 523 thousand (prior year: € 215 thousand). The existing lease was expanded to include an additional area and runs for an indefinite period with a monthly rent of € 16 thousand (previously € 15 thousand). It can be terminated at the end of the year with 6 months' notice, and starting in 2023, the rent will be adjusted in line with the German consumer price index of the Federal Statistical Office. Other leases added in 2022 – one for required office space for € 10 thousand and one for a production facility for the new company GB Power in Delbrück for € 16 thousand – can be terminated no earlier than December 31, 2025, and December 31, 2032, on 6 months' notice. The tenant also has a unilateral right to extend the lease for the office space by 1 year and the lease for the production facility by 5 years. The rent for both leases is fixed until 2026 and would thereafter be adjusted in line with the German consumer price index of the Federal Statistical Office.

A capped guarantee that Mr. Frers extended to a credit institution in the prior year was no longer needed once the loan was repaid to the credit institution in 2021 and so no fee was charged for it (prior year: € 2 thousand). 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 € 163 thousand (prior year: € 150 thousand), which is comparable with similar positions in the company. Niklas Frers (son of Klaus Dieter Frers) received € 5 thousand (prior year: € 0 thousand) during the fiscal year as part of a marginal employment relationship.

ElectricBrands acquired shares of the company exceeding the thresholds of 3%, 5%, 10%, 15%, 20% and 25% as of November 2022 and has since held 29.94% of the voting rights. ElectricBrands AG was paid € 2,723 thousand (prior year: € 0 thousand) for the initiation of a business relationship. This amount will be offset against expected future transactions and is included in the statement of financial position within other current assets.

paragon GmbH received remuneration of € 2,236 thousand (prior year: € 1,148 thousand) in the fiscal year for taking over the management of the company. The expenses were reported as other operating expenses.

(46) Share Based Remuneration

The Stock Option Plan 2012 expired on May 8, 2017.

(47) 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, 2022 amounts to € 430 thousand (prior year: € 271 thousand). It has been recognized as expense. € 265 thousand (prior year: € 271 thousand) of this fee was paid for audit services for the reporting year and TEUR 165 (prior year: € 0 thousand) for auditing services in the previous year.

(48) Risk Management

The company's risk management is described in the management report.

(49) Application of the Exemption Provisions of Section 264 (3) of the German Commercial Code (HGB)

The following fully consolidated domestic subsidiary makes use of some of the exemption provisions for the year under review (disclosure and audit):

paragon electronic GmbH, Delbrück

(50) 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 the following notifications pursuant to Section 33 (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):

- According to the voting rights notification of November 16, 2022, 29.94% of the voting rights are attributable to Mr. Ralf Haller. This attribution is made on the basis of the indirect interest held in ElectricBrands AG pursuant to Section 34 (1) Clause 1 No. 1 of the German Securities Trading Act (WpHG).
- According to the voting rights notification of November 18, 2022, the overall voting rights share held by Mr. Klaus Dieter Frers has decreased to 20.06%.

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 24, 2023, and is available to shareholders on a permanent basis on the company's website (https://www.paragon.ag/).

Delbrück, Germany, 4/28/2022
paragon GmbH & Co. KGaA

The Management

Klaus Dieter Frers
Chairman

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 De-cember 31, 2022, the consolidated statement of comprehensive income (incl. the consoli-dated income statement), the consolidated statement of changes in equity and the consoli-dated cash flow statement for the fiscal year starting January 1 and ending December 31, 2022, 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, 2022. In accordance with German legal requirements, we have not audited the content of the "Corporate Governance Statement Pursuant to Section 315d and Section 289f (1) of the German Commercial Code" with all components contained in the combined management report.

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 Commer-cial Code (HGB) and provide a true and fair view of the net assets and financial position of the Group as of December 31, 2022, as well as its earnings for the fiscal year start-ing January 1 and ending December 31, 2022, 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 in all material respects, complies with the German legal requirements 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 man-agement report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and the combined man-agement 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 Ger-man generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsi-bilities according to those requirements are further described in the "Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Combined Management Re-port" section of our auditor's report. We are independent of the Group companies in ac-cordance with the requirements of European law and German commercial law and pro-fes-sional 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 non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and the combined management report.

Material Uncertainty in Connection with the Continuation of Business Operations (Key Audit Matter)

Specific Matter and Problem

First, we refer to the disclosures in the notes in the section "(3) Going Concern" and in the section "Risk Report" of the combined management report under "Risks Threatening the Existence of the Group" as well as "Financial Risks." The company's legal representatives indicate here that the Group's liquidity situation improved in fiscal year 2022 but is not yet entirely back to normal and that there may be a need for additional financing requirements in the short term.

