

PARAGON®

Consolidated Nonfinancial Report
of the
paragon Group and paragon GmbH & Co. KGaA



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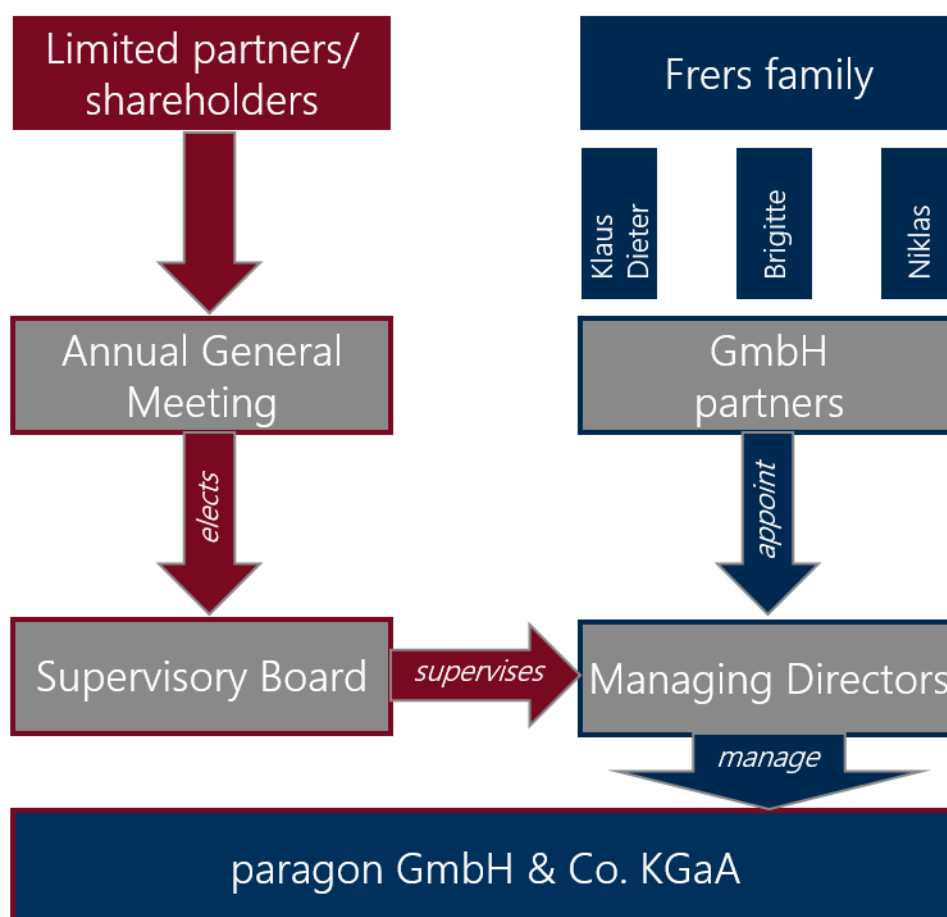
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Company Structure and Executive Bodies

paragon was founded by Klaus Dieter Frers in 1988 as an electronics manufacturer under the name of paragon electronic GmbH and was later merged into paragon AG. The company's IPO took place in 2000, and it was listed in the Prime Standard Segment of Deutsche Börse AG. With effect as of July 5, 2018, paragon changed its legal form to a partnership limited by shares (*Kommanditgesellschaft auf Aktien*, "KGaA").

paragon GmbH & Co. KGaA is a joint stock corporation incorporated under German law. The company's headquarters are in Delbrück, Artegastrasse 1, Germany. paragon GmbH & Co. KGaA's shares are traded on the Frankfurt Stock Exchange in the Prime Standard segment. About 50% of the share capital is owned by Klaus Dieter Frers. In addition to the corporate and administrative headquarters in Delbrück (North Rhine-Westphalia, Germany), paragon GmbH & Co. KGaA and its subsidiaries operate sites in Suhl (Thuringia, Germany), Landsberg am Lech and Neu-Ulm (Bavaria, Germany), Markgröningen and St. Georgen (Baden-Württemberg, Germany), Limbach (Saarland, Germany), Aachen (North Rhine-Westphalia, Germany) as well as in Kunshan (China) and Austin (Texas, USA).

