INNOVATOR
ANNUAL REPORT 2021

Key Figures paragon Group [1]

€ '000 / as indicated	Jan. 1 to Dec. 31, 2021	Jan. 1 to Dec. 31, 2020	Change
Revenue	146,919	127,179	15.5 %
EBITDA [2]	19,976	13,792	44.8 %
EBITDA margin in %	13.6	10.8	25.4 %
EBIT	776	–10,646	107.3
EBIT margin in %	0.5	–8.4	106.3 %
Earnings from continuing operations	–5,498	–7,608	27.7 %
Earnings from discontinued operations	–5,919	–37,065	84.0 %
Consolidated net income	–11,417	–44,673	74.4%
Earnings per share in € (basic and diluted) from continuing operations	–1.21	–1.68	27.7 %
Earnings per share in € (basic and diluted) from discontinued operations	–1.31	–4.46	70.7 %
Earnings per share in € (basic and diluted) from continuing and discontinued operations	–2.52	–6.14	–58.9 %
Investments (CAPEX) [3] (continuing operations)	17,539	7,663	128.9 %
Operating cash flow (continuing operations)	13,707	14,639	–6.4 %
Free cash flow [4] (continuing operations)	–3,832	6,976	–154.9 %
€ '000 / as indicated	**Dec. 31, 2021**	**Dec. 31, 2020**	**Change**
Total assets	159,669	200,495	–20.4 %
Equity	3,300	13,231	–75.1 %
Equity ratio in %	2.1	6.6	–68.7 %
Cash and cash equivalents	1,455	5,664	–74.3 %
Interest-bearing liabilities	115,879	135,620	–14.6 %
Employees (continuing operations) [5]	839	810	3.6%

1 The paragon Group is comprised of the Electronics and Mechanics operating segments (paragon Automotive). With the sale of shares in Voltabox AG, which was previously fully consolidated, the Electromobility 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 Plus 61 temporary workers (December 31, 2020: 82).

Share

	Dec. 31, 2021	Dec. 31, 2020	Change
Closing price in Xetra in €	7.18	9.78	–26.6%
Number of shares issued	4,526,266	4,526,266	0.0 %
Market capitalization in € millions	32.5	44.3	–11.8

Highlights from Fiscal Year 2021

- Clear focus on the core automotive business (Electronics and Mechanics operating segments) following the completed sale of the stake in Voltabox

- Revenue up 15.5% to € 146.9 million (prior year: € 127.2 million)

- EBITDA in Automotive continuing operations (Electronics and Mechanics operating segments) rises to € 20.0 million (prior year: € 13.8 million) – margin significantly improved at 13.6% (prior year: 10.8%)

- Operating cash flow at a high level – cost-cutting measures proved sustainably effective

- Nominations received for the first high-volume order for the DUSTPROTECT electrostatic virus filter and for adaptive spoilers in the Chinese market

- Forecast for 2022: € 155 to 165 million in revenue with an EBITDA margin of over 15% and € 12 million in free cash flow expected

Content

Letter From the Management

Dear Shareholders, Customers, Business Partners and Employees,

Who would have thought that, after successfully coping with the coronavirus year of 2020, we would be faced with new challenges in 2021? We are delighted that we achieved satisfactory results this year as well, and that we were able to set important goals.

We had announced a revenue forecast of € 145 million for fiscal year 2021. paragon ultimately even exceeded this target with € 146.9 million. This is all the more remarkable considering the significant reduction in the automotive manufacturers' production figures, especially in the second half of 2021. Nearly all automotive manufacturers were forced to repeatedly stop production for days, or even weeks, due to a shortage of goods (semiconductors and other intermediate products). We are proud that, despite the significantly reduced production figures of automotive manufacturers, we were able to achieve organic revenue growth of 15.5% and thus grew significantly faster than the automotive market.

As in fiscal year 2020, paragon's strong organic development in the reporting year was driven by two units in particular. With its innovative products (including the Dustdetect® particle sensor), our Sensors unit recorded significant growth of 27.5% compared to fiscal year 2020. paragon was also able to win its first large-scale production order for the Dustprotect electrostatic filter in the second half of 2021. This makes us very optimistic about our targets for future growth.

The growth dynamics of our Digital Assistance unit continued in 2021. After € 4.2 million in revenue in fiscal year 2019 and more than € 8.0 million in fiscal year 2020, the unit achieved € 11.5 million in fiscal year 2021. This provides impressive evidence of our expertise in AI solutions. We already announced that the Digital Assistance unit had won the largest order in paragon's history at the turn of the year. The foundation for future growth has been laid.

With an EBITDA margin of 13.6% in fiscal year 2021, we are exactly in the middle of the corridor of 12 to 15% that we communicated at the beginning of 2021. We were able to achieve this EBITDA margin in 2021 despite the additional costs that resulted from our customers' ongoing production interruptions and the consequences of COVID-19.

In November 2021, paragon finalized the sale of Voltabox AG. We are delighted that we could hand over Voltabox to an experienced anchor investor. With hindsight, we are naturally not satisfied with the duration of the process or the proceeds of the sale. At the outset of the process, we had different expectations. The crucial factor, however, is that the sale allowed paragon to implement its defined strategy. We are now once again completely focused on our successful core automotive business. The licensing of Voltabox's Flow-Shape Design technology also fits in with this strategy. From our perspective, FSD technology offers considerable potential due to the reduced weight of its batteries, its optimal utilization of installation spaces and its significant cost-saving potential. We have bundled our activities in this area in our newest operating segment, "Power."

In the last two years, bond and bank liabilities were reduced by more than € 20 million as part of our strategic debt reduction. This is all the more remarkable given that the overall economic situation was definitely challenging due to COVID-19 and semiconductor shortages. In fiscal year 2022, we will continue to systematically pursue the course we have adopted regarding the reduction of liabilities. The scheduled partial repayment of 25% of the CHF bond in Q2/2022 is the next step in this process.

In fiscal year 2022, paragon's organic growth will continue, with forecast revenue of between € 155 and 165 million. We are pleased to announce that all five operating segments will contribute to this growth. This is clear evidence that our strategic focus on the automotive business was the right decision. Based on this revenue growth and our cost management along the entire value chain, we plan to generate an improved EBITDA margin of over 15%.

Our focus on the successful core automotive business through the finalization of the sale of our stake in Voltabox, our organic growth in 2021, our improved operating results and our good future prospects are not yet reflected in the share price. This is naturally also partly due to the capital market's skeptical attitude toward the automotive industry. Yet one of paragon's core tasks is to make it clear to the capital market that paragon has set the right strategic course and that it doesn't fit the "automotive supplier" mold.

This is matched by the pleasing news that paragon has been voted one of the TOP20 most innovative German companies by the well-known magazine Chip. As a technology company, paragon is one of the drivers of the digital transformation.

We were horrified to observe Russia's invasion of Ukraine on February 24, 2022. paragon maintains no production sites in Russia or Ukraine, nor do we purchase any materials from these two countries. Nevertheless, we cannot currently make reliable statements regarding the impact of this military conflict on the European automotive industry – and thus indirectly on paragon. What we are unfortunately sure of is that this war represents endless suffering for millions of people in our European neighborhood through death, injury, displacement and hunger.

We would like to take this opportunity to thank all our employees for their exceptional performance in the fiscal year. We are deeply impressed by the staff's personal commitment as they rose to the challenges of 2021 – we need only mention the way in which they guaranteed our delivery capability despite the shortage of semiconductors and safeguarded production despite the coronavirus restrictions. We would like to thank our business partners, customers, bondholders and shareholders for their trust.

Klaus Dieter Frers
Chairman
of the Board, CEO

Dr. Matthias Schöllmann
Managing Director

A conversation with CEO Klaus Dieter Frers

Klaus Dieter Frers, Chairman of the Board, CEO

Why was 2021 groundbreaking for paragon?

Klaus Dieter Frers: We have freed ourselves from past burdens and created a good basis for future growth. Thanks to the forward-looking and successful management of the impacts of the pandemic combined with a consistent focus on promising product innovations, paragon performed very positively and significantly better than the market despite the pandemic, temporary supply chain problems and the semiconductor crisis. We fully met our revenue forecast in a difficult industry environment. Revenue was driven by particle sensors, display instruments and the new Digital Assistance unit. It was a year of setting our course and an important year in our company history

Due to the growth potential, you proposed to prolong the euro bond – successfully! You received 99.9 percent approval at the creditors' meeting on March 10. This is indicative of a trusting cooperation with the investors…

Absolutely! I would like to expressly thank the bondholders for their constructive dialogue. By standing shoulder to shoulder, we have paved the way for the upcoming operational decisions. As a result, paragon has precisely the stable financial basis for the next few years that we need to achieve our strategic goals. The mobility sector offers enormous potential in the coming years. With our innovative strength and product expertise, we will take targeted advantage of this and further expand our leading position as a provider of forward-looking solutions in the automotive sector.

What makes paragon's product portfolio so pioneering?

The triumph of e-mobility in the automotive industry is irreversible. None of our products rely on internal combustion engines. Looking under the hood has long since ceased to be important, and we are one of the beneficiaries of the entire transformation of our industry. What really matters today is how it feels as soon as you get in and what the car does for the driver and passengers. This is where we are at home: Sensor technology for better air inside the vehicle and communication have been exactly our areas of expertise for decades. At paragon, we are dedicated to the four megatrends of climate change, digitalization, urbanization and increasing comfort.

The triumph of e-mobility in the automotive industry is irreversible. None of our products rely on internal combustion engines. Looking under the hood has long since ceased to be important, and we are one of the beneficiaries of the entire transformation of our industry.

The paragon Group got off to a "flying" start in 2022 with two record orders in the first quarter. In April, an OEM ordered antivirus filters for € 45 million, surpassing the largest order in the company's history to date from January (€ 40 million) for a novel AI-based voice control system. What is the importance of these two orders?

These two latest major orders represent our superior technology and show how much our customers believe in paragon's sustainable future viability. Based on the two contract awards, we now forecast Group revenue for 2026 at the upper end of the previous forecast of € 250 to 300 million. Profitability is expected to gradually increase further to an EBITDA margin of 20% through targeted measures over the same period.

What do you think makes the AI-based adaptive voice assistant geni:OS stand out? Why are you confident that your software can survive on the market alongside the assistants from tech giants in the USA?

We are not competing with Google or Amazon because our software is an essential part of the car's operating system. The main issue is data security. We guarantee car manufacturers that sensitive data won't end up on any U.S. servers and that they can design the user interface themselves.

The importance of air quality has already increased significantly in recent years and has certainly received another boost not least from the COVID-19 pandemic.

In the area of sensor technology for improving air quality inside vehicles, you also see the market potential as far from exhausted by paragon. Why do you rely particularly heavily on this product expertise?

The importance of air quality has already increased significantly in recent years and has certainly received another boost not least from the COVID-19 pandemic. With DUSTPROTECT, a signature paragon product, we have developed a high-voltage plasma particulate filter that can also filter ultra-fine dust particles from the air inside cars. It is scientifically proven that the filter is extremely effective in filtering out even coronaviruses. We approached car manufacturers with these development results and won them over due to our decades of experience in sensor technology and high-voltage/high-frequency technology. We are technologically far ahead of the competition. I expect such high-performance filter systems to be standard in every car in about ten years.

Unfortunately, an assessment of the business situation at present is not possible without mentioning the war in Ukraine. Do you expect this to result in noticeable declines in profits for paragon?

First of all, I would like to emphasize how horrified we were to see Russia's invasion of Ukraine. First and foremost, this war is a humanitarian catastrophe, and only secondarily is it about the economic consequences. The paragon Group does not maintain any production sites in Russia or Ukraine, nor do we purchase any materials from these two countries. There have been shutdowns at some car manufacturers due to broken supply chains, especially for cable harnesses. At the time of this interview, most customers are operating close to normal again. There will certainly be catch-up effects, so the impact on paragon over the year will probably be very limited.

How do you assess the development of the share and bond price?

Our upswing in operating result and the good prospects for the future are not yet reflected in the share price. This is likely to be partly due to the capital market's skeptical attitude toward the automotive industry. One of paragon's core tasks is to make it clear to the capital market that paragon has set the right strategic course and that it doesn't fit the 'automotive supplier' mold.

Investor Relations

Capital Market Environment

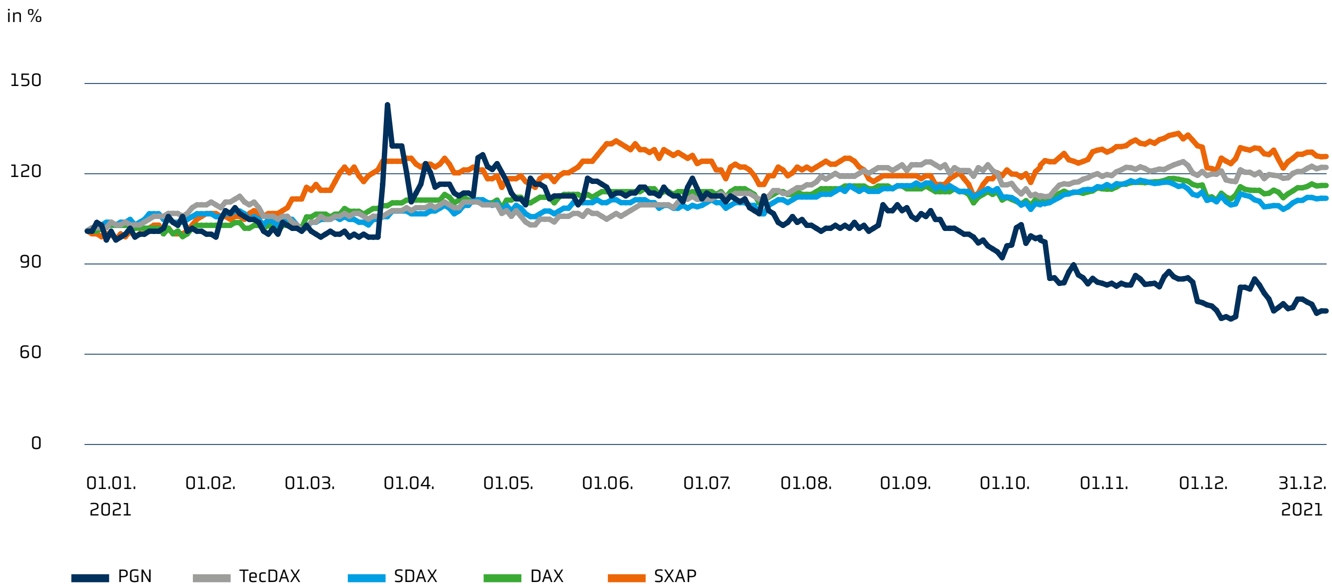
Following the slump in the market due to the COVID-19 pandemic in 2020, the international stock market recovered over the further course of that year. In 2021, this development continued as a result of excellent economic data, rapid progress in national vaccination campaigns and strong corporate results. In the final months of 2021, the stock markets' upward trend slowed. This was due to uncertainties caused by high inflation, global raw material shortages and supply problems. On the whole, Germany's most important stock indices recorded positive performance in 2021 (DAX 15.8%, SDAX 11.2%, TecDAX 22.0%). The STOXX Europe 600 Automobiles & Parts (SXAP) index, which lists the most important European automotive industry stocks, posted a significant increase of 25.1%.

Share: Price Performance and Trading Volumes

In 2021, the paragon share substantially underperformed the market with a decline in value of 26.6%. Starting from an initial price of € 9.78, the share achieved a significant jump to its highest price for 2021 of € 14.00 as of March 31, 2021. The share price fell afterwards and the share was listed at € 7.18 at the end of the year. Accordingly, the market value at this time came to € 32.5 million, which corresponds to a drop in value in 2021 of € 11.8 million.

The volumes traded in 2021 amounted to 1.1 million shares on the Xetra trading venue, 1.7 million shares on the Tradegate trading venue and just under 2.0 million shares on the German regional exchanges (Berlin, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart). The month with the highest trading volume was April 2021.

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 has an interest coupon of 4.5% p.a. (as of July 5 each year). The bond is listed on the open market (free trade) of the Frankfurt Stock Exchange in Deutsche Börse AG's Scale segment for corporate bonds. This bond matures on July 5, 2022. It closed the year trading in Frankfurt at 50.0% of the issue price. On average over the year as a whole, the bond traded at 75.7%. A company rating is not planned for this bond.

On March 10, 2022 – after the reporting date – a decision was reached at a creditors' 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.

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%, originally for a fixed term of five years. The bond has been listed on the SIX Swiss Exchange under the ISIN CH0419041105 since April 23, 2019, and has been interest-bearing since that date, first payable on April 23, 2020. The bond closed the year trading at 47.2% of the issue price. On average over the year as a whole, the bond traded at 58.9%. 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.

Investment in Voltabox AG

At the end of the prior year, the shareholding in the subsidiary Voltabox AG, which is listed in the Prime Standard segment of the Frankfurt Stock Exchange with the symbol VBX, the ISIN DE000A2E4LE9 and the WKN A2E4LE, amounted to 8,620,000 shares, corresponding to around 54.5%. Voltabox AG was fully consolidated in the prior-year consolidated financial statements. Minority interests were indicated separately in the Group's statement of comprehensive income in the prior year.

As a result of the sale of the majority of the shares held in fiscal year 2021, the shareholding was reduced to 400,699 shares at the end of the reporting year. As a result, paragon GmbH & Co. KGaA lost control over the subsidiaries Voltabox AG, Voltabox of Texas, Inc., Voltabox of North America, Inc., and Voltabox Kunshan Co., Ltd. In the 2021 consolidated financial statements, the Voltabox subgroup is reported as a "discontinued operation." After the reporting date, a buyer of the Voltabox shares exercised their contractually agreed call option. A further 350,000 shares were transferred. This reduced the number of shares held to 50,699.

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 2020 (published on July 20, 2021), the interim report as of March 31, 2021 – 1st quarter (published on July 20, 2021), the interim report as of June 30, 2021 – 1st half-year (published on August 24, 2021) and the interim report as of September 30, 2021 – 9 months (published on November 22, 2021), 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 2021 was communicated in December 2020 as € 140 million in revenue with an EBITDA margin of 12 to 15%. The revenue and earnings forecast for 2021 was adjusted on March 30, 2021, with the expected revenue increased to € 145 million. This adjusted revenue and earnings forecast for fiscal year 2021 was outlined in the Group management report published for fiscal year 2020, including the key assumptions on which the forecasts were based.

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 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 2021. The mandates of the Supervisory Board members are listed in the notes to the consolidated financial statements (note (45)).

The Supervisory Board of paragon GmbH & Co. KGaA fulfilled the consulting and monitoring obligations incumbent upon it according to law, the Articles of Association, German Corporate Governance Code and rules of procedure with great care in fiscal year 2021. Here, the Supervisory Board supervised the company's Management on an ongoing basis and made sure of its legal and regulatory compliance, appropriateness and effectiveness. Furthermore, the Supervisory Board was available to the Management for consultation and was involved in discussions and decisions regarding issues of material importance. Thanks to the good cooperation between the Supervisory Board members, even time-sensitive decisions were resolved quickly.

In spring 2022, 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 on 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, 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 instances that were of material importance for assessing the year's results.

Supervisory Board Meetings

In fiscal year 2021, the Supervisory Board convened at four ordinary meetings and four extraordinary meetings. The ordinary meetings were held in person and the extraordinary meetings (with one exception) as video conferences. The meetings of the Supervisory Board (with the exception of the third unscheduled meeting on August 31, 2021) were held in the presence of the Management. The entire Supervisory Board was present at every meeting.