In connection with the extension in 2022 of the EUR bond, which was issued in 2017 with a nominal amount of € 50.0 million, the underlying bond terms were amended to the extent that proceeds from the sale of subsidiaries up to a nominal amount of € 20.0 million are to be used for early repayment of the EUR bond until the next interest payment date on July 5, 2023. In accordance with the measures described in the prior year's combined manage-ment report to secure the financial resources required for medium-term financing, in par-ticular with a view to repayment of the CHF bond due in April 2023, a subsidiary was sold under an agreement dated December 1, 2022, and executed on May 11, 2023. The gener-ated financial resources were used accordingly to repay the CHF bond with a volume of € 18.7 million. Furthermore, there were € 10.9 million in tax liabilities due as of the reporting date, which are also to be serviced from the generated financial resources. In order to car-ry out early repayment of the EUR bond up to a nominal volume of € 20.0 million in accord-ance with the amended terms, paragon GmbH & Co. KGaA plans to make a public bid with an offer prices in line with market conditions and to implement a stock exchange buyback program while complying with the provisions of the market abuse regulation if less than € 20.0 million of the nominal volume of the bonds is tendered in the public bid. Depending on the bid price and rate of acceptance, further financing requirements in the mid-single-digit million range could arise, which paragon GmbH & Co. KGaA would cover as planned by taking out new bank loans. The level of bid prices and rate of acceptance, and subsequent-ly the need for bank loans, is subject to uncertainty.

As discussed in the aforementioned sections of the notes and combined management re-port, these events and circumstances, together with other matters discussed therein, indi-cate the existence of material uncertainties that could cast significant doubt on the Group'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.

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 uncertainties about the occurrence of the as-sumptions and conditions underlying the medium-term corporate planning, in particular re-garding the implementation of buyback programs as well as bid prices and acceptance rates in relation to the EUR bond and the granting of further bank loans, 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 in accordance with Article 10(2)(c)(ii) EU-APrVO 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 con-sistency (mathematical accuracy, correct implementation of the underlying premises). In addition, we compared the earnings planning (in particular the appropriateness of the reve-nue forecast) with existing (framework) agreements with customers and checked the plau-sibility of the forecasts for the material cost categories. In addition, we obtained and as-sessed evidence regarding the measures taken by management for refinancing (including the proposed framework of public bids still to be submitted with bid prices in line with market conditions). Based on the results of our audit, we consider the going concern assumption used by the legal representatives to be appropriate.

Our audit opinions on the consolidated financial statements and the combined management report have not been modified with respect to the above-mentioned matter.

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 signifi-cance in our audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2022, and of the combined management report. 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

In our opinion, the following matters were the most significant in our audit:

I. Impairment of Goodwill

1.) In the consolidated financial statements of paragon GmbH & Co. KGaA, € 16.1 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 backdrop, 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 plan-ning is prepared and approved. To this end, we held discussions with those responsi-ble for planning and for cash-generating units to which significant goodwill has been al-located. We assessed the planning and the assumptions underlying it for comprehen-sibility 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 in use 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 state-ments.

II. Measurement of Capitalized Development Work

1) As of December 31, 2022, the Group has reported capitalized development work in its balance sheet as intangible assets in the amount of € 26.4 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 ap-proach applied in the measurement of capitalized development work and evaluated this calculation in terms of its amount. For this purpose, for the selected samples the pro-ject documentation was analyzed, discussions were held with the responsible project manager and the related planned profit contribution calculation was analyzed. Our audit did not give rise to any objections to the recognition of capitalized development work 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: "(8) Description of Accounting Policies and Measurement Methods – Intangible Assets," "(9) Use of Estimates and Assumptions – Capitalized Development Work," "(12) 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. Other information includes all of the information 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 289f (1) HGB. This other information likewise includes the remaining parts of the Annual Report, with the ex-ception of the audited consolidated financial statements, the audited combined management report and our auditor's report:

- 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, 2022, which did not require auditing:
  –Letter from the Management
  –Interview with Klaus Dieter Frers
  –Investor Relations and
  –Supervisory Board Report

Our audit opinions on the consolidated financial statements and the combined management report do not cover this other information, and thus 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 man-agement 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 consolidat-ed financial statements that comply with the IFRS as adopted by the EU as well as the sup-plementary German legal requirements applicable under Section 315e (1) HGB in all mate-rial 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 to be necessary to enable the preparation of con-solidated 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 un-less there is an intention to liquidate the Group or to cease operations, or there is no realis-tic 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 state-ments, complies with German legal requirements and appropriately presents the opportuni-ties 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 accord-ance with the applicable German legal requirements and to be able to provide sufficient ap-propriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting pro-cess for the preparation of the consolidated financial statements and the combined man-agement 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 finan-cial statements and the knowledge obtained in the audit, complies with German legal re-quirements 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 compli-ance with German generally accepted standards for the audit of financial statements prom-ulgated 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 de-tecting 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 controls.