Company Structure



The general partner is liable personally, directly and without limit for all liabilities of the partnership limited by shares. The limited liability shareholders are only required to provide a capital contribution on the basis of the shares for which they have subscribed; they are otherwise not liable.

Unlike a stock corporation (“AG”), a partnership limited by shares does not have a management board. Instead, the general partner(s) is/are responsible for the company's management, i.e., paragon GmbH in the present case. 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 – through Section 6 of the Articles of Association of paragon GmbH & Co. KGaA in the present case – rather than by the Supervisory Board or the Annual General Meeting.

As in the case of a stock corporation, the supervisory board of the company is a supervisory body. In particular, it is responsible for supervising the general partner's management of the company. For this purpose, it has the same rights to information and inspection rights as the supervisory board of a stock corporation. Unlike in the case of a stock corporation, it is also responsible for fulfillment of the resolutions passed by the Annual General Meeting.

Unlike in the case of a stock corporation, the supervisory board of a partnership limited by shares is not involved in the approval of the annual financial statements of the partnership limited by shares. However, the supervisory board is required to review the annual financial statements, the management report and the proposal on the appropriation of the balance sheet profits by virtue of its supervisory role, which is mandatory under stock corporation law.

Nor is the supervisory board responsible for the appointment and dismissal of the general partner, since the general partner will assume this role with permanent effect according to the articles of association. Pursuant to Section 287 (3) of the German Stock Corporation Act, general partners may not be supervisory board members. If the general partner is a corporation, as in the present case of paragon GmbH, this ground for exclusion will apply analogously for the managing director(s) of the general partner company and for the shareholders with significant interests in this company.

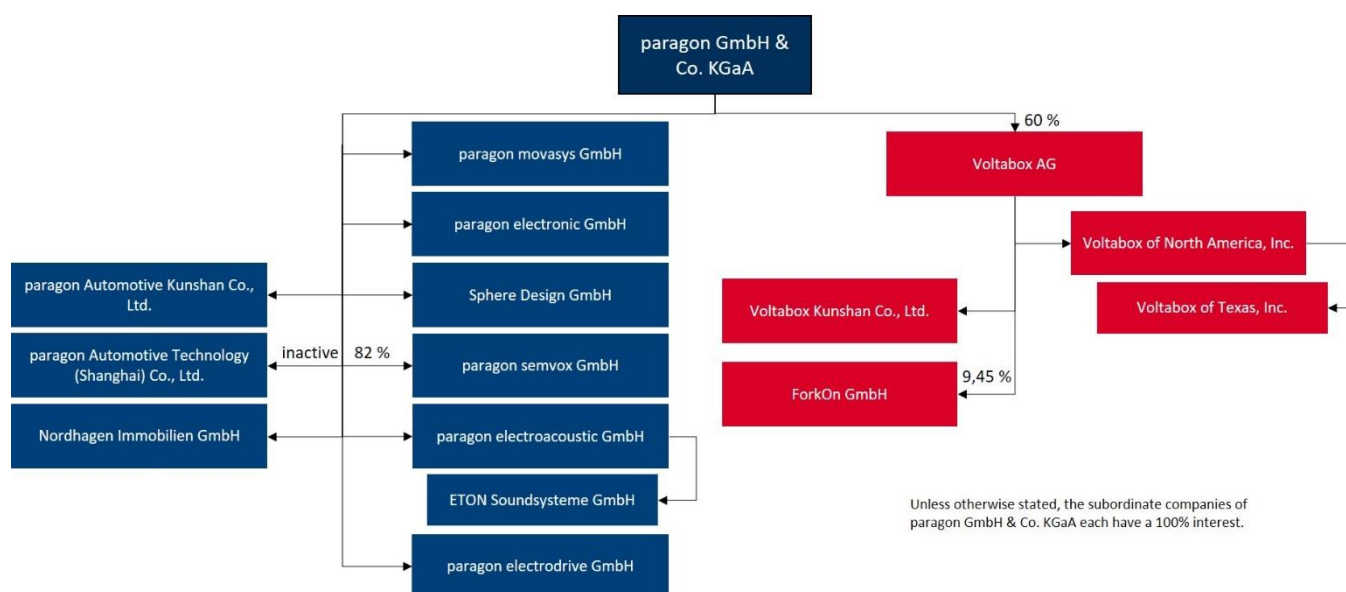
As in the case of a stock corporation, the Annual General Meeting is the decision-making body for the limited liability shareholders of the partnership limited by shares. The Annual General Meeting of a partnership limited by shares follows the same procedure as for a stock corporation. The Annual General Meeting of a partnership limited by shares has sole responsibility for the approval of the annual financial statements. This resolution requires the consent of the general partner.