In a video conference on February 16, 2021, Management informed the Supervisory Board of the intended acquisition of technology including all right-of-use assets for the electrodrive division. The Supervisory Board approved the acquisition of Artega GmbH.

In a subsequent video conference on July 5, 2021, Management informed the Supervisory Board about the planned sale and rent back transaction of operational properties to release tied-up capital for the partial repayment of the CHF bond.

The focus of the first ordinary meeting of the Supervisory Board in Delbrück on July 19, 2021, was the assessment and verification of the annual financial statements for fiscal year 2020 as well as the assessment and approval of the consolidated financial statements for fiscal year 2020. Former Supervisory Board Chairman Prof. Dr. Lutz Eckstein, Mr. Walter Schäfers, and the auditors participated by telephone. The Management also explained the revenue and asset situation of the year under review and the main factors influencing it. Furthermore, the Supervisory Board also dealt with the nomination of the auditor of the annual and consolidated financial statements for fiscal year 2021 and recommended Baker Tilly GmbH & Co. KG Wirtschaftsprufungsgesellschaft, Düsseldorf, as the auditor of the annual and consolidated financial statements. During this meeting, the Supervisory Board also discussed the agenda of the Annual General Meeting and approved the invitation proposed by the Management. In addition, the Supervisory Board was informed about current business development in the first half of the year and the status of the sales negotiations regarding Voltabox AG. Prof. Dr. Iris Gräßler attended this Supervisory Board meeting as a guest.

In its second meeting held in Delbrück, Germany on August 30, 2021, the Supervisory Board was informed about the company's performance and in particular about current capacity utilization. Topics discussed included the supply bottlenecks of vendor parts in the automotive industry in general, and at paragon in particular. Management confirmed the full-year revenue forecast for 2021 of € 145 million. The status of the sales negotiations regarding Voltabox AG was another topic of this Supervisory Board meeting. Prof. Dr. Iris Gräßler again attended this Supervisory Board meeting as a guest.

Immediately following the Annual General Meeting on August 31, 2021, at its third extraordinary meeting, the Supervisory Board elected Prof. Dr. Iris Gräßler, who had just been appointed a Supervisory Board member at the Annual General Meeting, as its new Chairwoman. Mr. Börnemeier was confirmed as Vice-Chairman. Prof. Dr. Iris Gräßler thereby replaces previous Chairman Prof. Dr. Lutz Eckstein, who resigned from the Supervisory Board with effect from the end of the Annual General Meeting for personal reasons. The Supervisory Board would like to thank Prof. Dr. Lutz Eckstein for his significant part in shaping paragon since his first election in 2014.

In the fourth extraordinary meeting of the Supervisory Board on November 11, 2021, Management informed the Supervisory Board about the exact terms of the sale of Voltabox shares in a video conference. The Supervisory Board approved the sale.

At the third ordinary meeting in Delbrück on November 18, 2021, the focus was again on current business developments. Among other things, Management described the significant changes in the composition of the current customer structure and the effects of the chip shortage to the Supervisory Board. The focus was also on the development of revenue and earnings at the EBITDA level in the third quarter.

In its fourth meeting on December 16, 2021, held in the offices of Supervisory Board member Walter Schäfer in Paderborn, the Supervisory Board focused on the development of business during the first nine months of the year and the company's current prospects. It also discussed the planning for fiscal year 2022 as presented by the Management as well as the scheduling of the financial calendar for 2022.

Forming Committees

As in the past, the three-member Supervisory Board did not form any committees in fiscal year 2021 and dealt with all issues as a single body.

Audit of the Annual Financial Statements and Consolidated Financial Statements for Fiscal Year 2021

Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed by resolution of the Annual General Meeting on August 31, 2021, as auditor for the fiscal year from January 1 to December 31, 2021, 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, 2021, to December 31, 2021, 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, 2021, to December 31, 2021, and the combined management report of the paragon Group and paragon GmbH & Co. KGaA.

Upon completion of the audit, Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, issued an unqualified audit certificate for the annual financial statements, the consolidated financial statements and the combined management report of the paragon Group and paragon GmbH & Co. KGaA.

The auditor also determined that the information and monitoring system established by the Management meets the statutory requirements and is suitable for recognizing developments that could endanger the continued existence of the company at an early stage.

The auditor made the documents submitted for auditing concerning the annual financial statements, the consolidated financial statements, the combined management report of the paragon Group and paragon GmbH & Co. KGaA as well as the report on the audit available to every member of the Supervisory Board. The audit was reported on and discussed at the Supervisory Board meeting on April 28, 2022. 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 2021.

Delbrück, Germany, April 28, 2022

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).

Based on the global megatrends of climate change, digitalization and urbanization, paragon identifies the megatrends that are of relevance for the automotive value chain: digitalization, CO_2 reduction, increased comfort and urbanization. The fields of innovation relevant for paragon's business model are derived from these trends: shared mobility, connectivity, e-mobility, autonomous driving, digital assistance and emission control. These are systematically covered by its Sensors, Interior, Digital Assistance, Kinematics and (since 2021) Power units. This allows paragon to accurately anticipate the demands of end customers for modern features and characteristics in future models. In the recent past, paragon has increasingly built up skill sets in the area of software – initially in particular through the acquisition of what is now paragon semvox GmbH, which today forms the Digital Assistance unit.

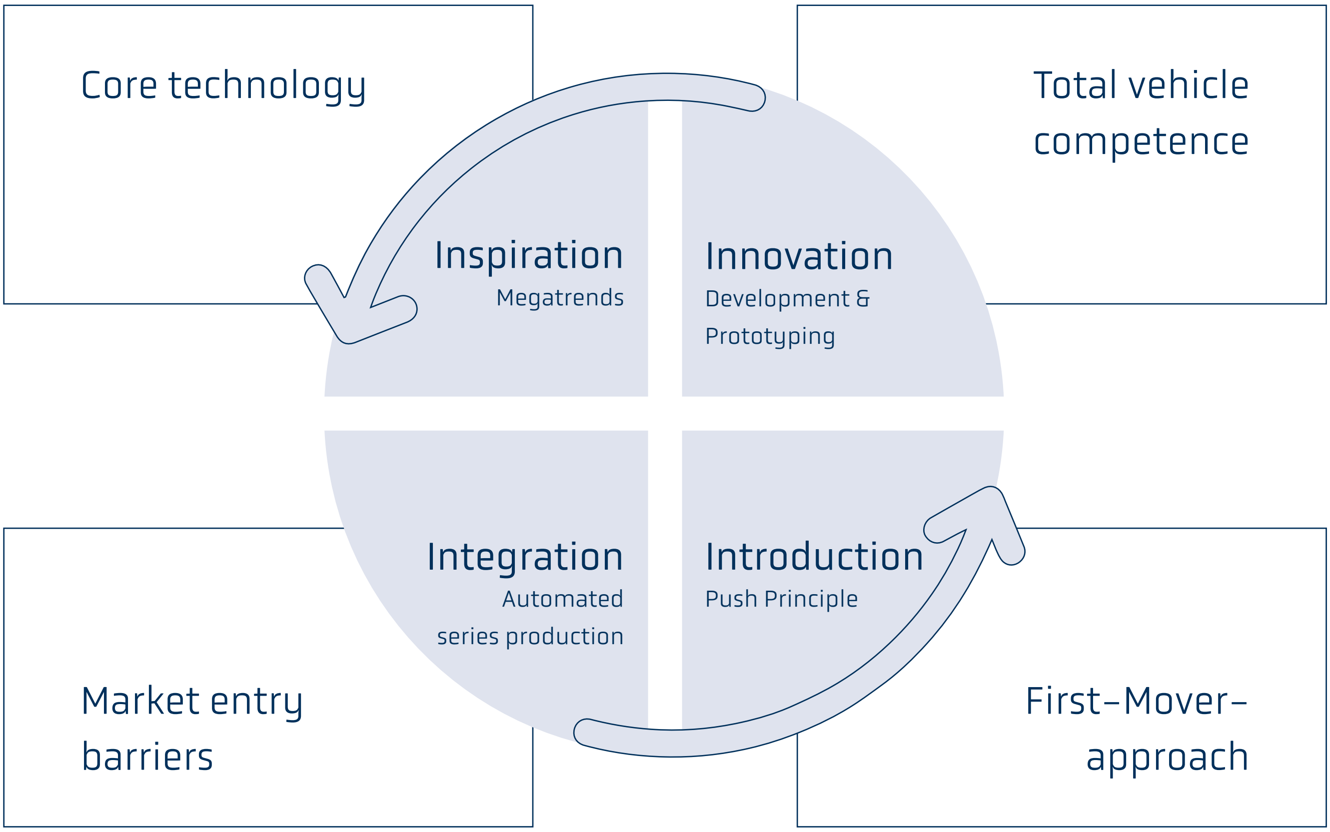
The market launch of product innovations follows the "push principle," where specific marketing with automotive manufacturers as direct customers only begins once functional prototypes (A-samples) and the corresponding patent applications have been established. This allows paragon to maintain a time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

The level of automation in series production is constantly being increased in order to improve the cost structure over the life cycle of the individual product series. In this way, the series production of a wide range of product variations represents its own field of innovation within the company.

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 subsidiar-

Group Business Model



ies operate sites in Suhl (Thuringia, Germany), Landsberg am Lech and Nuremberg (Bavaria, Germany), St. Georgen (Baden-Württemberg, Germany), Limbach (Saarland, Germany), Aachen (North Rhine-Westphalia, Germany) as well as in Kunshan (China) and Oroslavje (Croatia).

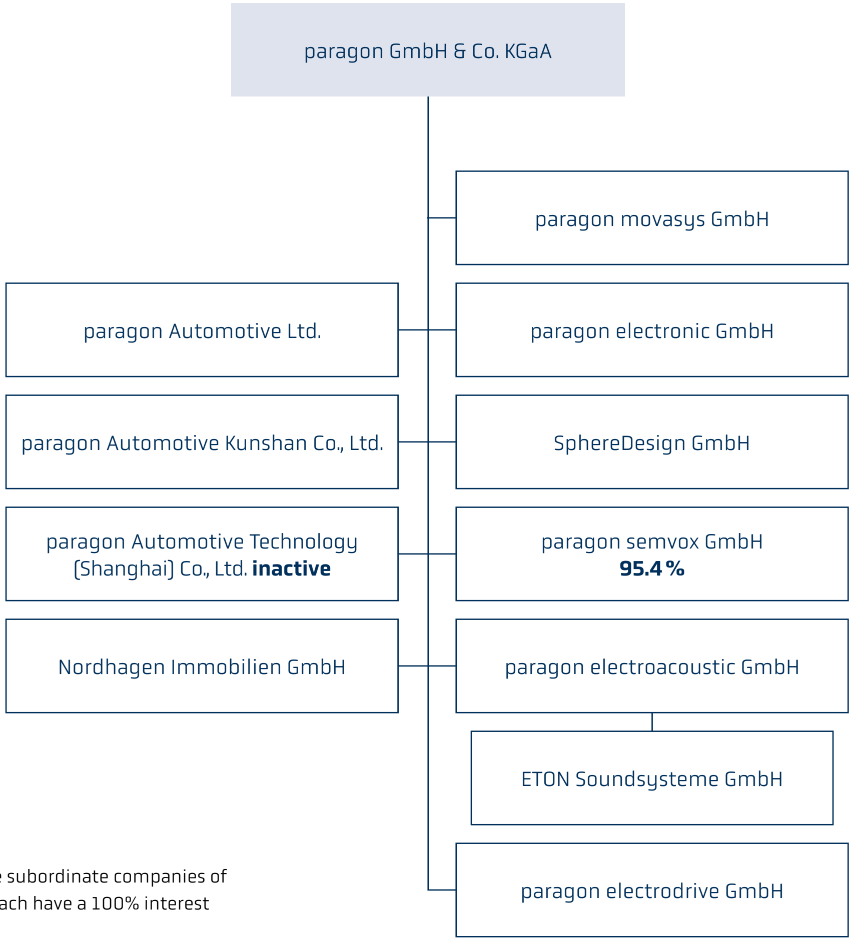
In addition to the parent company, the scope of consolidation for the paragon Group includes the domestic subsidiaries paragon movasys GmbH, paragon semvox GmbH (share: 95.4%, prior year 82.0%), paragon electronic GmbH, SphereDesign GmbH, paragon electroacoustic GmbH, ETON Soundsysteme GmbH, paragon 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 also included in the scope of consolidation for the paragon Group. Unless otherwise stated, paragon holds 100% of the shares in each company.

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 (shareholding as of December 31, 2020: around 54.47%). As of December 31, 2021, Voltabox AG and it's subsidiaries are therefore no longer included in the consolidatedfinancial statement o and are reported in the consolidated income statement and the consolidated cash flow statement as a discontinued operation.

Corporate Strategy

Through its corporate strategy, paragon pursues the goal of sustainable and stable growth in order to safeguard the company's long-term success. This strategy is developed as part of a revolving process at management level. paragon's sustainable strategy is based on the independent development of product innovations from the relevant fields – shared mobility, connectivity, e-mobility, autonomous driving and

Group Structure*



Unless otherwise stated, the subordinate companies of paragon GmbH & Co. KGaA each have a 100% interest
* As of December 31, 2021

digital assistance – for the automotive industry, in order to achieve a sustained improvement in the driving experience for the company's end customers: modern car users.

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

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

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

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

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

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

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, the focus is particularly on the high-growth markets in Asia and North America.

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

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

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

Control System

Alongside a high level of innovation, paragon's organizational structure is characterized by flat hierarchies, fast decision-making and continual optimization of process management. The Group has the character of a family-run, medium-sized company while combining a long-term strategic orientation with the integration abilities of a publicly traded company. Thanks to this unique organizational orientation, the Management considers the company to be in position to successfully compete with substantially larger groups and to further expand its market position as a direct supplier to well-known automotive manufacturers. The Management regularly compares its strategy with the actual business development of the paragon Group. In review meetings, follow-up activities are determined at the management level and optimization measures or fundamental changes in direction are taken when necessary.

The company's domestic production at its plants in Suhl, St. Georgen and Limbach is uniformly 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 Delbrück, 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, manager meetings, where the current developments in the individual segments and medium to long-term outlooks are discussed, in addition to regular interdisciplinary and segment-related project status meetings.

Financial performance indicators

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

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

Group Revenue

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

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 earnings (from continuing operations) to exclude the following effects:

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

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

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

Free Cash Flow

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

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

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

Nonfinancial Performance Indicators

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

Employees

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

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

	Dec. 31, 2021	Dec. 31, 2020	Change in %
Number of employees	**839**	**996**	**-15.8**
Number of those engaged in development	210	253	-17.0
Number of temporary employees	61	82	-25.6
Number of those engaged in development	1	0	n.a.

The share of female employees in the Group has decreased slightly to 34.9% (prior year: 35.3%). The number of employees with university degrees has decreased to 27.8% (prior year: 31.3%). The share of disabled employees was 2.5% (prior year: 1.5%). The average employee age has changed slightly to 42.4 (prior year: 42.5) and the average length of service has decreased marginally, to 5.6 years (prior year: 5.8 years).

Distribution of permanent employees at Group sites:

	Dec. 31, 2021	Dec. 31, 2020	Change in %
Delbrück (corporate headquarters, North Rhine-Westphalia)	187	189	-1.1
Aachen (North Rhine-Westphalia)	7	10	-30.0
Landsberg am Lech (Bavaria)	102	108	-5.6
Neu-Ulm (Bavaria)	0	47	-100.0
Nuremberg (Bavaria)	11	10	10.0
Limbach (Saarland)	169	117	44.4
St. Georgen (Baden-Württemberg)	34	32	6.3
Suhl (Thuringia)	256	260	-1.5
Total in Germany	**766**	**773**	**-0.9**
Kunshan (China)	43	36	19.4
Other European countries (France, Austria, Italy, Netherlands)	4	1	300.0
Oroslavje (Croatia)	11	0	n.a.
Bangalore (India)	15	0	n.a.
Total abroad	**73**	**37**	**97.3**
Total continuing operations	**839**	**810**	**3.6**
Delbrück (corporate headquarters, North Rhine-Westphalia)	0	146	-100.0
Total in Germany	**0**	**146**	**-100.0**
Austin (Texas, USA)	0	39	-100.0
Kunshan (China)	0	1	-100.0
Total abroad	**0**	**40**	**-100.0**
Total discontinued operations	**0**	**186**	**-100.0**
Total Group	**839**	**996**	**-15.8**

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 2021, paragon spent € 20.5 million (prior year: € 16.3 million) on R&D activities. This corresponds to 14.0% of revenue (prior year: 12.8%). The ratio of capitalized development costs was approximately 35.9% (prior year: 30.2%) of overall research and development costs. In the reporting period, paragon recognized depreciation, amortization and write-downs and impairment losses of € 7.4 million (prior year: € 10.3 million).

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

Dividend Policy

Over the last few years, the Management has developed a dividend policy that is designed to meet the company's strategic goal of profitable growth. On the one hand, this is intended to enable paragon shareholders to further increase the value of their shares through dividend payments and provide an incentive for long-term investment decisions. On the other hand, the company's equity base should not be excessively burdened during its capital-intensive growth phase. For this reason, in the past corporate profits were largely reinvested. In the reporting year, an amount of € 7,9 million (prior year: € 6,5 million) is subject to the distribution restriction.

In view of the challenges posed by the global coronavirus pandemic and the accumulated loss according to the HGB separate financial statements of paragon GmbH & Co. KGaA, the Management and the Supervisory Board propose to the Annual General Meeting that no dividend be paid for fiscal year 2021 (prior year: no dividend payment).

Economic Report

Global Economic Conditions

According to estimates by the International Monetary Fund (IMF), compared to the prior year the world economy grew by a strong 5.9% in 2021. Following the COVID-19-related downturn in the world economy in 2020, in 2021 progress was made in vaccination campaigns which resulted in an easing of restrictions. However, the significant recovery seen in the first half of 2021 suffered a clear loss of impetus in the second half of the year due to supply bottlenecks and price increases for many raw materials and intermediate products. At the same time, a series of new virus variants emerged.

In the Eurozone, the restrictions were reduced due to declining numbers of infections from the second quarter of 2021 onwards, and a significant economic recovery resulted. Overall, the Eurozone economy grew by 5.2%.

The German economy realized gross domestic product growth of 2.7%. This is lower than economists and the German government had anticipated. The recovery following the coronavirus-related downturn in 2020 was curbed by the supply bottlenecks in the automotive, electronics and mechanical engineering industries.

As a supplier to the automotive industry, in fiscal year 2021 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 2021

In its press release of January 18, 2022, the German Association of the Automotive Industry (VDA) notes that 2021 was a turbulent year for the international automotive markets. The first half of the year was shaped in significant growth by comparison with lower prior-year figures, due to catch-up effects from 2020. In the second half of the year, the lack of semiconductors and the shortage of intermediate products and raw materials placed a significant strain on the automotive industry.

The European car market shrank by a further 2% to 11.8 million new vehicles in 2021. It was therefore not able to stage a recovery in 2021 following its clear pandemic-related slump in 2020. While the German market declined by 10%, the other key sales markets in Europe registered weak growth. Italy alone realized a growth rate of 6%.