- Obtain an understanding of internal control systems relevant to the audit of the consoli-dated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appro-pri-ate to 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 repre-sentatives and the reasonableness of estimates made by the company's legal repre-sentatives and related disclosures.

- Draw conclusions regarding the appropriateness of the company's legal representa-tives' 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 con-clude 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 re-spective 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 state-ments present the underlying transactions and events such that the consolidated finan-cial statements give a true and fair view of the net assets, financial position and earn-ings of the Group in compliance with IFRS as adopted by the EU and the additional re-quirements 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 consoli-dated 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 posi-tion that it provides.

- Perform audit procedures regarding the prospective information presented by the com-pany's legal representatives in the combined management report. On the basis of suffi-cient 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 infor-mation 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, 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 de-termine 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 a particular 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 Pur-poses Pursuant to Section 317 (3a) 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 docu-ments") contained in the attached file "paragon_Konzernabschluss_2022.zip" 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 pur-poses 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 accompa-nying financial statements and on the accompanying combined management report for the fiscal year from January 1, 2022, to December 31, 2022, 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 accord-ance with Section 317 (3a) HGB and in compliance with the draft of the IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Re-ports Prepared for Disclosure Purposes in Accordance with Section 317 (3a) HGB (IDW PS 410). Our responsibility thereafter is further described in the section "Auditor's Respon-sibility 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 doc-uments containing the electronic reproductions of the consolidated financial statements and the combined management report in accord-ance 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 docu-ments together with the auditor's report and attached audited consolidated financial state-ments and audited combined management report as well as other documents to be dis-closed to the operator of the Federal Gazette.

The Supervisory Board is responsible for overseeing the preparation of the ESEF docu-ments 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 skepti-cism 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 re-sponsive 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, that is, whether the file containing the ESEF documents complies with the requirements of Delegated Regulation (EU) No. 2019/815, as amended at the reporting date, regarding the technical specification for this file.

- Assess whether the ESEF documents provide a content-equivalent XHTML reproduc-tion of the audited consolidated financial statements and the audited combined man-agement report.

- Assess whether the markup of the ESEF documents with inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of Delegated Regulation (EU) No. 2019/815, as amended at the reporting date, enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

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 Gen-eral Meeting held on June 16, 2022. We were engaged by the Supervisory Board on No-vember 21, 2022. 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 (long-form audit report).

Other matter – use of the auditor's report

Our auditor's report must always be read together with the audited consolidated financial statements and the audited combined management report as well as the audited ESEF documents. The consolidated financial statements and the combined management report converted to the ESEF format – including the versions to be published in the Federal Ga-zette – are merely electronic reproductions of the audited consolidated financial statements and the audited combined management report and are not a substitute for them. In particu-lar, the ESEF report and our audit opinion contained therein may only be used in conjunc-tion with the audited ESEF documents made available in electronic form.

Note to the Supplementary Audit

We issue this audit opinion on the consolidated financial statements and combined man-agement report as well as the electronic reproductions of the consolidated financial state-ments and combined management report contained in the file "para-gon_Konzernabschluss_2022.zip," which were submitted for audit for the first time and prepared for disclosure purposes, based on our audit in accordance with professional standards, which was completed on May 22, 2023, and our supplementary audit, which was completed on May 31, 2023, and related to the first-time submission of the ESEF doc-uments.

German public accountant responsible for the audit

The German public accountant responsible for the audit is Stephan Martens.

Düsseldorf, May 22, 2023

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Stephan Martens Wirtschaftsprüfer	Jonas Hagen Wirtschaftsprüfer

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
Chairman

Financial Calendar

May 22, 2023	Annual Report 2022
June 13, 2023	Annual General Meeting, Delbrück
August 21, 2023	Group Interim Report as of June 30, 2022 – Half-year
August 24, 2023	Earnings Call (half year)
September 4, 2023	Equity Forum (Autumn Conference), Frankfurt am Main
September 18, 2023	Baader Investment Conference, Munich
November 1, 2023	Equity Forum (Deutsche Börse), Frankfurt am Main
November 13, 2023	Group Interim Report as of September 30, 2023 – Nine-month

Legal Notice

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