The U.S. light vehicle market registered slight growth of 3% to 14.9 million vehicles in 2021. While car sales declined by around 2%, the light trucks subsegment grew by 5%. Overall, the light vehicle market in 2021 was significantly below its "pre-COVID-19" level of around 17.0 million vehicles in 2019. The Chinese market grew by 6.6% to 21.1 million cars in 2021. New registrations in China in 2021 thus slightly exceeded their 2019 pre-crisis level. The downstream sales markets of Japan (+4%) and Russia (+4%) achieved slight growth by comparison with 2020.

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

In millions of units	**2021**	2020	Change
USA	14.9	14.5	+ 2.8 %
Europe	11.8	12.0	-1.7 %
China	21.1	19.8	+6.6 %

Overall, in the past fiscal year the economic situation in paragon's industry was thus still significantly below its 2019 "pre-COVID-19" level, despite slight growth in some areas relative to the prior year, 2020.

Business Performance of the Group

paragon had published the following forecast for its continuing operations (Electronics and Mechanics operating segment) for fiscal year 2021:

- revenue of € 145 million,
- 12 – 15% EBITDA ratio.

The business development of the paragon Group in the reporting year was shaped by rising demand on the part of the automobile manufacturers for paragon's products. Accordingly, in terms of paragon's business performance in 2021 despite the challenges in its economic environment – due to the COVID-19 pandemic and the automobile manufacturers' reduced production figures owing to the lack of semiconductors and supply difficulties for other intermediate products – paragon realized significant growth in its Automotive unit's continuing operations (Electronics and Mechanics operating segment) of 15.5% in the reporting year by comparison with the prior year. This growth was achieved thanks to further customer and market penetration achieved by paragon's products. With revenue of € 146.9 million, paragon actually slightly exceeded its revenue forecast for its Automotive unit.

As in the previous year, in fiscal year 2021 paragon's management focused on working capital management 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. Thanks to its successful implementation of these measures, in the past fiscal year paragon achieved EBITDA of 13.6% and thus also its forecast level of profitability of between 12 and 15%.

paragon completed the strategic sale of its stake in Voltabox AG in fiscal year 2021.

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 **2021**	Electronics **2020**	Δ in %	Mechanics **2021**	Mechanics **2020**	Δ in %
Revenue from third parties	106,763	87,190	22.4	40,156	39,989	0.4
Intersegment revenue	2,944	4,527	-35.0	5	975	-99.5
Revenue	**109,707**	**91,717**	**19.6**	**40,161**	**40,964**	**-2.0**
EBITDA	19,118	13,488	20.5	674	503	604.6
EBITDA margin	17.4	14.7 %	18.5	1.7	1.2 %	36.4

Geschäftssegment € '000 or as indicated	Eliminations **2021**	Eliminations **2020**	Δ in %	Group **2021**	Group[2] **2020**	Δ in %
Revenue from third parties	0	0	0	146,919	127,179	15.5
Intersegment revenue	-2,949	-5,502	-46.4	0	0	0.0
Revenue	**-2,949**	**-5,502**	**11.5**	**146,919**	**127,179**	**15.5**
EBITDA	183	-198	-192.4	19,976	13,792	44.8
EBITDA margin	-6.2	3.6 %	-272.4	13.6%	10.8 %	25.9

1 Represented by the Kinematics unit.

2 The Electromobility operating segment which was sold in fiscal year 2021 is presented as a discontinued operation in accordance with IFRS 5. The prior-year figures have been adjusted accordingly.

The largest operating segment, Electronics (comprised of Sensors, Interior, Digital Assistance and Power), continued to dominate the Group's activities with revenue of € 109.7 million (prior year: € 91.7 million). Of this amount, € 106.8 million (prior year: € 87.2 million) was attributable to third-party revenue in the Sensors, Interior and Digital Assistance units. This operating segment realized revenue growth of 22.4%.

Breakdown of revenue € '000	**2021**	Share in %	**2020**	Share in %	**Change in %**
Sensors	45,386	30.9	35,592	28	27.5
Interior	49,196	33.5	43,597	34.3	12.8
Digital Assistance	11,475	7.8	8,001	6.3	43.4
Power	706	0.5	0	0	100
Kinematics	40,156	27.3	39,989	31.4	0.4
Total	**146,919**	**100**	**127,179**	**100**	**15.5**

Revenue in the Sensors unit increased by 27.5% to € 45.4 million in the year under review compared to fiscal year 2020 (prior year: € 35.6 million). This significant increase also reflects the high level of orders of the Dustdetect® particulate matter sensor throughout 2021, following a successful series launch in 2020.

Revenue in the Interior unit rose by 12.8% to € 49.2 million (prior year: € 43.6 million). This increase is mainly attributable to the market recovery following the coronavirus-related drop in revenue in the first half of 2020; the display instruments marketed by paragon have also contributed to this trend.

The Digital Assistance unit contributed € 11.5 million to segment revenue (prior year: € 8.0 million), representing an increase of 43.4%. It is worth mentioning that, despite the automobile manufacturers' reduced production figures in the second half of 2021, this unit nonetheless achieved a growth rate of 8.5% in this period.

The new Power unit achieved revenue for the first time in the second half of 2021.

EBITDA in the Electronics operating segment amounted to € 19.1 million (prior year: € 13.5 million). The EBITDA margin accordingly came to 17.4% (prior year: 14.7%).

Segment revenue in the Mechanics operating segment from third parties amounted to € 40.2 million (prior year: € 40.1 million). This represents a 0.4% increase in revenue compared to fiscal year 2020. It should be noted that revenue in fiscal year 2020 included an above-average proportion of amounts reimbursed for tools. EBITDA for the operating segment amounted to € 0.7 million (prior year: € 0.5 million), which corresponds to an EBITDA margin of 1.7 % (prior year: 1.2%).

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

Analogously to the Group's business performance, the business performance of paragon GmbH & Co. KGaA (HGB financial statements) was characterized by a rising level of demand on the part of the automobile manufacturers in the reporting year 2021. Despite the automobile manufacturers' reduced production figures due to the lack of semiconductors and supply difficulties for other intermediate products, significant growth was achieved in the reporting year by comparison with the prior year, due to a higher level of market and customer penetration. The comprehensive operational improvement measures implemented throughout the value chain resulted in a significant improvement in profitability. In addition, valuation allowances were not required on the carrying amounts of investments, and nor was it necessary to extend loans to subsidiaries. paragon completed the strategic sale of its stake in Voltabox AG in fiscal year 2021.

Key Factors of Business Performance

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

Assets, Financial Position and Earnings

Earnings of the paragon Group

The paragon Group generated revenue of € 146.9 million in fiscal year 2021 (prior year: € 127.2 million). The growth momentum which was seen in prior years (with the exception of the pandemic year 2020) was maintained for the Group's continuing operations. All of the Group's units increased their revenue. This thus included the Electronics and Mechanics operating segments. Overall, Group revenue increased by 15.5% by comparison with fiscal year 2020.

In the reporting year, due to the planned and completed sale of its Electromobility operating segment (the previously fully consolidated investment Voltabox), the company published a forecast for its continuing operations (Electronics and Mechanics operating segments). Its revenue forecast of € 145 million was slightly exceeded in the reporting year. It realized its EBITDA forecast of between 12 and 15%.

Other operating income increased to 4.8 million euros (prior year: 2.7 million euros), mainly as a result of the sale of fixed assets (0.6 million euros), income from the reversal of special items (0.7 million euros) and income from investment grants (0.2 million euros); at the same time, capitalized development costs rose to 7.4 million euros (previous year: 4.9 million euros). The cost of materials increased to 72.9 million euros (prior year: 60.7 million euros). The cost of materials ratio increased slightly compared to the previous year and thus corresponds to the increase in sales.

paragon received € 0.3 million in 2021 (prior year: € 4.8 million) as part of the use of short-time working benefits as a result of the coronavirus pandemic. Personnel expenses increased, having declined in the prior year due to the use of reduced working hours. Personnel expenses amounted to € 44.6 million in the reporting year (prior year: € 35.8 million). The personnel expense ratio increased slightly to 30.3% (prior year: 28.1%).

Other operating expenses rose by 36.5% to € 22.0 million (prior year: € 16.1 million). In particular, this reflected increased exchange rate losses, higher consulting costs as well as increased third-party services. Earnings before interest, taxes, depreciation and amortization (EBITDA) rose to € 20.0 million (prior year: € 13.8 million), which corresponds to an EBITDA margin of 13.6% (prior year: 10.8%).

Impairment losses on noncurrent assets amounting to € 2.0 million (prior year: € 6.4 million) mainly relate to impairment losses on capitalized development costs, within the scope of the annual impairment tests.

The financial result is € -6.1 million and has decreased slightly due to the reduced volume of liabilities to banks (prior year: € -6.5 million).

Taking into account income taxes amounting to € 0.2 million (prior year: € 9.6 million), the result from continuing operations amounts to € -5.5 million (prior year: € -7.6 million). Income taxes in 2020 were characterized by the capitalization of deferred tax assets on loss carryforwards. Earnings from discontinued operations are € -5.9 million (prior year: € -37.1 million). This results in consolidated net income of € -11.4 million (prior year: € -44.7 million). The total comprehensive income in fiscal year 2021 amounts to € -11.3 million (prior year: € -43.4 million)

Net Assets of the paragon Group

Assets and liabilities are only comparable with the prior period to a limited extent, since the amounts reported decreased in the reporting year due to the deconsolidation of the Voltabox Group in the 2021 reporting year. Due to this deconsolidation, total assets have declined to € 159.7 million (December 31, 2020: € 200.5 million).

Noncurrent assets decreased to € 115.5 million (December 31, 2020: € 145.0 million). In particular, noncurrent assets have been shaped by the –8.5% decrease in intangible assets to € 54.5 million (December 31, 2020: € 59.6 million) and the –36.8% decrease in property, plant and equipment to € 38.0 million (December 31, 2020: € 60.1 million). This is mainly attributable to the effects from the deconsolidation of the Voltabox Group, to the disposal of property, plant and equipment as well as amortization and impairment of capitalized development costs in the reporting year.

Current assets decreased to € 44.2 million (December 31, 2020: € 55.5 million). This is attributable to a 12.4% decrease in inventories to € 24.0 million (December 31, 2020: € 27.3 million) as well as a 28.7% decrease in other assets to € 7.7 million (December 31, 2020: € 10.8 million). This reflects the deconsolidation of the Voltabox Group in the 2021 reporting year.

The decrease in cash and cash equivalents to € 1.5 million (December 31, 2020: € 5.7 million) is primarily due to the fact that short-term bank loans in the form of current account lines were repaid.

Due to the negative consolidated net income, equity decreased to € 3.3 million (December 31, 2020: € 13.2 million). Accordingly, the equity ratio was 2.1% as of the end of the reporting period (December 31, 2020: 6.6%). This is mainly attributable to the consolidated net income of € –11.4 million (December 31, 2020: € –44.7 million), which has been shaped by earnings from discontinued operations.

Noncurrent provisions and liabilities fell to € 28.3 million in the reporting year (December 31, 2020: € 92.7 million). This is mainly due to the fact that the German bond with a nominal volume of € 50.0 million has been fully reported under current liabilities in the reporting year. Noncurrent liabilities from leases decreased by € 5.3 million to € 9.5 million (December 31, 2020: € 14.8 million). This is due in particular to effects from the deconsolidation of the Voltabox Group. Deferred taxes amount to € 5.7 million (December 31, 2020: € 6.3 million) and have declined by 9.3% by comparison with the prior year.

Current provisions and liabilities increased from € 94.5 million to € 128.0 million. This is mainly due to the reporting of the German bond as current. Current loans decreased to € 14.6 million as a result of repayments (December 31, 2020: € 16.7 million). Trade receivables saw a further decline of € 3.6 million to € 13.9 million (December 31, 2020: € 17.5 million). By contrast, other current liabilities increased by € 5.3 million to € 15.0 million (December 31, 2020: € 20.3 million), this increase can essentially be attributed to the deferral of tax liabilities.

Financial Position of the paragon Group

Cash flow from operating activities improved in the period under review by € –0.9 million to € 13.7 million (prior year: € 14.6 million). This change is attributable on the one hand to the EUR 11.8 million improvement in negative earnings before income taxes. The cost-cutting measures taken by the management achieved their full effect in the reporting year. Accordingly, paragon was able to reduce its loss accordingly compared to the previous year. In addition, in particular a lower need for write-downs than in the previous year, with a reduction from EUR 6.9 million to EUR 2.0 million, and an increase in inventories of EUR 2.4 million (previous year: reduction in inventories of EUR 7.5 million) led to this result.

Cash flow from investment activity improved in the period under review to € 2.7 million (prior year: € –7.5 million). In particular, cash inflows from the sale of property, plant and equipment and offsetting cash outflows for the acquisition of intangible assets (flow shape design (FSD) technology) influenced cash flow from investing activities.

Free cash flow thus amounts to € –3,8 million (prior year: € 7.0 million). This change results in particular from the investment in the new FSD technology.

The negative cash flow from financing activities in the amount of € –18.3 million (prior year: € –8.2 million) is characterized by the repayment of loans as well as the inflow of cash and cash equivalents from the sale of Voltabox shares during the year in the amount of € 1.4 million (prior year: € 4.0 million).

Cash and cash equivalents fell accordingly by € 1.9 million to € 1.5 million as of the end of the reporting period (prior year: € 3.3 million for the Automotive unit).

In this context, please refer to the further explanations regarding the impending refinancing in the "Financial Risks" 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:

- The sale of the Voltabox shares, which resulted in the deconsolidation of the Voltabox subgroup
- Positive cash flow from operating activities
- Non-cash depreciation, amortization and write-downs and impairment losses that impacted earnings

In the Management's view, business development in the 2021 reporting year

- was positive in the Automotive unit (Electronics and Mechanics operating segment), in the context of the automobile manufacturers' reduced production figures in the second half of 2021 due to a lack of semiconductors and other intermediate products
- was unsatisfactory for the Electromobility operating segment which was sold in 2021 and is reported in the income statement as a discontinued operation.

Financial Performance of paragon GmbH & Co. KGaA

The revenue of paragon GmbH & Co. KGaA in the HGB financial statements was € 108.9 million in the year under review and thus increased by 19.2% compared to the prior year (prior year: € 91.4 million). On the one hand, this significant increase was attributable to the plant closures in the first half of 2020, which resulted in a decline in revenue in 2020. On the other, an increased volume of revenue was achieved due to a higher level of demand for electronics products.

In the past fiscal year, internally generated intangible assets were capitalized via own work capitalized of € 3.3 million (prior year: € 2.3 million). This increase reflects the fact that reduced working hours were used in 2020 and the available volume of work hours was therefore lower in 2020 than in 2021.

Other operating income increased, in particular, due to the profit realized on the sale of business premises within the scope of a "sale-and-lease-back" agreement in the amount of € 4.2 million. The other operating income also includes the book profit realized on the sale of shares in Voltabox AG.

The cost of materials ratio is at 68.2% at the same level as in the previous year (prior year: 68.5%). Personnel expenses have increased to € 13.9 million (prior year: € 10.6 million) and are thus at a level similar to their pre-coronavirus volume. Other operating expenses amounted to € 14.4 million in the year under review (prior year: € 11.9 million). The increase is mainly due to higher consulting expenses, currency losses and external services.

The profit transfer comprises the transferred profit of paragon electronic GmbH of € 1.8 million (prior year: € 1.6 million) and the transferred profit of SphereDesign GmbH of € 0.0 million (prior year: € 0.0 million). No write-downs on financial assets were required in the reporting year (prior year: € 4.7 million).

No further deferred tax assets were capitalized on loss carryforwards in the reporting year (prior year: € 4.0 million).

Taking into account income taxes of EUR 1.1 million (previous year income: EUR 1.6 million), paragon GmbH & Co. KGaA thus reported a net profit of EUR 6.9 million in the year under review (previous year net loss: EUR -1.1 million). EBITDA (earnings before interest, taxes, depreciation and amortization) for paragon GmbH & Co. KGaA amounted to EUR 17.3 million in the year under review (previous year: EUR 12.4 million). The EBITDA margin in the year under review was 15.9 % (previous year: 13.5 %). This increase can be explained in particular by the significantly improved earnings situation in the year under review and by the special effect of the sale of operating real estate under a sale-and-lease back agreement. As a result, both the sales forecast and the EBITDA forecast for 2021 have been met.

Net Assets of paragon GmbH & Co. KGaA

The assets of paragon GmbH & Co. KGaA in the HGB separate financial statements are at € 147.3 million as of the reporting date above the prior year's level (prior year: € 141.5 million).

Fixed assets decreased slightly, by € 4.9 million to € 97.3 million (prior year: € 102.2 million). This decrease is mainly attributable to the sale of shares in Voltabox AG. These were partially compensated for by additions to internally generated intangible assets.

Receivables and other assets increased to € 49.2 million (prior year: € 37.7 million). The key factor behind this increase is receivables from affiliated companies, resulting from the passing on within the Group of the costs for the acquisition of Voltabox AG's automotive business (€ 8.6 million).

Cash and cash equivalents were € 0 million as of the end of the reporting period (prior year: € 0.9 million).

Due to the net income in the year under review, equity increased by 6.9 million, from € 6.9 million to € 13.1 million.

The provisions of paragon GmbH & Co. KGaA amounted to € 6.1 million as of the reporting date (prior year: € 5.6 million). Liabilities decreased to € 127.5 million (prior year: € 128.9 million), mainly as a result of the scheduled repayment of bank loans and partial repayments of the CHF bond in the amount of CHF 5.25 million in August 2021.

Financial Position of paragon GmbH & Co. KGaA

The positive trend for the result for the year (net income of € 6.9 million in the year under review, compared to a net loss of € -1.1 million in the prior year) and the reduction in trade receivables led to a significant improvement in cash flow from operating activities. The capitalization of development costs and depreciation and amortization have no effect on cash flow.

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

Cash and cash equivalents decreased accordingly to € 0 million as of the reporting date (prior year: € 0.9 million).

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

The net assets, financial position and results of paragon GmbH & Co. KGaA developed as planned during the past fiscal year. They are characterized by a significant increase in revenue and by an improvement in earnings which has turned a net loss into a net profit. The Management considers that business developed positively in the reporting year 2021.

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 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 rising volume of car and light commercial vehicle sales in 2022 by comparison with 2021. 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 2022 in the Electronics and Mechanics operating segments. For years, the Management has pursued the goal of increasing the share of revenue per vehicle, for instance by increasing take-rates with existing customers, winning new customers for existing products internationally and developing innovative products and systems with a higher added value.

The marketing of numerous new product developments and innovations from the Digital Assistance and Sensors units will continue in 2022. Due to its strategic positioning, paragon will be able to profit from changes in the automotive value chain that will arise from the megatrends of digitalization, electrification, shared mobility, CO_2 reduction and autonomous driving.

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.

- In the Interior unit, opportunities arise from the demand for solutions in the area of (active) noise cancellation in vehicles. This interest on the part of OEMs applies both to the premium segment and to manufacturers of volume models. In particular, the greater penetration of electric cars – in which the lack of noise from a combustion engine makes the rolling noise of the tires on the road clearly audible in the interior – is increasing the relevance of the technology that paragon has in its portfolio. There are also opportunities for paragon's wireless charging products to be used in the automotive sector, since an increasing number of smartphones are in use that have the technical requirements for inductive charging.

- The external speakers marketed by paragon have growing sales potential, given that since July 1, 2019 an "Acoustic Vehicle Alerting System" (AVAS) has been mandatory in the EU for hybrid and pure electric vehicles, and the number of electric vehicles is set to increase significantly over the next few years.

- With the expanded technological structure of paragon semvox's digital assistants and AI platforms (included in the Digital Assistance unit) – for example, through the market launch and market penetration of the software architecture geni:OS – the Group aims to be sustainably anchored in OEMs' assistance systems. The technological lead of paragon semvox solutions can be a decisive factor in our early establishment with the respective OEMs, providing particular opportunities. The complexity of the software in the manufacturers' platform economy, and thus its deep integration, promises long-term establishment in the penetrated vehicle platforms. The integration of office applications under "The mobile office" provides paragon with additional opportunities, especially regarding premium models used as company cars.

- 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 opportunities for the Kinematics unit, since adaptive spoiler systems are increasingly popular in China.

  paragon's increased efforts in recent years to establish itself in the Chinese market are now paying off. In particular, this is reflected in paragon gaining new customers and the resulting series launches. 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.

- 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.

- Its licensing of the innovative Flow-Shape-Design technology of its former subsidiary Voltabox will provide paragon with the opportunity to make use of advantageous lithium-ion batteries in the automotive industry. The feedback from automobile manufacturers testifies to the precision fit of the offered solution. Accordingly, paragon sees good opportunities to rapidly develop the automotive market with the help of Flow-Shape-Design technology.

Overall Assessment of Opportunities

Through the regular and structured monitoring of opportunities within the paragon Group and the relevant sales markets as well as internal, barrier-free communication at the various levels of management, the Management is in a good position to identify opportunities for the Group. As of the end of fiscal year 2021, both external and internal opportunities have been identified or confirmed that have a positive impact on the financial performance indicators forecast for fiscal year 2022.

Risk Report

Risk Management

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

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

Strategic Governance and Risk Management

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

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

Central Risk Management

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

Central risk management supports the decentralized risk managers in the preparation of risk analyses and checks their returns and plausibility. It summarizes the individual risk profiles in a joint document. This means that interactions between the risks can be analyzed and the overall risk situation of the paragon Group can be recorded, evaluated and commented on. This summary is referred to as risk reporting. This task is of particular importance because the objective of an integrated risk management system is the holistic consideration of a company's risk situation. Risk reporting 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. With this, measures for future risk management or the improvement of existing measures are developed and included in the risk control report as proposed measures for implementation. The decision on implementation is the responsibility of the Management. In addition, the Management must be informed without delay of any risks incurred during the entire year (ad-hoc risk reporting). According to a resolution by the Management, regular meetings with all decentralized risk managers are no longer held. Instead, individual discussions are held with the decentralized risk managers.

Risk Monitoring

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

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

Risk Reporting

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

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

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

- Risks threatening the existence of the Group
- Strategic and environmental risks
- Market risks
- Operating risks
- Transaction risks
- Financial risks
- Management and organizational risks

In the 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 scheduled repayment of the CHF bond in April 2023 and is discussed further in the separate section on risks threatening the existence of the Group.

Risks

Risks Threatening the Existence of the Group

The liquidity situation has improved in the current fiscal year 2021 by comparison with the position in fiscal year 2020, but it is still not entirely back to normal. This positive trend was attributable to the following factors:

- the improvement in the order and earnings position,
- termination of liquidity support for Voltabox AG through the sale of Voltabox AG in 2021,
- the successful extension in March 2022 – i.e. after the balance sheet date for the reporting year – of the EUR bond at a creditors' meeting. This bond was originally due in July 2022 in the amount of € 50 million until July 2027 with partial repayments in the meantime.

Nonetheless, equity and debt providers are currently still only prepared to a limited extent to provide additional resources to support the company's further growth. At the same time, this will result in the following future financing requirements for paragon:

- Repayment of the CHF bond in the amount of CHF 8.75 million took place in April 2022.
- Repayment of the CHF bond in the amount of CHF 21.0 million is required in April 2023.
- An initial partial payment in the amount of € 5.0 million has been agreed for the EUR bond for April 2023.

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

- Further (partial) divestments of shareholdings and subsidiaries with external support,
- Sale-and-lease-back of machinery and plants,
- Extension of the CHF bond or a voluntary conversion offer
- Issuance of a new bond,
- Capital increase to strengthen equity capital.

The Management assumes that it will be rapidly possible to re-establish refinancing capacity. Overall, the Management is convinced that financing of operating activities and repayment of the amounts mentioned above 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 the above measures 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 sub-markets such as the U.S. or China, could have a negative impact on the company's assets, financial position and earnings. A politically motivated move away from the rule-based international trade system or its disturbance through isolated protectionist measures could lead to distortions in the global automotive value-added chain. As the paragon Group has its own production facilities in China and as it has a specific customer/product structure, the Management views the overall risk of protectionist influence on earnings as low.

A continuation of the coronavirus (SARS-CoV-2) situation and the associated COVID-19 illnesses 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 further intensification of the pandemic cannot be ruled out in fiscal year 2022, 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. The paragon Group's refinancing efforts could also be made more difficult due to potentially negative effects on the capital markets and the banking sector. In addition, an unfavorable economic development could result in agreed credit terms not being met.

Russia's invasion of Ukraine on February 24, 2022 constitutes a currently, further new unquantifiable risk. At the present time, it is unclear how the war will continue and what impact it will have on the automotive industry. Although the paragon Group does not maintain any production facilities in Ukraine or Russia, the armed conflict could lead to a loss of revenue as a result of reduced orders from customers and to higher costs, particularly for energy and raw materials.

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. The market research institute IHS expects to see a significant increase in global production of cars and light commercial vehicles in fiscal year 2022.

The dynamic impact of challenges in supply chains on the automotive market was demonstrated over the course of 2021, when a shortage of semiconductors needed to manufacture vehicles had consequences for OEMs. A change in the strategic direction of chip manufacturers on account of the coronavirus pandemic, with missing components leading to production cutbacks, led to delays in deliveries and reduced working hours for the automobile manufacturers. This current situation is likely to continue throughout 2022, although significant investment activity in the semiconductor industry is already having an initial positive impact. In the event of production stops or cutbacks, suppliers such as paragon could also be faced with a reduction in customer orders, which could impact revenue and earnings. However, the Management is convinced that the consequences for paragon can be 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.

paragon generated 52.7% and 20.4% of its revenue with its two largest customers. The loss of a major customer could have a significant impact on the company's assets, financial position and earnings in the medium term. However, due to the 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 into consideration. In contrast to many other automotive suppliers, paragon does not wait for automotive manufacturers to make certain demands and specific requirements, but rather develops its own innovative solutions, which are implemented in cooperation with pilot customers and subsequently offered to a wider customer base. As a growing number of automotive innovations are electronic in nature, paragon sees a wide range of market opportunities for its Electronics operating segment. However, it cannot be ruled out that a product development may not achieve its expected quantities or may not find a market, or that its economic success may be lower or later than originally planned. Given the high proportion of capitalized development activities on the balance sheet, a corresponding valuation allowance for intangible assets could have a negative impact on the company's assets, financial position and earnings.

Operating Risks

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

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

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

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

In its procurement activities, paragon took advantage of the global price competition on all relevant markets and secured a substantial portion of its procurement prices through framework contracts, annual agreements and long-term supplier relationships. The Group continues to purchase around 90% of its purchase value from European contract partners, while the rest is purchased directly in Asia and the 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 the IT infrastructure and critical data.

In terms of supply chains, further restrictions are possible in relation to our customers' automobile 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 subsidiaries paragon movasys GmbH and paragon semvox GmbH could lead to a need for impairment.

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.

Financial Risks

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

There are currency risks from the issue of the CHF 29.75 million bond, which are explained in the notes.

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

Financial covenants have been agreed for the CHF bond issued in 2019. This refers to the equity ratio (the ratio of equity and consolidated total assets), which may not fall below a contractually defined value of 10%. As of December 31, 2021, there is a formal shortfall in the equity ratio. Even before the consolidated financial statements were prepared, the formal breach of covenant had been remedied by confirmation from the bank accompanying the issue. This eliminates the reason for the possible calling-in of the bond due to the equity ratio as of December 31, 2021. paragon undertook to repay 25% of the principal amount (i.e. CHF 8.75 million) on April 23, 2022. The remaining outstanding principal amount of the bonds will eventually be repaid at par value on April 23, 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. An additional option for short-term financing is in the form of factoring agreements. paragon must increasingly react to the intention on the part of the customers to pre-finance development services, tools or operating resources. The Management has also taken appropriate measures to harmonize the sharply increased conditions imposed by customers regarding payment of nonrecurring costs in the scope of series deliveries with paragon's role as a major supplier of important and high-quality components. The company's liquidity situation improved in fiscal 2021, but has not yet fully normalized. Unexpected plant closures by customers due to Covid 19 or missing components, as well as the non-realization of the measures listed under going-concern risks, may have a negative impact on the liquidity situation in the forecast period..

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

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

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 owner-oriented governance, are intended to prevent missing interfaces and functional overlaps. Currently, the Management does not consider there to be any material risks to paragon in this area.

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

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

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 can 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 the two 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' automobile production activities. It is not yet possible to provide a meaningful assessment of the possible effects of the war in Ukraine.

paragon GmbH & Co. KGaA will continue to focus strongly on financial risks in order to ensure the continued existence of the Group. The scheduled repayment of the CHF bond in the amount of CHF 29.75 million and a partial repayment of the EUR bond in the amount of € 5 million are planned by April 2023. In this context, the company is analyzing and evaluating various options for financing this repayment. Overall, the Management is convinced that repayment can be achieved as planned. If this were not achieved, it could jeopardize the existence of the company. In this regard, we refer to the further explanations in the section "Risks Threatening the Existence of the Group."

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

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

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

a) Ensure the effectiveness and profitability of the business (including the protection of assets and the prevention and detection of 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, Management has determined the scope and design of the control activities and implemented them in this process. Independent controls have also been established. The control activities address those control risks which, in terms of their probability of occurrence and their impact, could have a significant influence on the accounting and overall statement of the consolidated financial statements, including the Group management report. Key principles, procedures, measures and control activities include:

- Identification of the key control risks relevant to the accounting process

- Process-independent controls for monitoring the accounting process and its results at the level of the Management of paragon GmbH & Co. KGaA

- Control activities in the finance department of paragon GmbH & Co. KGaA that provide essential information for the preparation of the annual financial statements and management report including the required separation of functions and approval procedures

- Measures that ensure the proper computerized processing of accounting-related information

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

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

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

Financial covenants were concluded between the creditors of the CHF bond and paragon. This refers to the equity ratio (the ratio of equity and consolidated total assets), which may not fall below a contractually defined value of 10% for fiscal year 2021. A shortfall would grant creditors a right of termination. The equity ratio fell below 10% as of December 31, 2021. A formal covenant breach was successfully avoided in negotiations with the creditors. 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 2022

For 2022, the International Monetary Fund (IMF) expects further growth in economic output, amounting to 3.5%, and an average inflation rate of 3.9%. The predicted growth level for 2022 is significantly lower than in 2021 (5.9%). For Germany, the IMF predicts a growth rate of 2.1%.

The IMF points to risks due to further mobility restrictions on account of COVID-19 variants, the Ukraine war, as well as rising energy prices and the possible continuation of disruptions to supply chains.

In terms of the automotive industry, we expect the global car market to experience further growth in 2022. The market research institute IHS even expects that global production of cars and light commercial vehicles will increase by a rate in excess of 10%.

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

- Significant increase in production figures – due to the high order backlog – within the global automotive industry and stable, positive trend for paragon's core markets (Europe and particularly Germany) – 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.

- The premium segment remains robust in the context of the cyclical influences on the automotive industry

- Completed development of concepts and models for working at a distance and maintaining production while the risk of renewed restrictions on public life remains latent due to COVID-19.

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

- We expect the planned measures to successfully counter the financial risks. If the Management's planned measures (scheduled repayment of the CHF bond and partial repayment of the EUR bond) do not lead to success, there is a material uncertainty regarding the continuation of the business. We refer to our comments in the risk report in this respect.

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 2022 and the known sales expectations of automotive customers according to IHS Markit and their existing orders of paragon products for the first half of 2022. Accordingly, paragon's Management expects the Group to generate revenue in the Automotive business of between € 155 and 165 million in fiscal year 2022, with an EBITDA margin in excess of 15%. Free cash flow is expected to be around € 12 million.

A key driver of revenue growth will be the strong level of demand for air quality sensors in the Sensors unit. These products are being installed in more and more model series and have recently attracted increased attention from manufacturers as a result of the intense debate in society about particulate matter levels in inner cities. In addition, the market penetration of the Digital Assistance unit's software products continues to increase at a rapid pace. A decisive factor here is also the rapidly growing proportion of volume models equipped with paragon semvox technology. The company continues to see the expansion of activities in the Sensors and Kinematics unit in the Chinese market as a further growth driver. On the other hand, the preparatory measures taken in recent years to cultivate the market will have a noticeable impact on revenue in fiscal year 2022.

Development of key performance indicators:

€ '000 / as indicated	2021	2020	Change in %	2022 forecast
Financial performance indicators				
Group revenue	146,919	127,129	15.5	€ 155 – 165 million
EBITDA margin	13.6 %	10.8 %	25.4	> 15 %
Free cash flow	–3,832	6,976	–154.9	approx. € 12 million

paragon GmbH & Co. KGaA

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

€ '000 / as indicated	2021	2020	Change in %	2022 forecast
Financial performance indicators				
Revenue	108,906	91,371	19.19 %	€ 115 million
EBITDA margin	16.2 %	13.5 %	20.0 %	> 15 %

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

Composition of the Subscribed Capital

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

Stock Voting Right and Transfer Restrictions

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

Holdings That Exceed 10 Percent of the Voting Rights

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

Shares With Special Rights of Control

There are no shares that confer special rights of control.

Voting Right Controls for Employees Participating in the Capital

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

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

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

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

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

Authorization of the Management to Issue Shares

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

Shareholders are generally to be granted subscription rights. The statutory subscription right may also be granted in such a way that the new shares are underwritten by a syndicate of banks with the obligation to offer them indirectly to the shareholders for subscription within the meaning of Art. 186 par. 5 AktG. However, the General Partner is authorized, with the approval of the Supervisory Board, to exclude the statutory subscription rights of shareholders in defined cases.

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

The bonds may be issued against cash contributions, but also against contributions in kind, in particular the acquisition of shares in other companies. In the case of bonds with warrants, the bonds may also be issued against contributions in kind, provided that the terms and conditions of the warrants stipulate that the option price per share of the Company is to be paid entirely in cash 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 and Section 289f (1) of the German Commercial Code can be accessed at any time on paragon's website at https://ir.paragon.ag. It includes the declaration of compliance with the German Corporate Governance Code pursuant to Section 161 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.

Group Structure

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

Relevant Disclosures on Corporate Governance Practices

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

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

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

Description of the Working Methods of the Management and Supervisory Board

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

Directors and Officers

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

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

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

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

The Management of paragon GmbH & Co. KGaA consisted of two members as of December 31, 2021.

Klaus Dieter Frers

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

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

Dr. Matthias Schöllmann

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

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

Supervisory Board of paragon GmbH & Co. KGaA

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

The Supervisory Board of paragon GmbH & Co. KGaA consisted of two members throughout fiscal year 2020: Hermann Börnemeier (Vice-Chairman, Board member since 10/30/2010) and Walter Schäfers (Board member since 10/30/2010). On August 31, 2021, Prof. Dr. Iris Gräßler assumed the chairmanship of the Supervisory Board from Prof. Dr. Lutz Eckstein (Supervisory Board Chairman in the period from May 14, 2014 to August 31, 2021). In fiscal year 2021, there were no conflicts of interest among the members that would have to have been disclosed to the Supervisory Board. The Supervisory Board assesses the efficiency of its work through self-evaluation once a year.

In respect of the services personally provided by members of the Supervisory Board for the Group in fiscal year 2021, the company refers to the disclosures in the consolidated financial statements as well as the combined management report for paragon GmbH & Co. KGaA and the paragon Group.

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

- Transformation measures resulting in a change in the Group's structure

- The purchase, disposal or encumbrance of land, rights equivalent to real property or rights to land insofar as the value of the respective measure exceeds an amount of € 3 million

- Participation in other companies or the relinquishment of such participations, insofar as the value of the respective measure exceeds an amount of € 5 million
- Assumption of sureties, guarantees and similar liability outside the scope of normal business activities, insofar as the measure in question is significant for the Group

- Grant of loans or other credits outside the scope of normal business activities, insofar as the measure in question is significant for the Group

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

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

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

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

GmbH as the general partner and for the shareholders with significant interests in this company.

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

The Supervisory Board of paragon GmbH & Co. KGaA fulfilled the consulting and monitoring obligations incumbent upon it according to law, the Articles of Association and the German Corporate Governance Code (GCGC) in their respective current versions with great care in fiscal year 2021. 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 after appropriate consideration.

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

Diversity and Targets

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

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

With regard to Section 76 (4) and Section 111 (5) of the German Stock Corporation Act as well as Nos. B.1 and C.1 of the German Corporate Governance Code (GCGC) on the topic of diversity, in 2020 the Supervisory Board and the Management jointly determined the current proportion of women belonging to the Supervisory Board and the Management and the target figures for February 28, 2023. The current quota for paragon GmbH & Co. KGaA is zero for the Management (two members). The defined target for this body was set at zero, taking into consideration the status quo, since the contract periods or the terms of office of these two members continue beyond this date. The current ratio for the Supervisory Board of paragon GmbH & Co. KGaA (three members) is 33.3%. The target for February 28, 2023 was thus raised to 33.3%.

On December 31, 2021, the share of women at the downstream management levels of paragon Automotive accounted for 15.5% of the management personnel (prior year: 13.3%). The company intends to increase the quota of women for downstream management levels to 25% in the long term.

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

Long-Term Succession Planning

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

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

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

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

Non-financial reporting

For fiscal year 2021, the company has prepared a consolidated nonfinancial report for the paragon Group and for paragon GmbH & Co. KGaA. The report is not part of the combined management report. The Management has produced this report separately and has published it on the company's website (https://ir.paragon.ag).

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

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

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

The Management and the Supervisory Board of paragon GmbH & Co. KGaA hereby declare pursuant to Section 161 AktG that paragon GmbH & Co. KGaA complies with the recommendations of the GCGC as amended on December 16, 2019 (published in the Federal Gazette on March 20, 2020), except in the following cases:

Recommendation and Suggestion A.2 (Compliance Management System)

The GCGC encourages the establishment of a compliance management system geared to the company's risk situation, which is intended to enable employees and third parties to provide information on legal violations within the company. paragon introduced this type of "whistleblower system" in the second half of 2021.

Recommendation B.1 (Diversity on the Management Board)

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

Recommendation B.3 (first-time appointment of management board members)

The GCGC recommends that the first-time appointment of management board members should not exceed a period of three years. Dr. Schöllmann was initially appointed as a managing director of paragon GmbH for a period of five years.

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

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

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

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

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

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

Recommendation D.7 (Meeting without the Management Board)

The GCGC recommends that the Supervisory Board should also meet regularly without the Management Board. In fiscal year 2021, the Supervisory Board included the Management in each of its meetings in order to obtain a reliable picture of the company's situation in view of the dynamic situation resulting from the coronavirus pandemic.

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

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

Recommendation G.1 (Determination of a Remuneration System)

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

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

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

Delbrück, Germany, April 28, 2022
paragon GmbH & Co. KGaA

The Management

Klaus Dieter Frers
Chairman

Dr. Matthias Schöllmann
Managing Director

Consolidated Income Statement

€ '000	Notes	Jan. 1– Dec. 31, 2021 [1]	Jan. 1– Dec. 31, 2020
Revenue	10, 44	**146,919**	**127,179**
Other operating income	11	4,808	2,737
Increase or decrease in inventory of finished goods and work in progress		364	-8,460
Other own work capitalized	12	7,366	4,904
Total operating performance		**159,458**	**126,360**
Cost of materials	13	-72,928	-60,701
Gross profit		**86,530**	**65,659**
Personnel expenses	14	-44,581	-35,766
Depreciation of property, plant and equipment and amortization of intangible assets	16	-16,679	-16,973
Impairment of current assets		-500	-532
Impairment of goodwill		0	-500
Impairment of property, plant and equipment and intangible assets	16	-2,020	-6,433
Other operating expenses	15	-21,972	-16,101
Earnings before interest and taxes (EBIT)		**776**	**-10,646**
Financial income	17	64	39
Financial expenses	17	-6,183	-6,551
Financial result		**-6,118**	**-6,512**
Earnings before taxes (EBT)		**-5,342**	**-17,158**
Income taxes	18	-156	9,550
Earnings from continuing operations		**-5,498**	**-7,608**
Earnings from discontinued operations	19	**-5,919**	**-37,065**
Consolidated net income		**-11,417**	**-44,673**
Earnings per share in € (basic and diluted) from continuing operations	20	-1.21	-1.68
Earnings per share in € (basic and diluted) from discontinued operations		-1.31	-4.46
Earnings per share in € (basic and diluted) from continuing and discontinued operations		-2.52	-6.14
Average number of shares outstanding (basic and diluted)		4,526,266	4,526,266

1 The paragon Group comprises the Electronics and Mechanics segments. In fiscal year 2021, paragon lost control of Voltabox AG due to the sale of its shares in the company. The Electromobility segment (which was previously represented by Voltabox AG) is presented as a discontinued operation in accordance with 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, 2021	Jan. 1– Dec. 31, 2020
Consolidated net income		**–11,417**	**–44,673**
Actuarial gains and losses from continuing operations	32	525	0
Currency translation reserve from continuing operations		–16	1,248
Currency translation from discontinued operations		–399	0
Total comprehensive income		**–11,307**	**–43,425**

Net income attributable to minority interests		
paragon Group shareholders	11,417	–27,803
Minority interests	N.A.	–16,869
Total comprehensive income attributable to minority interests		
paragon Group shareholders	–11,307	–26,640
Minority interests	N.A.	–16,784

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

Consolidated Statement of Financial Position

€ '000	Notes	Dec. 31, 2021	Dec. 31, 2020
ASSETS			
Noncurrent assets			
Intangible assets	21	54,533	59,608
Goodwill	22	21,875	21,875
Property, plant and equipment	23	37,998	60,135
Financial assets	24	574	1,521
Other assets		473	1,810
Deferred tax assets	18	0	0
		115,453	**144,949**
Current assets			
Inventories	24	23,965	27,345
Trade receivables	25	10,859	11,645
Income tax assets		221	69
Other assets	26	7,717	10,824
Cash and cash equivalents	27	1,455	5,664
		44,216	**55,546**
Total assets		**159,669**	**200,495**

€ '000	Notes	Dec. 31, 2021	Dec. 31, 2020
EQUITY AND LIABILITIES			
Equity			
Subscribed capital	28	4,526	4,526
Capital reserve	28	15,485	15,485
Minority interests	28	0	5,792
Revaluation reserve	28	–677	–1,202
Profit/loss carried forward	28	–10,323	16,625
Consolidated net income	28	–5,960	–27,803
Currency translation differences	28	250	–191
		3,300	**13,231**
Noncurrent provisions and liabilities			
Noncurrent finance lease liabilities	29	9,496	14,822
Noncurrent loans	30	10,182	16,997
Noncurrent bonds	31	0	50,563
Special item for investment grants	34	0	742
Deferred taxes	18	5,692	6,274
Pension provisions	32	2,931	3,345
		28,301	**92,742**
Current provisions and liabilities			
Current portion of finance lease liabilities	29	2,582	3,894
Current loans and current portion of noncurrent loans	30	14,580	16,659
Trade payables		13,870	17,493
Liabilities to affiliated companies		17	0
Short-term bonds	31	79,038	32,685
Other provisions	35	2,015	2,609
Income tax liabilities	36	927	841
Other current liabilities	33	15,037	20,340
		128,068	**94,522**
Total equity and liabilities		**159,669**	**200,495**

Consolidated Cash Flow Statement

€ '000	Notes	Jan. 1– Dec. 31, 2021 [1]	Jan. 1– Dec. 31, 2020
Earnings before taxes (EBT)		**-5,342**	**-17,158**
Depreciation/amortization of noncurrent assets		16,679	16,973
Financial result		6,119	6,512
Gains (–)/losses (+) from the disposal of property, plant and equipment and financial assets		-582	765
Increase (+)/decrease (–) in other provisions and pension provisions		47	614
Income from the reversal of the special item for investment grants		-742	-87
Other non-cash income and expenses		1,432	-139
Increase (–)/decrease (+) in trade receivables, other receivables, and other assets		137	-1,225
Depreciation of noncurrent assets (+)		2,020	6,934
Increase (–)/decrease (+) in inventories		-2,370	7,483
Increase (+)/decrease (–) in trade payables and other liabilities		933	279
Interest paid		-4,724	-6,512
Income tax expense (+) /income (–) without deferred taxes		573	208
Income tax payments		-473	-8
Cash flow from operating activities (continuing)	42	**13,707**	**14,639**
Cash flow from operating activities (discontinued)		**1,101**	**4,116**
Cash receipts from the disposal of property, plant and equipment (+)		11,876	121
Cash payments for investments in property, plant and equipment (–)		-2,236	-1,564
Cash payments for investments in intangible assets (–)		-15,303	-6,099
Payments resulting from the sale of consolidated companies and other business units (+)		8,351	0
Interest received		0	39
Cash flow from investing activities (continuing)	42	**2,688**	**-7,503**
Cash flow from investing activities (discontinued)		**-1,012**	**-5,116**
Loan repayments (–)		-10,877	-11,065
Proceeds from loans (+)		0	987
Bond repayments (–)		-5,812	0
Cash payments for leases (–)		-3,020	-2,735
Proceeds from lease liabilities (+)		0	534
Net proceeds from the sale of shares (+)		1,442	4,049
Cash flow from financing activities (continuing)	42	**-18,267**	**-8,230**
Cash flow from financing activities (discontinued)		**-2,260**	**-1,699**
Changes in cash and cash equivalents (continuing)		-1,872	-1,094
Cash and cash equivalents at beginning of period (continuing)		3,327	4,421
Cash and cash equivalents at end of period (continuing)	27, 42	1,455	3,327

[1] The paragon Group comprises the Electronics and Mechanics segments. In fiscal year 2021, paragon lost control of Voltabox AG due to the sale of its shares in the company. The Electromobility segment (which was previously represented by Voltabox AG) is presented as a discontinued operation in accordance with IFRS 5. The prior-year figures have therefore been adjusted.

Statement of Changes in Equity

€ '000	Subscribed capital	Capital reserve	Revaluation reserve	Currency translation reserve	Profit carried forward	Net income for the year	Minority interests	Total
As of Jan, 1, 2021	**4,526**	**15,485**	**-1,202**	**-191**	**16,625**	**-27,803**	**5,792**	**13,231**
Loss appropriation	0	0	0	0	-27,803	27,803	0	0
Net income from continued operations	0	0	0	0	0	-5,498	0	-5,498
Net income from discontinued operations	0	0	0	457		-462	-5,914	-5,919
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**	**-27,803**	**21,843**	**-6,313**	**-11,307**
Decreased shareholding in Voltabox	0	0	0	0	855	0	522	1,377
As of Dec, 31, 2021	**4,526**	**15,485**	**-677**	**250**	**-10,323**	**-5,960**	**0**	**3,300**

€ '000	Subscribed capital	Capital reserve	Revaluation reserve	Currency translation reserve	Profit carried forward	Net income for the year	Minority interests	Total
January 1, 2020	**4,526**	**15,485**	**-1,202**	**-1,354**	**14,393**	**0**	**20,759**	**52,607**
Consolidated net income	0	0	0	0	0	-27,803	-16,869	44,673
Currency translation	0	0	0	1,163	0	0	85	1,248
Other comprehensive income	0	0	0	1,163	0	0	85	1,248
Total comprehensive income	**0**	**0**	**0**	**1,163**	**0**	**-27,803**	**-16,784**	**43,425**
Decreased shareholding in Voltabox	0	0	0	0	2,232	0	1,817	4,049
December 31, 2020	**4,526**	**15,485**	**-1,202**	**-191**	**16,625**	**-27,803**	**5,792**	**13,231**

Notes to the Consolidated Financial Statements 2021

(1) General Information

paragon Aktiengesellschaft (hereafter “paragon GmbH & Co. KGaA” or “paragon”) is a joint stock corporation incorporated under German law. The company’s headquarters are at Bösendamm 11, 33129 Delbrück, Germany. paragon GmbH & Co. KGaA’s shares have been traded on the Frankfurt Stock Exchange in the Prime Standard segment of the regulated market since 2000. paragon GmbH & Co. KGaA is entered in the commercial register of the district court of Paderborn (HRB 13491). According to its Articles of Association, the business purpose of paragon GmbH & Co. KGaA (hereinafter also “company”) is the research and development of microelectronics, the manufacture and sale of electronic devices, their corresponding peripherals and component groups as well as 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, 2021, and the management report for the period from January 1 to December 31, 2021, for submission to the Supervisory Board on April 28, 2022.

The consolidated financial statements and management report of paragon GmbH & Co. KGaA for the period from January 1 to December 31, 2021, 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 its shares in the Voltabox subgroup. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiaries Voltabox AG, Voltabox of North America Inc., Voltabox Kunshan Co. Ltd and the minority interest in ForkOn GmbH. For this reason, the former Voltabox subgroup is accounted for as a “discontinued operation” in accordance with IFRS 5. It represented the Electromobility operating segment in the paragon Group. The application of IFRS 5 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. The prior-year figures in continuing operations only include the figures for the Mechanics and Electronics segments.

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

The consolidated financial statements of paragon GmbH & Co. KGaA as of December 31, 2021, 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, 2021, 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 regarding the repayment of the CHF bond and the partial repayment of the EUR bond in April 2023. Further details on this can be found in the risk report in the "Risks Threatening the Existence of the Group" section of the combined management report.

(4) Events After the Reporting Period

The consolidated financial statements are prepared on the basis of the circumstances existing as of the reporting date. 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, 2021, were authorized by the Management and submitted to the Supervisory Board for approval on April 28, 2022. The following major events occurred in the period up to this date:

Financial covenants were concluded between the creditors of the CHF bond and paragon. Originally, one element was that the equity ratio (the ratio between equity and consolidated total assets) may not fall below a contractually defined value of 10%. The equity ratio fell below 10% as of December 31, 2021. A formal covenant breach was, however, successfully avoided in negotiations with the creditors and Helvetische Bank. The final maturity of the CHF bond is thus unchanged. Please refer to the "Financial Risks" section of the risk report in the management report.

The consequences of the armed conflict between Russia and Ukraine since February 24, 2022 cannot be estimated at the moment, nor is it possible to estimate the potential financial impact. At the present time, it is unclear how the war will continue and what impact it will have on the automotive industry. Although the paragon Group does not maintain any production facilities in Ukraine and Russia, the armed conflict could lead to a loss of sales as a result of reduced orders from customers and to higher costs, particularly for energy and raw materials.

In a creditors' meeting on 10 March 2022, the terms and conditions of the EUR bond were adjusted. Among other things, the repayment of the bond was modified in such a way that the bond is no longer due in July 2022, but partial repayments are made in 2023, 2025 and 2026. The final repayment is scheduled for July 2027.

After the reporting date, the buyer of the Voltabox shares exercised their contractually agreed call option. A further 350,000 shares were transferred. This reduced the amount of Voltabox shares held by paragon to 50,699.

(5) New Accounting Principles Due to New Standards

The impact of new accounting principles whose scope of application is compatible with the activities of paragon GmbH & Co. KGaA is detailed below. For reasons of materiality, paragon GmbH & Co. KGaA does not present changes in accounting that do not affect the company. There were no significant changes to the existing IFRS standards within the scope of activity of paragon GmbH & Co. KGaA in the reporting period. This also applies to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, the application of which is mandatory for the first time in 2020.

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:

IFRS 17 – Insurance Contracts and Amendments

Determination of recognition, measurement, presentation as well as filing obligations for all types of insurance contracts. Applicable to fiscal years beginning on or after January 1, 2023. Upon coming into force, IFRS 17 will replace the currently applicable IFRS 4 Insurance Contracts. Neither IFRS 4 nor IFRS 17 applies to the Group. The new standard is not therefore expected to have any effect on the consolidated financial statements.

IFRS 3 – Reference to the Conceptual Framework

As a result of the amendments, the reference in IFRS 3 to the conceptual framework for the preparation and presentation of financial statements (1989) has been replaced by a reference to the new conceptual framework for financial reporting which was published in March 2018. To become mandatory in fiscal years commencing on or after January 1, 2022. These improvements are not expected to have any significant impact on the consolidated financial statements.

IAS 16 – Revenue Earned Before an Asset is Ready for its Intended Use

The amendments to IAS 16 mean that, in the future, it will no longer be permissible, prior to the intended use of property, plant and equipment, to deduct income from the cost of this item of property, plant and equipment. This revenue will be recognized in the income statement as of its occurrence. To become mandatory in fiscal years commencing on or after January 1, 2022. These amendments are not expected to have any significant impact on the consolidated financial statements.

IAS 37 – Onerous Contracts

Clarification of the cost of fulfilling a contract. These amendments require application in fiscal years beginning on or after January 1, 2022. These improvements are not expected to have any significant impact on the consolidated financial statements.

Annual improvements to IFRS 2018–2020

The annual improvements process includes, in particular, an amendment to IFRS 1: First-time Adoption by a Subsidiary, an amendment to IFRS 9: Fees in the '10 per cent' Test for Derecognition of Financial Liabilities, and an amendment to IAS 41: Taxation in Fair Value Measurements. To become mandatory in fiscal years commencing on or after January 1, 2022. These improvements are not expected to have any significant impact on the consolidated financial statements.

(6) Scope of Consolidation

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

Name and registered office of the company	Shareholdings	Consolidation
Germany		
paragon GmbH & Co. KGaA, Delbrück, Germany	n. a.	n. a.
paragon electronic GmbH, Delbrück, Germany	100.00 %	Consolidated subsidiary
SphereDesign GmbH, Bexbach	100.00 %	Consolidated subsidiary
Nordhagen Immobilien GmbH, Delbrück, Germany	100.00 %	Consolidated subsidiary
paragon movasys GmbH, Delbrück	100.00 %	Consolidated subsidiary
paragon semvox GmbH, Limbach [1]	95.40 %	Consolidated subsidiary
paragon electroacoustic GmbH, Neu-Ulm	100.00 %	Consolidated subsidiary
ETON Soundsysteme GmbH, Neu-Ulm	100.00 %	Consolidated subsidiary
paragon electrodrive GmbH, Delbrück	100.00 %	Consolidated subsidiary
China		
paragon Automotive Technology (Shanghai), Co., Ltd.	100.00 %	Consolidated subsidiary
paragon Automotive (Kunshan), Co. Ltd.	100.00 %	Consolidated subsidiary
The following companies were not consolidated in 2021:		
Paravox Automotive Ltd., India	100.00 %	Waived inclusion due to immateriality
paragon movasys d.o.o.	100.00 %	Waived inclusion due to immateriality
Voltabox of Texas, Inc., Austin (USA)		Deconsolidated
Voltabox Kunshan, Co. Ltd., China		Deconsolidated
Voltabox AG, Delbrück , Germany		Deconsolidated

1 paragon semvox GMbH is consolidated at 100%, and the noncontrolling interests are shown in the financial statements as other current purchase price liabilities of € 859 thousand (prior year: € 3,057 thousand).

The scope of consolidation has changed significantly as a result of the deconsolidation of Voltabox AG due to the sale of shares and the associated loss of control of Voltabox AG. The stake of 8,620,000 shares in Voltabox AG held by paragon as of December 31 of the prior year decreased to 8,120,699 shares by June 30, 2021. This share reduction did not result in a loss of control over the subsidiary, and the reduction was recognized directly in equity. As of November 16, 2021, 7,720,000 shares have been sold. This reduced the amount of shares held by paragon to 400,699. The percentage of Voltabox AG held by paragon GmbH & Co. KGaA still amounts to 2.53% (prior year: 54.47% as of December 31, 2021. The net income on disposal is allocated to discontinued operations. In this respect, we refer to the statement of changes in equity.

The shareholding in paragon semvox GmbH increased by 13.4% to 95.4% as a result of the exercise of contractually agreed options in the fiscal year.

In the fiscal year, Paravox Automotive Ltd. was founded in Karnataka, India. Due to its current immateriality, this company was not consolidated in fiscal year 2021.

Company	Share	Revenue 2021 € '000	Equity 2021 € '000	2021 earnings according to IFRS
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, Limbach	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
China				
paragon Automotive Technology (Shanghai) Co. Ltd., China	100.00 %	121	41	1
paragon Automotive Co., Ltd., KunShan	100.00 %	5,896	–1,667	968
The following companies are not consolidated:				
Paravox Automotive Ltd., India	100.00 %	186	32	25
paragon movasys d.o.o., Croatia	100.00 %	452	45	25
Investments				
Bilster Berg Drive Resort GmbH & Co. KG [1]	EUR 120,000			
Securities				
Voltabox AG, Delbrück [1]	EUR 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.

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

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 using uniform accounting policies under IFRS as of December 31, 2021. 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, 2021, 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.

Effects on Earnings from Capital Consolidation

paragon semvox GmbH is fully consolidated in the consolidated financial statements, even though 4.6% is held by non-controlling shareholders as of the reporting date. There are long-term put options held by other shareholders and long-term call options held by the company (other liabilities) for the acquisition of the remaining 4.6% of the shares in paragon semvox GmbH. The fair value of the put and call options as of the reporting date was € 859 thousand each (prior year: € 3,057 thousand).

(7) Currency translation

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

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 € 42 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 significant to the paragon Group developed as follows:

Foreign currency for € 1	Statement of financial position average exchange rate on Dec. 31, 2021	Income statement average rate 2021	Statement of financial position average exchange rate on Dec. 31, 2020	Income statement average rate 2020
US dollar (USD)	1.1343	1.1302	1.2265	1.2169
Swiss franc (CHF)	1.0355	1.0404	1.0823	1.0816
Chinese renminbi yuan (RMB)	7.2158	7.1987	8.0121	7.9591

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, 2021. Individual items in the consolidated statement of financial position and the consolidated statement of comprehensive income have been combined in order to provide better clarity and transparency. Where this has occurred, the items are explained individually in the notes to the financial statements. The consolidated statement of comprehensive income is presented using the nature of expense method, as in previous periods. Assets and liabilities are classified into noncurrent and current assets and liabilities in the statement of financial position; further details on their maturity are presented in the notes. Assets and liabilities are recognized as current if they mature within twelve months.

The consolidated financial statements comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the notes to the consolidated financial statements, the consolidated cash flow statement and the consolidated statement of changes in equity. A Group management report has been prepared as a supplement to the above statements.

Recognition of Acquisitions

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

Intangible Assets

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

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

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

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

Goodwill is carried at acquisition cost and tested for impairment on an annual basis, as well as additionally on other dates when there are any indications of potential impairment. Impairment losses are shown as separate items in the income statement.

Property, Plant and Equipment

Additions to property, plant and equipment are measured at cost plus incidental acquisition costs and less any purchase price reductions received. If the purchase or production costs of individual components of an item of property, plant and equipment are significant when measured against the item's total purchase or production cost, then such components are recorded as separate assets and depreciated individually. Depreciation is generally recorded on a straight-line basis. The useful life for depreciation purposes ranges from 20 to 33 years for buildings, five to ten years for technical plants and three to ten years for other plants, operating and office equipment.

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

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

Leases

The effects of the application of IFRS 16 are presented in the "Lease Liabilities" section.

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

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

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

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

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

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

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

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

The right-of-use asset is amortized on a straight-line basis 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 determine the use of the underlying asset and derive all the remaining economic benefits from it substantially, the transaction is a sale under IFRS 15. In this case, paragon recognizes the disposal of the underlying asset and realizes the sales profit to the extent that it relates to rights to use the asset actually transferred to the lessor. A right-of-use asset is recorded for the remaining share. If there is no sale under IFRS 15, the transaction is recorded as a loan.

Impairment of Nonfinancial Assets

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

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

Financial Instruments

Financial instruments are contracts that generate a financial asset for one party and a financial liability or an equity instrument for the other party. The primary financial instruments include, in particular, trade receivables, lending, cash and cash equivalents, financial liabilities and trade payables. Other financial assets and other financial liabilities likewise exclusively comprise financial instruments.

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 quarterly financial statement.

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

Financial assets that are exclusively held for trading purposes are 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.

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

Financial liabilities are classified as at fair value through profit or loss 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 which 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 which 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. The consolidated financial statements do not include any FVOCI financial assets, since receivables that are intended for sale to a factoring bank are assigned immediately as and when they arise. For this reason, the difference between the purchase amount and the nominal value of the receivable is treated as income.

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

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

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

Fair Value – Measurement

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

Level 1: prices for identical assets and liabilities quoted on active markets (that are used unchanged).

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

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

The fair values were determined based on the market conditions available on the reporting date by means of financial mathematics valuation methods. They correspond to the prices received between independent market participants for the sale of an asset or for the transfer of a liability.

Reclassifications between the levels of the fair value hierarchy are taken into account at the respective reporting dates. In fiscal years 2021 and 2020, no reclassifications were implemented between Level 1, Level 2 or Level 3.

Income Taxes

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

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

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

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

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

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

Inventories

Inventories are measured at the lower of net 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 existing 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 accordingly measured at fair value through profit or loss (FVTPL). Upon initial recognition, receivables in the AC category are carried at their transaction price plus directly attributable transaction costs less any necessary impairment losses. 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 result in the derecognition of the respective receivables. The determination of allowances for doubtful accounts is mainly based on estimates and assessments 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 may be converted at any time into cash amounts that may be determined in advance, are only subject to slight fluctuation risks, and have a remaining term of no more than three months from the date of acquisition.

The total of cash and cash equivalents reported in the cash flow statement corresponds to the cash and cash equivalents stated in the statement of financial position (cash and bank balances).

Provisions for Pensions

Provisions for pensions are calculated using the projected unit credit method in accordance with the (revised) requirements of IAS 19 Employee Benefits. The projected unit credit method not only takes into account the pension benefits and benefit entitlements known as of the reporting date, but also the increases in salaries and pension benefits to be expected in the future based on relevant estimation factors. The calculation is based on actuarial calculations using biometric actuarial principles. Amounts not yet recorded in the statement of financial position arise from actuarial gains and losses due to changes in inventory and differences between the assumptions made and actual developments. Actuarial gains and losses occurring in the reporting period are recognized in full directly in equity within other comprehensive income. The service cost is shown under personnel expenses (income in 2021). The interest cost included in pension expenses is recorded in the financial result.

The valuation as of December 31, 2021, was discounted using the expected long-term market rate of interest of 0.50 to 0.95% (prior year: 0.49 to 0.50%). The valuation of provisions for pensions is based on the “2018 G” actuarial guideline tables by Prof. Dr. Klaus Heubeck.

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

Other Provisions

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

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

Government Grants

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

At the beginning of 2021, reduced working hours were also used to compensate for pandemic-related declines in sales. 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 € 157 thousand (prior year: € 3,714 thousand). Paying reduced working hours benefits to employees did not lead to any investment grants. The reduction in work volume is reflected in the reduced personnel expenses in the income statement. In addition, paragon received investment grants reported in profit or loss in accordance with IAS 20 for the reimbursement of reduced working hours benefits (employer's contribution) in the amount of € 113 thousand (prior year: € 1,031 thousand). These are also recognized as a reduction in personnel expenses.

Recognition of Income and Expenses

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

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

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

Borrowing Costs

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

(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. This involves estimating the recoverable amount of the cash generating unit. This corresponds to the higher of fair value less costs of disposal and value in use. When determining the value in use, adjustments and estimates have to be made concerning the forecast and discounting of future cash flows. Although the Management believes that the assumptions used to determine the recoverable amount are appropriate, unforeseeable changes in these assumptions could lead to an impairment loss that could have a negative influence on the assets, financial position and earnings.

Capitalized Development Costs

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

Transfer of Assets and Leased Assets

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

Leases

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

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

Inventories

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

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

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

Other Assets and Liabilities

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

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

Deferred Tax Assets

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

Provisions for Pensions

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

Other Provisions

The recognition and measurement of other provisions was based on the estimated probability of the future outflow of benefits and on experience values, and on the facts and circumstances known as of the 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 which the Management arrives at on the basis of the information available as of the date of acquisition.

Legal Risks

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

Revenue

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

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

(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 € 146,919 thousand (prior year: € 127,179 thousand). Of this, € 95,136 thousand (prior year: € 83,925 thousand) were generated domestically and € 51,783 thousand (prior year: € 43,254 thousand) abroad.

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

2021

€ '000	Electronics	Mechanics	Total
Realization at a specific point in time	106,725	40,156	146,881
Realization over time	38	0	38
Total for operating segments	**106,763**	**40,156**	**146,919**

2020

€ '000	Electronics	Mechanics	Total
Realization at a specific point in time	87,190	34,860	122,150
Realization over time	0	5,129	5,129
Total for operating segments	**87,190**	**39,989**	**127,179**

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

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

As of December 31, 2021, there were trade receivables in the amount of € 10,859 thousand (December 31, 2020: € 11,645 thousand). In the fiscal year, contract assets in the Mechanics operating segment decreased by € 500 thousand (prior year: € 400 thousand) to € 22 thousand (December 31, 2020: € 522 thousand) due to valuation allowances.

Other revenue of € 7,169 thousand (prior year: € 14,204 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, 2021	Jan. 1– Dec. 31, 2020
Income from the sale of fixed assets	582	0
Income from the reversal of special items	742	87
Exchange rate differences	635	228
Reversal of provisions and valuation allowances	511	289
Use of company cars by employees	375	474
Valuation effect from outstanding purchase price installment	301	322
Income from investment grants	170	0
Income from grants	17	0
Measurement gains/losses from outstanding purchase price installments	0	321
Miscellaneous (e.g. rental income, im come from sale of scrap metal)	1,475	1,016
Total	**4,808**	**2,737**

(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, 2021	Jan. 1– Dec. 31, 2020
Project-related development costs	6,851	4,814
Production costs for test equipment	515	90
Other own work capitalized	**7,366**	**4,904**

(13) Cost of Materials

€ '000	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2020
Raw materials, consumables and supplies	70,131	59,316
Expenses for purchased services	2,797	1,385
Cost of materials	**72,928**	**60,701**

(14) Personnel Expenses

Personnel expenses amounted to € 44,581 thousand in the reporting period (prior year: € 35,766 thousand) and consist of the following:

€ '000	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2020
Wages and salaries	34,394	28,653
Social contributions/pensions	6,777	5,542
Staff leasing	3,410	1,571
Personnel expenses	**44,581**	**35,766**

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 € 113 thousand (prior year: € 1,031 thousand) recognized in profit or loss.

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

	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2020
Salaried employees	512	481
Hourly-paid employees	388	411
Number of employees	**900**	**892**

(15) Other Operating Expenses

Other operating expenses mainly comprise the following items:

Other operating expenses

€ '000	Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020
Legal, consulting costs and close-out costs	3,478	1,907
Third-party services	2,701	781
EDP and telephone	2,319	1,641
Remuneration of the general partner	1,753	1,574
Damage compensation and valuation allowances	1,675	1,853
Exchange rate losses	1,567	130
Energy and water costs	1,090	1,027
Insurance	891	1,048
Repair and maintenance	864	767
Vehicle and travel expenses	858	283
Building costs	647	935
Bad debt losses	513	179
Freight and packaging costs	484	923
Leasing	393	881
Contributions and levies	285	131
Miscellaneous	2,454	2,041
Total	**21,972**	**16,101**

(16) Depreciation and Amortization

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

Impairment of current assets is shown in the following overview:

€ '000	Balance sheet item	Jan. 1–Dec. 31, 2021 Devaluation amount	Jan. 1–Dec. 31, 2020 Devaluation amount
Impairment of contract assets according to IFRS 15 in the Automotive sector	Other current assets	500	400
Other impairments Automotive	Trade receivables	0	132
		500	**532**

€ '000	Balance sheet item	Jan. 1–Dec. 31, 2021 Devaluation amount	Jan. 1–Dec. 31, 2020 Devaluation amount
Impairment of capitalized development costs in the Automotive sector	Intangible assets	1,370	5,987
Other intangible assets	Intangible assets	650	447
		2,020	**6,433**

(17) Financial Result

€ '000	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2020
Financial income	**64**	**39**
Interest revenue	64	39
Financial expenses	**–6,183**	**–6,551**
Other financial and interest expenses	–6,183	–6,551
Financial result	**–6,118**	**–6,512**

Other financial and interest expenses include interest expenses to banks of € 2,197 thousand (prior year: € 2,199 thousand).

Net income from financial instruments is summarized below, with a breakdown for different measurement categories. The carrying amounts for the measurement categories are indicated in the separate note "Additional Disclosures on Financial Instruments."

€ '000	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2020
Financial assets		
Measured at amortized cost	64	39
Measured at fair value through profit or loss	0	0
	64	**39**
Financial liabilities		
Measured at amortized cost	–6,055	–6,421
Measured at fair value through profit or loss	–128	–130
	–6,183	**–6,551**

Interest expenses of € 128 thousand (prior year: € 130 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, 2021, at a combined income tax rate of 30.0% (prior year: 30.0%). This includes a corporate tax rate of 15% and a solidarity surcharge of 5.5%. The income tax rate also reflects trade taxes, taking into account the breakdown of the trade tax assessment rates among the municipalities in which the company's branches are located. The deferred taxes for Voltabox of Texas, Inc. were calculated as of December 31, 2020, at a combined income tax rate of 27.6%. In China, a combined income tax rate of 34.6% (prior year: 34.6%) was applied.

€ '000	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2020
Current taxes	**642**	**208**
Current taxes – Germany	642	208
Current taxes – other countries	0	0
Deferred taxes	**–486**	**–9,758**
Deferred taxes – Germany	–486	–9,758
Deferred taxes – other countries	0	0
Income taxes (income)	**156**	**–9,550**

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

	Dec. 31, 2021		Dec. 31, 2020	
€ '000	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	0	13,503	0	15,133
Property, plant and equipment	1,260	0	337	–146
Receivables and other assets	0	233	0	493
Provisions for pensions	431		–110	0
Bonds	0	97	5	182
Loss carryforwards	6,450	0	9,156	0
Deferred tax assets and liabilities before offsetting	**8,141**	**13,833**	**9,388**	**15,662**
Offsetting	–8,141	–8,141	–9,388	–9,388
Deferred tax assets and liabilities after offsetting	**0**	**5,692**	**0**	**6,274**

As of the end of the reporting period, of deferred tax assets in the amount of € 0 thousand (prior year: € 0 thousand), € 0 thousand (prior year: € 271 thousand) relates to Germany and € 0 thousand (prior year: € 0 thousand) relates to other countries. As of the end of the reporting period, of deferred tax liabilities in the amount of € 5,692 thousand (prior year: € 6,274 thousand), € 5,692 thousand (prior year: € 6,274 thousand) relates to Germany and € 0 thousand (prior year: € 0 thousand) relates to other countries.

Expenses for deferred tax liabilities of € 95 thousand (prior year: € 1 thousand) arising on pension provisions was recorded directly in equity within the revaluation reserve. This also corresponds to the amount of deferred tax assets in other comprehensive income.

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

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

€ '000	Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020
Earnings before tax	**–5,342**	**–17,158**
Calculated tax income with a tax rate of 30.0% (prior year: 30.0%)	1,603	5,147
Effects from the use or nonrecognition of deferred tax assets	–1,842	4,379
Goodwill impairment	0	–150
Current taxes relating to other periods	0	0
Miscellaneous	84	174
Actual tax expense (tax income)	**–156**	**9,550**

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 the majority of its shares in the Voltabox subgroup effective November 16, 2021. As a result of the sale, paragon GmbH & Co. KGaA lost control over the subsidiaries Voltabox AG, Voltabox of North America Inc., Voltabox Kunshan Co. Ltd and the minority interest in ForkOn GmbH. For this reason, the former Voltabox subgroup is accounted for as a “discontinued operation” in accordance with IFRS 5. It represented the Electromobility operating segment in the paragon Group. The earnings from discontinued operations are shown in total in a separate line.

The earnings comprise the following:

€ '000	2021	2020
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**

A total of 7,720,000 shares in Voltabox AG were sold at a selling price of € 8,651 thousand.

The deconsolidation gain is determined as follows:

€ '000	
Proceeds from sale	8,351
./. Equity	–3,133
Deconsolidation gain	**5,218**

(20) Earnings per Share

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

Based on the result attributable to the owners of the paragon Group for the period of € –11,417 thousand (prior year: € –27,803 thousand), the basic earnings per share (continuing and discontinued operations) (basic) amount to € –2.52 per share (prior year: € –6.14). Earnings per share in continuing operations amount to € –1.21 (prior year: € –1.68). This is calculated by dividing the result from continuing operations of € –5,498 thousand by the number of shares outstanding of 4,526,266. Earnings per share from discontinued operations was € –1.31 (prior year: € –4.46).

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, 2021. 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 € 32,384 thousand (prior year: € 36,419 thousand).

Amortization of these internal development costs in the reporting period amounted to € 5,993 thousand (prior year: € 5,748 thousand in the Automotive segment). 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 € 1,370 thousand in the reporting year (prior year: € 4,496 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 8.34% (prior year: 8.34%) is applied to the estimated cash flows.

(22) Goodwill

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

€ '000	Dec. 31, 2021	Dec. 31, 2020	Impairment loss for 2021
SphereDesign GmbH	343	343	0
paragon movasys GmbH	5,067	5,067	0
paragon semvox GmbH	16,130	16,130	0
paragon electroacoustic GmbH/ ETON Soundsysteme GmbH	335	335	0
Total	**21,875**	**21,875**	**0**

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

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

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

The cost of capital is calculated as the weighted average of equity and debt capital costs (weighted average cost of capital – WACC). Equity costs are derived from a peer group analysis of the relevant market sector, i.e., information that can be obtained from capital markets. To account for the different return and risk profiles of the Group's different fields of activity, paragon calculates individual cost of capital rates for its companies (CGUs) depending on the area of activity. The weighted average cost of capital, i.e., WACC before taxes used to discount cash flows, amounted to 8.97% (prior year: 8.34%). The WACC for paragon semvox GmbH is 6.01% (prior year: 5.89%). 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 the prior year, the impairment loss amounted to € 500 thousand (goodwill of SphereDesign GmbH).

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

(23) Property, Plant and Equipment

The changes in and analysis of property, plant and equipment are shown in the consolidated statement of fixed assets in 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 € 5,344 thousand (prior year: € 6,408 thousand). Land and buildings are subject to property charges as collateral for long-term bank loans. Depreciation of right-of-use assets according to IFRS 16 amounts to € 1,309 thousand (prior year: € 1,520 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: € 18,716 thousand) and are recognized as liabilities at their present value.

Advance payments for machinery and equipment amounting to € 1,695 thousand were made in the reporting year (prior year: € 4,055 thousand).

The loss on disposal of property, plant and equipment (disposal of acquisition/production costs minus accumulated depreciation) amounted to € 0 thousand (prior year: € 739 thousand).

(24) Inventories

Inventories consist of the following:

€ '000	Dec. 31, 2021	Dec. 31, 2020
Raw materials, consumables and supplies	16,832	19,703
Work in progress/finished goods, services and merchandise	6,357	7,312
Advance payments for inventories	776	330
Inventories	**23,965**	**27,345**

Inventories with a carrying value of € 2,611 thousand were written down in the reporting period, primarily relating to salvage inventories and inventories of spare parts (prior year: € 3,382 thousand in the Automotive sector). No reversals were recognized in the reporting period, as in the prior year. As of the reporting date, inventories of € 0 thousand (prior year: € 0 thousand) served as collateral for liabilities.

(25) Trade Receivables

The carrying amount of trade receivables is derived as follows:

€ '000	Dec. 31, 2021	Dec. 31, 2020
Gross trade receivables	13,672	14,286
Less valuation allowances	–2,813	–2,641
Trade receivables	**10,859**	**11,645**

As of the reporting date, there are no receivables which will be assigned to factoring in the following reporting year.

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, 2021					
Gross trade receivables	13,672	7,808	479	1,991	3,394
Valuation adjustments	–2,813	–80	–120	–645	–1,968
Trade receivables	10,859				

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

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

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

(26) Other Current Assets

Other current assets were as follows:

	Dec. 31, 2021			
€ '000	**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	582	0	0	582
Other current assets	**6,713**	**1,004**	**0**	**7,717**

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

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, 2021			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
Other current assets	**7,717**	7,717	0	0	0	0
Dec. 31, 2020			0 – 30 days	30 – 60 days	60 – 90 days	> 90 days
Other current assets	**10,824**	10,824	0	0	0	0

Other current assets of € 3,252 thousand include a loan receivable from Frers Grundstücksverwaltungs GmbH & Co. KG (related party). For further details, please see the section "Related Party Disclosures." As of December 31, 2021, 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 nominal amounts. Cash and cash equivalents include € 8 thousand (prior year: € 14 thousand) in cash on hand and € 1,455 thousand (prior year: € 5,664 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, 2020, and for the reporting period from January 1 to December 31, 2021, are presented in the consolidated statement of changes in equity.

Share Capital

paragon GmbH & Co. KGaA's share capital as of December 31, 2021, amounted to € 4,526 thousand (prior year: € 4,526 thousand) and is divided into 4,526,266 no-par-value shares with a notional share in the share capital of € 1.00 each.

Conditional Capital

Conditional Capital 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 management with the consent of the Supervisory Board to issue on one or more occasions bearer or registered bonds with warrants and/or convertible bonds or a combination of these instruments (hereinafter also jointly the "bonds") with a total nominal amount of up to € 150,000,000.00 and with a term of up to 10 years and to grant the holders or creditors (hereinafter jointly the "holders") of bonds with warrants and convertible bonds conversion rights or options for up to a total of 2,263,133 new no-par-value shares of the company, as stipulated in the terms of these bonds in the period up to and including 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 the payment of the amount due upon maturity of bonds which 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 management 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 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). The Management Board or Management is however authorized, with the consent of the Supervisory Board, to exclude the statutory subscription rights of shareholders in the defined cases.

Capital Reserve

The capital reserve amounted to € 15,485 thousand as of December 31, 2021 (prior year: € 15,485 thousand). Pursuant to Sections 207 et seq. of the German Stock Corporation Act (AktG) concerning capital increases from the capital reserve and based on a resolution adopted by the Annual General Meeting on May 9, 2012, the company's share capital was increased by transferring an amount of € 1,029 thousand from the capital reserve as reported in the balance sheet as of December 31, 2011. The capital reserve increased in fiscal year 2016 by € 12,715 thousand to € 15,165 thousand as a result of the successful placement of 411,478 new no-par-value shares under partial utilization of the authorized capital approved by the Annual General Meeting on April 27, 2016. Based on the dividend refund agreement from October 14, 2019, the main shareholder of paragon GmbH & Co. KGaA, Klaus Dieter Frers, undertook to pay a partial amount of € 319 thousand from the dividend amount received for 2018 as a voluntary contribution to the company's capital reserves within the meaning of Sections 266 (3) A II and 272 (2) No. 4 of the German Commercial Code (HGB) and thus to partially refund the dividend payment received to the company. The additional payment is due within five working days of being requested by the company and was not requested by the date of the preparation of the annual financial statements.

In order to comply with the requirement to recognize actuarial gains and losses from provisions for pensions directly in equity in accordance with IAS 19 Employee Benefits, actuarial losses in the amount of € 677 thousand (prior year: €1.202 thousand have been reclassified to the revaluation reserve. In the reporting period, an amount of € 429 thousand net of deferred taxes (prior year: € 0 thousand) was recognized in the revaluation reserve.

Dividends

paragon GmbH & Co. KGaA did not pay out a dividend in the fiscal year. The company will not submit any proposal to the Annual General Meeting for the payment of a dividend for the reporting period ending on December 31, 2021.

Minority Interests

Due to the IPO of Voltabox AG on October 13, 2017, information about non-controlling interest were included in the paragon consolidated financial statements for the first time. Due to the sale of the shares in Voltabox AG in fiscal year 2021, Voltabox AG was deconsolidated in the fiscal year. Consequently, non-controlling interest are no longer recognized as of the reporting date December 31, 2021. We refer to the section "Scope of Consolidation" regarding the recognition of non-controlling interest held in paragon semvox GmbH.

(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 2021 amounts to € 396 thousand (prior year: € 281 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 the payments made after provision on 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 € 3,417 thousand (prior year: € 2,786 thousand).

€ '000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2021	Dec. 31, 2020
Minimum lease payments	3,017	8,422	2,059	13,498	22,475
Future interest payments	–435	–850	–135	–1,420	–3,759
Liabilities from leases (repayment portion)	**2,582**	**7,572**	**1,924**	**12,078**	**18,716**
thereof reported under noncurrent liabilities				9,496	14,822
thereof reported under current liabilities				2,582	3,894

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 € 24,762 thousand (prior year: € 33,655 thousand). Collateral in the amount of € 22,708 thousand (prior year: € 28,943 thousand) was issued for the existing liabilities to banks recognized as liabilities.

Liabilities to banks are secured by nonfinancial assets in the form of property charges for loan liabilities in the amount of € 14,250 thousand (prior year: € 23,189 thousand) and by charges over property, plant and equipment of € 8,458 thousand (prior year: € 5,773 thousand).

Liabilities to banks mature as follows:

€ '000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2021	Dec. 31, 2020
Liabilities to banks	**14,580**	**6,276**	**3,906**	**24,762**	**33,655**
thereof reported under noncurrent liabilities				10,182	16,997
thereof reported under current liabilities				14,580	16,659

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 4.5% and a term from July 5, 2017, to July 5, 2022. The transaction costs of € 1,713 thousand incurred in connection with the placement are being amortized over the term of the bond using the effective interest method. The carrying amount of the bond as of the reporting date amounted to € 50,931 thousand (prior year: € 50,563 thousand) including the accrued interest liability for fiscal year 2021 amounting to € 1,125 thousand (prior year: € 1,125 thousand).

In March 2022, i.e., after the reporting date, the bond was extended at a creditors' meeting. Partial repayments for the years 2023, 2025 and 2026 amounting to 50% of the bond volume were also arranged. The remaining amount (€ 25 million) will be paid at the end of the term in July 2027.

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. In 2021, a partial repayment in the amount of CHF 5.25 million was made. The nominal volume therefore amounts to CHF 29.75 million. This financial instrument is measured at its repayment amount of € 28,107 thousand (prior year: € 32,412 thousand) and has been reported in the short-term bonds item in the liabilities section, since the contractually agreed financial covenant had not been fulfilled as of December 31, 2021. As of the reporting date, interest expenses in the amount of € 815 thousand (prior year: € 862 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 € 2,636 thousand (prior year: € 2,940 thousand) and a further commitment in the amount of € 295 thousand (prior year: € 405 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, 2021	Dec. 31, 2020
Discount rate	0.50 – 0.95	0.49 – 0.50
Expected return on plan assets	0	0
Salary increase (commitment based on individual contracts until 2009, thereafter 0%)	0	0
Pension increase	2.00	2.00
Fluctuation	0	0

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

Present value of the defined benefit obligation:

€ '000	Dec. 31, 2021	Dec. 31, 2020
Present value of the defined benefit obligation at the start of the year	3,743	3,678
Service costs	52	36
Interest expense	14	29
Actuarial gains (–), losses (+)	–429	0
Present value of the defined benefit obligation as of the reporting date	**3,382**	**3,743**

The actuarial gains incurred in fiscal year 2021 were recognized directly in equity in the revaluation reserve in accordance with the revised IAS 19. Changes in demographic assumptions had no effect on the level of actuarial losses in the reporting year.

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

€ '000	Dec. 31, 2021	Dec. 31, 2020
Present value of the defined benefit obligation	3,382	3,743
Less fair value of the plan assets	–451	–398
Uncovered defined benefit obligation on reporting date	**2,931**	**3,345**

Movements on the net amount were as follows:

€ '000	Dec. 31, 2021	Dec. 31, 2020
Uncovered defined benefit obligation at the start of the year	3,345	3,320
Pension expenses	15	25
Actuarial gains (–), losses (+)	–429	**0**
Uncovered defined benefit obligation on reporting date	**2,931**	**3,345**

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

€ '000	Dec. 31, 2021	Dec. 31, 2020
Service costs	52	36
Interest expense	14	29
Actuarial gains (–), losses (+)	–429	0
Pension expenses/income	**–363**	**65**

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

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

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

€ '000	Dec. 31, 2021	Dec. 31, 2020
DBO as of Dec. 31, 2021, interest rate 0.70% (prior year: interest rate 0.24%)	2,735	3,057
DBO as of Dec. 31, 2021, interest rate 1.20% (prior year: interest rate 0.74%)	2,543	2,829
DBO as of Dec. 31, 2021, pension increase 1.75% (prior year: pension increase 1.75%)	2,546	2,833
DBO as of Dec. 31, 2021, pension increase 2.25% (prior year: pension increase 2.25%)	2,730	3,051

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, 2021	Dec. 31, 2020
Other current liabilities		
Financial liabilities		
Purchase price liability from company acquisition (discounted)	859	3,057
Deferred income	5	4,488
Other liabilities	6,161	6,978
Liabilities from other taxes	8,011	5,816
Other current liabilities	**15,037**	**20,340**

Current liabilities primarily relate to taxes, deferrals and the purchase price liabilities of paragon semvox GmbH. Deferrals mainly contain personnel-related obligations.

Other liabilities mature as follows:

€ '000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2020	Dec. 31, 2020
Other liabilities	**15,037**	**0**	**0**	**15,037**	**20,340**
thereof reported under noncurrent liabilities				0	0
thereof reported under current liabilities				15,037	20,340

(34) Special Item for Investment Grants

This represents investment grants recorded as deferred income in accordance with IAS 20. In the reporting year, the special item in the amount of € 742 thousand (prior year: € 87 thousand) was derecognized since the basis for its original recognition no longer applied. This income was recognized under other operating income.

In the reporting period, the Group received € 0 thousand (prior year € 0 thousand) in government assistance in addition to reimbursements of short-time working benefits.

(35) Other Provisions

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

€ '000	Jan. 1, 2021	IFRS 5	Utilization	Release	Allocation	Dec. 31, 2021
Guarantees and goodwill settlements	1,619	1,055	82	150	6	338
Outstanding invoices	990	0	990	0	1,452	1,452
Impending loss provisions	0	0	0	0	225	225
Other provisions	**2,609**	**1,055**	**1,072**	**150**	**1,683**	**2,015**

(36) Income Tax Liabilities

This relates to trade tax and corporate income tax for prior reporting periods in the amount of € 697 thousand (prior year: € 727 thousand) as well as trade tax and corporate income tax for the current reporting period in the amount of € 230 thousand (prior year: € 114 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, 2021	Dec. 31, 2020
Financial assets		
Measured at amortized cost	19,579	28,896
Measured at fair value through profit or loss	1,578	2,567
	21,157	**31,463**
Financial liabilities		
Measured at amortized cost	144,786	170,396
Measured at fair value through profit or loss	859	3,057
	145,645	**173,454**

paragon has not implemented any reclassification between these categories in fiscal year 2021.

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

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	10,938	10,938	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	**19,579**	**19,579**	**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**

Dec. 31, 20	AC		FVPL		FVOCI	
€ '000	BW	FV	BW	FV	BW	FV
ASSETS						
Cash and cash equivalents	5,664	5,664	0	0	0	0
Trade receivables	11,645	11,645	0	0	0	0
Other assets	11,588	11,588	1,046	1,046		
Investments	0	0	1,521	1,521		
Total assets	**28,896**	**28,896**	**2,567**	**2,567**	**0**	**0**
EQUITY AND LIABILITIES						
Liabilities to banks	33,655	33,655	0	0	0	0
Bonds	83,248	41,815	0	0	0	0
Lease liabilities	18,716	18,716	0	0	0	0
Trade payables	17,493	17,493	0	0	0	0
Other liabilities	17,283	17,283	3,057	3,057	0	0
Total equity and liabilities	**170,396**	**128,963**	**3,057**	**3,057**	**0**	**0**

paragon does not hold any cash collateral. Balances and liabilities to banks are reported gross in the consolidated statement of financial position. Derivative financial instruments (other assets) are shown netted in the amount of € 1,004 thousand. Please see the section "Management of Risks Associated with Financial Instruments – Foreign Currency Risks" for further information on the derivatives. In the event of insolvency, other account balances with credit institutions can be offset against any balances and liabilities between the respective counterparties. At the present time, paragon neither has a legal right of set-off nor intends to settle on a net basis.

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

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

paragon distinguishes between collectible and doubtful or non-performing and uncollectible financial assets. Collectible financial assets are impaired based on the 12-month expected credit losses. Doubtful or non-performing financial assets are impaired in the amount of the lifetime expected credit loss. 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 valuated at amortized cost according to the aforementioned categories:

Dec. 31, 2021 € '000	Credit quality	Treatment	Gross carrying amount	Valuation allowance	Net carrying amount
Other assets	Collectible	12-month ECL	8,411	0	8,411
	Collectible	lifetime ECL	0	0	0
	Non-performing	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

Dec. 31, 2020 € '000	Collectible	Treatment	Gross carrying amount	Valuation allowance	Net carrying amount
Other assets	Collectible	12-month ECL	12,634	0	12,634
	Non-performing	lifetime ECL	0	0	0
	notleidend	lifetime ECL	0	0	0
			12,634	**0**	**12,634**
Trade receivables	Lifetime ECL	simplified approach	8,859	-90	8,769
	Lifetime ECL	simplified approach [1]	4,995	-2,187	2,808
	Non-performing	lifetime ECL	432	-364	68
			14,286	**-2,641**	**11,645**
Cash and cash equivalents	Collectible	12-month ECL	5,664	0	5,664
	Collectible	lifetime ECL	0	0	0
	Non-performing	lifetime ECL	**0**	**0**	**0**
			5,664	**0**	**5,664**

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		
Jan. 1, 2021		2,641
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

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

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 to 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, inter alia.

(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 includes making use of derivative financial instruments. The management of these risks within the overall risk management system is a core responsibility of paragon GmbH & Co. KGaA's Management.

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

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

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

Foreign Currency Risks

paragon's ongoing business operations are exposed to foreign currency risks. However, due to the sale of Voltabox AG in the fiscal year and the resulting deconsolidation of the corresponding activities, the foreign currency risk with regard to the USD has decreased significantly and is no longer considered material.

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. The simulated appreciation of the euro would have resulted in a change in future payment inflows (trade receivables) in the amount of € 68 thousand as of December 31, 2021 (prior year: € 401 thousand). To the extent that future purchases are not hedged against currency exchange risks, a depreciation of the euro against other currencies would have a negative effect on the financial position and earnings as the Group's purchases in foreign currencies exceed its foreign currency cash inflows.

The following table provides an overview of the net foreign currency exchange risk associated with trade payables by currency as of December 31, 2021:

	Dec. 31, 2021		Dec. 31, 2020	
€ '000	USD	Other	USD	Other
Transaction-related foreign currency risk	**1,773**	**358**	**3,084**	**1,094**
Foreign currency risk from balance sheet items	0	0	0	0
Foreign currency risk from pending transactions	1,773	358	3,084	1,094
Net exposure – foreign currency positions	**1,773**	**358**	**3,084**	**1,094**
Change in foreign currency positions due to 10% appreciation of the euro	177	36	308	109

There are foreign currency risks from the issue of the CHF-denominated bond with a nominal value of CHF 29.75 million. An interest payment of CHF 1.19 million is due in April 2022. At the same time, a scheduled partial repayment of CHF 8.75 million will be made. Afterwards, the nominal volume still amounts to CHF 21 million. The final repayment of CHF 21 million and the interest payment of CHF 0.84 million will be made in April 2023.

Swiss franc liabilities are converted at a rate of 1.0355 CHF/EUR. CHF 31,780 thousand is accumulated over the term of the bond (converted at the closing rate € 30,690 thousand). If the Swiss franc were to appreciate by 10% to 0.9319 CHF/EUR, this would result in additional expenses of € 3,412 thousand.

As of December 31, 2021, the company has eight derivative financial instruments (Swiss franc futures) with a nominal value of CHF 39,200 thousand and maturities from April 2022 to April 2024. There is no hedging relationship with the bond; accordingly, the derivatives are measured at fair value in profit or loss in the total amount of € 1,004 thousand. Of these, four derivatives have a positive fair value of € 2,619 thousand, and the other five derivatives have a fair value of € -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 under other current assets. However, the strict requirements of a hedging relationship within the meaning of hedge accounting are not met.

Interest Rate Risks

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

The interest-bearing financial liabilities mainly have fixed interest rates. Accordingly, changes in the interest rate would only have an effect if the financial instruments were recorded at fair value. As this is not the case, the financial instruments with fixed interest rates are not subject to interest rate risks within the meaning of IFRS 7.

The interest rate risks associated with variable-rate financial liabilities are measured using cash flow sensitivity techniques. The paragon Group had variable-rate financial liabilities of € 0 thousand (prior year: € 0 thousand) as of December 31, 2021. There is no need for a sensitivity analysis.

Liquidity Risks

Liquidity risk, i.e., the risk that paragon might not be able to meet its payment obligations as they fall due, is managed by means of flexible cash management. As of December 31, 2021, cash and cash equivalents of € 1,455 thousand (prior year: € 5,664 thousand) were available. Unused credit lines totaling € 890 thousand were available as of December 31, 2021 (prior year: € 3,048 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, 2021:

€ '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**

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

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

€ '000	Dec. 31, 2021	Dec. 31, 2020
Cash and cash equivalents	1,455	5,664
Total liquidity	**1,455**	**5,664**
Current financial liabilities and portions of noncurrent financial liabilities due in the short term	96,200	53,238
Noncurrent financial liabilities	19,679	82,382
Total financial liabilities	**115,879**	**135,620**
Net debt	**–114,424**	**–129,956**

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, 2021.

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, 2021.

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. At a meeting of the bondholders, the deviation in this year's consolidated financial statements from the equity ratio to be maintained was explained, and the equity ratio was also adjusted for future periods. The creditors waived their extraordinary right of termination. We refer to the disclosures in Section (4).

(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, 2021. Other financial liabilities are as follows:

€ '000	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	**Dec. 31, 2021**	Dec. 31, 2020
Order commitments	47,274	7,714	0	54,988	60,305
Tenancy obligations	208	442	0	650	72
Other obligations	519	0	0	519	2,267
Other financial obligations	**47,482**	**8,156**	**0**	**56,158**	**62,644**

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, 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	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	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**

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 Movements on Noncurrent Assets as of December 31, 2020

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

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

Consolidated statement of changes in noncurrent assets with continuing operations as of December 31, 2020

	Acquisition costs		
€ '000	Acquisition costs as of Dec. 31, 2020	of which from discontinued operations	of which from continuing operations
Intangible assets			
Licenses, patents, software, customer list	67,640	18,251	49,389
Capitalized development costs	88,775	43,487	45,288
Goodwill	30,395	6,521	23,875
Advance payments for intangible assets	43	0	43
Total intangible assets	**186,852**	**68,259**	**118,596**
Right-of-use assets			
Land and buildings	13,808	11,580	2,228
Technical equipment and machinery	5,106	3,658	1,448
Other plant, office furniture and equipment	1,887	295	1,592
Total right-of-use assets	**20,801**	**15,533**	**5,268**
Property, plant and equipment			
Land and buildings	39,474	450	39,024
Technical equipment and machinery	46,312	4,381	41,931
Other plant, office furniture and equipment	21,356	5,365	15,991
Advance payments	4,846	165	4,681
Total property, plant and equipment	**111,988**	**10,361**	**101,627**
Financial assets			
Investments	1,726	1,606	120
Total financial assets	**1,726**	**1,606**	**120**
Total	**321,367**	**95,759**	**225,612**

Depreciation and Amortization			Carrying amounts		
Depreciation, amortization and write-downs as of Dec. 31, 2020	of which from discontinued operations	of which from continuing operations	Carrying amounts as of Dec. 31, 2020	of which from discontinued operations	of which from continuing operations
44,493	13,315	31,178	23,147	4,936	18,211
52,356	39,963	12,393	36,419	3,524	32,895
8,520	6,520	2,000	21,875	0	21,875
7	0	0	36	0	43
105,376	**59,797**	**45,570**	**81,476**	**8,460**	**73,024**
3,068	1,369	1,700	10,740	10,212	528
3,278	2,255	1,023	1,828	1,403	426
1,363	187	1,176	524	108	416
7,709	**3,810**	**3,898**	**13,092**	**11,723**	**1,370**
12,290	451	11,839	27,184	–1	27,185
34,679	2,732	31,947	11,633	1,649	9,984
17,185	3,893	13,292	4,171	1,472	2,699
791	1	790	4,055	164	3,891
64,945	**7,077**	**57,868**	**47,043**	**3,284**	**43,759**
205	206	–1	1,521	1,400	121
205	**206**	**–1**	**1,521**	**1,400**	121
178,235	**70,890**	**107,336**	**143,132**	**24,867**	**118,274**

(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, 2021	Dec. 31, 2020
Bank balances	1,446	5,650
Cash on hand	9	14
Cash and cash equivalents	**1,455**	**5,664**

(43) Segment Reporting

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

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

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

	2021			
€ '000	Electronics	Mechanics	Eliminations	Group
Revenue from third parties	106,763	40,156	0	146,919
Intersegment revenue	2,944	5	–2,949	0
Operating segment revenue	**109,707**	**40,161**	**–2,949**	**146,919**
Inventory changes, other operating income & capitalized development services	11,031	2,170	–663	12,538
Expenses from intersegment offsetting	–2,209	–1,587	3,796	0
Cost of materials, personnel expenses and other operating expenses	–99,410	–40,070	0	–139,481
Operating segment EBITDA	**19,118**	**674**	**184**	**19,976**
Depreciation and amortization (incl. impairment)	–14,666	–4,534	0	–19,200
thereof depreciation and amortization	–14,025	–3,805	0	–17,830
thereof impairments	–641	–729	0	–1,370
Operating segment EBIT	**4,453**	**–3,860**	**184**	**776**
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

€ '000	2020 Electronics	Mechanics	Eliminations	Group
Revenue from third parties	87,190	39,989	0	127,179
Umsatzerlöse Intersegment	4,527	975	-5,502	0
Operating segment revenue	**91,717**	**40,964**	**-5,502**	**127,179**
Inventory changes, other operating income & capitalized development services	6,561	-6,057	-1,323	-819
Expenses from intersegment offsetting	-4,990	-1,637	6,626	0
Cost of materials, personnel expenses and other operating expenses	-79,801	-32,767	0	-112,568
Operating segment EBITDA	**13,488**	**503**	**-198**	**13,792**
Depreciation and amortization (incl. impairment)	-17,311	-7,128	0	-24,439
thereof depreciation and amortization	-14,464	-3,041	0	-17,505
thereof impairments	-2,847	-4,086	0	-6,934
Operating segment EBIT	**-3,823**	**-6,625**	**-198**	**-10,646**
Financial result for Group	n. a.	n. a.	n. a.	0
Group earnings before taxes	**n. a.**	**n. a.**	**n. a.**	**0**
Assets	191,865	14,510	-44,679	162,478
Investments (CAPEX)	5,856	2,577	0	8,433
Liabilities	-174,197	-27,275	44,419	-157,054

Information on Geographical Areas

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

€ '000	Germany		EU		Third country		Total	
	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2020	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2020	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2020	Jan. 1– Dec. 31, 2021	Jan. 1– Dec. 31, 2020
Revenue	95,136	83,925	34,306	34,964	17,477	8,290	146,919	127,179

Information About Transactions with Key Customers

In fiscal year 2021, 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 52.7% (prior year: 51.8%). Another group of companies, which is to be regarded as one customer due to its joint control, had a revenue share of 20.4% (prior year: 18.8%).

(44) Directors and Officers

The management of paragon GmbH & Co. KGaA has been exercised through general partner paragon GmbH, Delbrück, since August 1, 2018. paragon GmbH has share capital of € 100 thousand. The Management of paragon GmbH and thus of paragon GmbH & Co. KGaA is exercised by the following two Managing Directors:

- Klaus Dieter Frers (Chairman), Delbrück, full-time Managing Director of paragon GmbH, business strategy and development, Manufacturing, Finance, Human Resources and the operating segments Mechanics and Electromobility, Supervisory Board Chairman of Voltabox AG until November 12, 2021.
- Dr. Matthias Schöllmann, Paderborn, full-time Managing Director of paragon GmbH.

The Supervisory Board consisted of the following persons:

Name	Occupation	Memberships in Supervisory Boards and Other Supervisory Committees
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)
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 mandates: • Voltabox AG (member) until November 12, 2021Further mandates: • Börnemeier & Loh GmbH (Managing Director)
Walter Schäfers	Lawyer, Partner at Societät Schäfers Rechtsanwälte und Notare	Supervisory Board mandates: • Voltabox AG (member) until November 12, 2021

(45) Information on Related Companies and Persons

Related parties as defined in IAS 24 Related Party Disclosures include members of the Management, the Supervisory Board and their immediate families as well as affiliated companies.

Treu-Union Treuhandgesellschaft mbH, Steuerberatungsgesellschaft, Paderborn, billed services totaling € 82 thousand under an ongoing agreement in fiscal year 2021 (prior year: € 86 thousand). As of the reporting date, there are liabilities in the amount of € 56 thousand. Hermann-Josef Börnemeier, a member of the Supervisory Board of paragon GmbH & Co, KGaA, is also managing director of the above company.

In fiscal year 2021, no services were charged by Societät Schäfers, Rechtsanwälte und Notare, Paderborn (prior year: € 11 thousand). Walter Schäfers, a member of the Supervisory Board at paragon GmbH & Co. KGaA, is also a partner in this company.

Members of the Supervisory Board held 4,000 shares (prior year: 4,000 shares) out of a total of 4,526,266 shares as of the balance sheet date. Klaus Dieter Frers held 2,232,263 shares (prior year: 2,232,263 shares) as of the reporting date and thus holds 49.3% of the company's limited liability capital. He has a voting proxy for a further 30,871 shares, which is not subject to any instruction. This means that 2,263,134 shares in the company are attributable to him (Sec. 34 (1) no. 6 German Securities Trading Act), which is 50% plus 1 share of the limited partnership shares of paragon GmbH & Co. KGaA. In accordance to IAS 24.18 a, Mr. Frers is considered the "ultimate controlling party" of the parent company. As of the reporting date, Dr. Matthias Schöllmann held 2,920 shares (prior year: 2,920 shares).

Mr. Frers is the sole owner of Artega GmbH. In fiscal year 2021, paragon GmbH & Co. KGaA conducted transactions with Artega GmbH in the amount of € 766 thousand (prior year: € 72 thousand), which were mainly cost transfers and the sale of technology including all right-of-use assets in the amount of € 500 thousand for the electrodrive segment. With regard to the receivables from Artega GmbH, an additional valuation allowance of € 31 thousand (prior year: € 362 thousand) was recognized in the reporting period so that the balance due from Artega GmbH was written off in full as of the reporting date.

Klaus Dieter Frers is the sole owner of Frers Grundstücksverwaltungs GmbH & Co. KG. In fiscal year 2020, Frers Grundstücksverwaltungs GmbH & Co. KG was granted a loan secured by property charges in the total amount of € 3,595 thousand, which bears interest at 1.5% p.a. and will be paid back in monthly payments of € 10 thousand and € 12 thousand until December 2035.

In the period under review, Frers Grundstücksverwaltungs GmbH & Co. KG rented out areas to paragon GmbH & Co, KGaA in two buildings used by paragon GmbH & Co. KGaA and Voltabox AG. This resulted in rental expenses of € 215 thousand and offsetting cost allocations of € 50 thousand. The lease agreement is concluded for an indefinite period with a monthly rent of € 15 thousand. It can be terminated with 6 months' notice to the end of the year, and starting in 2023, the rent will be adjusted in line with the German consumer price index of the Federal Statistical Office.

In the fiscal year, Mr. Frers was paid € 2 thousand (prior year: € 2 thousand) for a maximum amount guarantee he had granted to a bank, but this guarantee expired when the loan was repaid to the bank in 2021 and therefore no longer existed as of the reporting date. 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 € 150 thousand (prior year: € 155 thousand), which is comparable with similar positions in the company.

paragon GmbH received remuneration of € 1,148 thousand (prior year: € 1,574 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, 2021 amounts to € 271 thousand (prior year: € 432 thousand). It has been recognized as expense. € 271 thousand (prior year: € 424 thousand) of this fee was paid for audit services and € 0 thousand (prior year: € 8 thousand) for other services.

(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 subsidiaries make use of some of the exemption provisions for the year under review (disclosure and audit):

electronic GmbH, Delbrück

SphereDesign GmbH, Bexbach

(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 no notifications pursuant to Section 26 (1) of the German Securities Trading Act (WpHG) that require disclosure in accordance with Section 160 (1) No. 8 of the German Stock Corporation Act (AktG).

Directors' Dealings

The company received no reports on proprietary transactions by executives in accordance with Art. 19 of the EU regulation No 596/2014 (MAR) on market abuse (market abuse regulation) during the reporting period.

Corporate Governance Declaration

The Declaration of Conformity with the German Corporate Governance Code (GCGC) required under Section 161 of the German Stock Corporation Act (AktG) was most recently submitted on February 28, 2022, 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	Dr. Matthias Schöllmann
Chairman	Managing Director of Automotive

Auditor's Report

paragon GmbH & Co. KGaA, Delbrück, Germany

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

Audit Opinions

We have audited the consolidated financial statements of paragon GmbH & Co. KGaA and its subsidiaries (the Group), which comprises the consolidated balance sheet as of December 31, 2021, the consolidated statement of comprehensive income (incl. the consolidated income statement), the consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year starting January 1 and ending December 31, 2021, 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, 2021.

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 Commercial Code (HGB) and provide a true and fair view of the net assets and financial position of the Group as of December 31, 2021, as well as its earnings for the fiscal year starting January 1 and ending December 31, 2021, in accordance with these requirements.
- The enclosed combined management report provides a suitable view of the Group's position. The combined management report is consistent with the consolidated financial statements, complies with the German legal requirements and suitably presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the above-mentioned nonfinancial declaration and corporate governance statement.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any objections to the regularity of the consolidated financial statements and the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (no. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities according to those requirements are further described in the "Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Combined Management Report" section of our auditor's report. We are independent of the Group companies in accordance with the requirements of European law and German commercial law and professional rules of conduct, and we have fulfilled our other German professional responsibilities in compliance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided any 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 "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 2021 but is not yet entirely back to normal and that there is a significant short- and medium-term (re-)financing requirement. The financial resources required to secure medium-term financing are to be made available through the measures outlined in the management report, in particular (partial) sales of investments and subsidiaries. As discussed in the aforementioned sections of the notes and combined management report, these events and circumstances, together with other matters discussed therein, indicate the existence of material uncertainty that could cast significant doubt on the company's ability to continue as a going concern and which represents a risk threatening the existence of the company within the meaning of Section 322 (2) sentence 3 HGB. Our audit opinions have not been altered in respect to this matter.

The consolidated financial statements of paragon GmbH & Co. KGaA have been prepared under the going concern assumption. As explained in the previous section, circumstances exist that may jeopardize the existence of the paragon Group and paragon GmbH & Co. KGaA. Due to the significance for the consolidated financial statements and the combined management report and due to the existing uncertainty about the occurrence of the assumptions and conditions underlying the medium-term Group planning, the assessment of the appropriateness of the going concern assumption was a key audit matter for us in the context of our audit.

Audit approach and findings

Based on the medium-term earnings and liquidity planning presented, we have assessed whether the Management Board's assessment of the paragon Group's ability to continue as a going concern is appropriate. To this end, we first checked the planning for formal consistency (mathematical accuracy, correct implementation of the underlying premises). In addition, we compared the earnings planning (in particular the appropriateness of the revenue forecast) with existing (framework) agreements with customers and checked the plausibility of the forecasts for the material cost categories. Furthermore, we obtained and assessed evidence on the measures taken by the Management (including: (partial) sale of further investments and subsidiaries) to refinance the Group. Based on the results of our audit, we consider the going concern assumption used by the legal representatives to be appropriate.

Other Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2021, 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

I. Impairment of Goodwill

1.) In the consolidated financial statements of paragon GmbH & Co. KGaA, € 21.9 million is reported under the balance sheet item "goodwill," which is subject to an impairment test by the company as of December 31 of each fiscal year. The fair values are determined using a valuation model based on the discounted cash flow method. The result of this valuation depends to a large extent on the estimation of future cash inflows by the legal representatives and the discount rate used and is therefore subject to considerable uncertainty. Against this 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 planning is prepared and approved. To this end, we held discussions with those responsible for planning and for cash-generating units to which significant goodwill has been allocated. We assessed the planning and the assumptions underlying it for comprehensibility and consistency with our knowledge of the unit and other audit findings. We also reviewed and assessed the valuation method (discounted cash flow method) used to determine the recoverable amount of the cash-generating units, and in particular the discount rates used. In addition, we independently estimated the respective values for cash-generating units to which significant goodwill has been allocated based on the approved plans for these units using our own valuation models. Our independent estimates confirmed the results obtained by the Management.

3.) The company's disclosures on goodwill are included in sections "(9) Use of Estimates and Assumptions" and "(22) Goodwill" of the notes to the consolidated financial statements.

II. Measurement of Capitalized Development Work

1.) As of December 31, 2021, the Group has reported capitalized development work in its balance sheet as intangible assets in the amount of € 54.5 million. Due to the significant overall effects of this item on the Group's net assets and earnings and the complexity of accounting and measurement, the capitalized development work was particularly important for the purpose of our audit.

2.) Within the scope of our audit of the capitalized development work, on a test basis we conducted disclosure-related audit activities and a system audit in order to review the measurement of capitalized development work. We reviewed the methodological approach applied in the measurement of development work capitalized and evaluated this calculation in terms of its amount. For this purpose, for the selected samples the project documentation was analyzed, discussions were held with the project manager responsible and the related planned profit contribution calculation was analyzed. Our audit did not give rise to any objections to the recognition of own work capitalized in the balance sheet.

3.) The company's disclosures concerning the effects of the capitalization of development work are included in the Notes to the consolidated financial statements, mainly in the following sections: "(9) Description of Accounting Policies and Measurement Methods – Intangible Assets," "(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. Other information likewise includes the following parts of the Annual Report, with the exception of the audited annual 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, 2021, 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 consequently we do not express an audit opinion or any other form of audit conclusion thereon. In connection with our audit, our responsibility is to read this other information and, in so doing, to consider whether this other information

- is materially inconsistent with the consolidated financial statements, the combined management report or our knowledge obtained in the audit or

- otherwise appears to be materially misstated.

Responsibility of the Company's Legal Representatives and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The company's legal representatives are responsible for the preparation of the consolidated financial statements that comply with the IFRS as adopted by the EU as well as the supplementary German legal requirements applicable under Section 315e (1) HGB in all significant respects and for ensuring that the consolidated financial statements provide a true and fair view of the net assets, financial position and earnings of the Group in accordance with these provisions. In addition, the company's legal representatives are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Combined Management Report

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

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

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements and the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the company's legal representatives and the reasonableness of estimates made by the company's legal representatives and related disclosures.

- Draw conclusions regarding the appropriateness of the company's legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and earnings of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and the combined management report. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law and the view of the Group's position that it provides.

- Perform audit procedures regarding the prospective information presented by the company's legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the company's legal representatives as a basis for the prospective information and evaluate whether this prospective information has been properly derived from these assumptions. We do not express a separate audit opinion on this prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and discuss with them any relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

On the basis of the matters discussed with the persons charged with governance, we determine the matters that were of most significance in the audit of the consolidated financial statements for the current period under review and are therefore the key audit matters. We describe these matters in our auditor's report unless any law or other regulation precludes public disclosure of this matter.

Other Legal and Regulatory Requirements

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

Audit Opinion

In accordance with Section 317 (3a) HGB, we have performed an audit with reasonable assurance to determine whether the reproductions of the consolidated financial statements and the combined management report (hereinafter also referred to as the "ESEF documents") contained in the attached file "paragon_191516.zip" (SHA256 hash value: 729F5BB680F526021F0C8E2BE7C14D4FF32A1D5CB9A089C7D872D012006073B1) and prepared for disclosure purposes comply in all material respects with the requirements of Section 328 (1) HGB regarding the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit extends only to the conversion of the information in the consolidated financial statements and the combined management report into the ESEF format and therefore neither to the information contained in these reproductions nor to any other information contained in the aforementioned file.

In our opinion, the reproductions of the consolidated financial statements and the combined management report contained in the aforementioned file and prepared for disclosure purposes comply in all material respects with the electronic reporting format requirements of Section 328 (1) HGB. Other than this audit opinion and our audit opinions on the accompanying financial statements and on the accompanying combined management report for the fiscal year from January 1, 2021, to December 31, 2021, included in the "Report on the Audit of the Consolidated Financial Statements and Combined Management Report" above, we do not express any opinion on the information included in these reproductions or on any other information included in the aforementioned file.

Basis for the Audit Opinion

We conducted our audit of the reproductions of the consolidated financial statements and the combined management report contained in the aforementioned attached file in accordance with Section 317 (3a) HGB and in compliance with the draft of the IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3a) HGB (IDW PS 410). Our responsibility thereafter is further described in the section "Auditor's Responsibility for the Audit of ESEF Documents." Our auditing firm has applied the same quality assurance system requirements from the IDW Quality Assurance Standard: Requirements for Quality Assurance in Auditing Firms (IDfW QS 1).

Responsibility of the Company's Legal Representatives and the Supervisory Board for the ESEF Documents

The company's legal representatives are responsible for the preparation of the ESEF documents containing the electronic reproductions of the consolidated financial statements and the combined management report in accordance with Section 328 (1) sentence 4 no. 1 HGB.

Furthermore, the company's legal representatives are responsible for the internal controls that they deem necessary to enable the preparation of ESEF documents that are free from material violations, whether intentional or unintentional, of the requirements of Section 328 (1) HGB regarding the electronic reporting format.

The company's legal representatives are also responsible for submitting the ESEF documents together with the auditor's report and attached audited consolidated financial statements and audited combined management report as well as other documents to be disclosed to the operator of the Federal Gazette.

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

Responsibility of the Auditor for the Audit of the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material violations, whether intentional or unintentional, of the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material violations, whether intentional or unintentional, of the requirements of Section 328 (1) HGB, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

- Obtain an understanding of internal control relevant to the audit of ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls.

- Assess the technical validity of the ESEF documents, 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 reproduction of the audited consolidated financial statements and the audited combined management 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 General Meeting held on August 31, 2021. We were engaged by the Supervisory Board on

December 9, 2021. We have audited the consolidated financial statements of paragon GmbH & Co. KGaA without interruption since fiscal year 2013.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Article 11 of the EU Audit Regulation (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 Group management report as well as the audited ESEF documents. The consolidated financial statements and the combined Group management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited consolidated financial statements and the audited combined Group management report and are not a substitute for them. In particular, the ESEF report and our audit opinion contained therein may only be used in conjunction with the audited ESEF documents made available in electronic form.

German Public Accountant Responsible for the Engagement

The public accountant responsible for conducting the audit is Jonas Hagen.

Düsseldorf, April 28, 2022

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Stephan Martens Public accountant	Jonas Hagen Public accountant

Declaration by the Legal Representatives

We declare that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the assets, financial position and earnings of the Group, and that the Group management report presents the development of business, including the business results and the position of the Group, in such a way that a true and fair view is conveyed and the significant opportunities and risks of the Group's foreseeable development are described.

Klaus Dieter Frers
Chairman

Dr. Matthias Schöllmann

Financial Calendar

April 29, 2022	Annual Report 2021
May 16, 2022	Group Interim Report as of March 31, 2022 – First Quarter
May 23–25, 2022	Equity Forum (Spring Conference), Frankfurt am Main
June 14, 2022	Annual General Meeting, virtual
August 22, 2022	Group Interim Report as of June 30, 2022 – Half-year
September 19–23, 2022	Baader Investment Conference, Munich
November 22, 2022	Group Interim Report as of September 30, 2021 – Nine-month
November 28–30, 2022	Equity Forum, Frankfurt am Main

Legal Notice

paragon GmbH & Co. KGaA
Bösendamm 11
33129 Delbrück / Germany
Telefon: +49 5250 9762-0
Fax: +49 5250 9762-60
E-Mail: investor@paragon.ag
Twitter: @paragon_ir
www.paragon.ag

www.paragon.ag