Basic transactions that likewise require a resolution to be passed at the Annual General Meeting in case of a stock corporation require the consent of the limited liability shareholders. In particular, this relates to transactions resulting in changes to the share capital or

transformation measures for which resolutions passed by the Annual General Meeting are mandatory pursuant to the German Business Reorganization Act.

Such resolutions will likewise require the consent of the general partner.

Group Structure



Management

Klaus Dieter Frers (Chairman of the Management Board, CEO)

Klaus Dieter Frers, born 1953, studied mechanical engineering and graduated with a Dipl.-Ing. from the University of Stuttgart in 1978. He then served in various roles at AEG-Telefunken in Frankfurt am Main and Seligenstadt, including as the assistant to the Chief Technology Officer. From 1983 to 1987, Mr. Frers served as a production manager at the electronics plant of Nixdorf Computer AG in Paderborn. Mr. Frers founded paragon electronic GmbH in Delbrück as an electronics manufacturer in 1988, and in 1999 he established the predecessor that paragon electronic GmbH would subsequently join shortly after its IPO.

Mr. Frers has received numerous accolades for his entrepreneurial activities, such as the "SME Oscar" from the Oskar Patzelt Foundation in 2000, a nomination as "Entrepreneur of the Year" from Ernst & Young in 2006, the "Premier" award from the Oskar Patzelt Foundation in the same year and the "Plastics Oscar" from SPE Central Europe in 2010.

Mr. Frers, whose managing director contract with paragon GmbH is open-ended, is responsible for corporate strategy and corporate development, as well as the Electromobility operating segment, in his capacity as Chairman of the Board and CEO.

Dr. Matthias Schöllmann (Managing Director)

Dr.-Ing. Matthias Schöllmann completed his studies in mechanical engineering and began his career at HELLA GmbH & Co. KGaA, where he served in various management functions, primarily in the Electronics business unit and in sales. Since 2013, he has been responsible for matters including strategic development in his capacity as a member of the Management.

Dr. Schöllmann, whose managing director contract has a cyclical term until August 31, 2023, has been responsible for paragon's Automotive unit, which encompasses the two operating segments of Electronics and Mechanics, since September 2018.

Supervisory Board

Pursuant to Section 10 (1) of the Articles of Association, the Supervisory Board of paragon consists of three members who are elected by the Annual General Meeting. The Supervisory Board is subject to a set of rules of procedure. The Supervisory Board advises and monitors the general partner, paragon GmbH.

The Articles of Association also stipulate that the Supervisory Board is required to approve significant measures. Matters subject to approval include

- Transformation measures resulting in changes 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 participation, insofar as the value of the respective measure exceeds an amount of € 5 million
- Assumption of sureties, guarantees and similar liabilities 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

The Supervisory Board comprises the following three members:

Prof. Dr. Lutz Eckstein, Director and Chair of the Institute for Automotive Engineering (ika) of RWTH Aachen University, who previously served at two major German automotive manufacturers in the premium segment for 15 years; member and Chairman of the Supervisory Board since May 2014. His term of office will end cyclically at the end of the Annual General Meeting to be held in 2023.

Hermann Börnemeier, Dipl. Financial Consultant and Tax Advisor, member of the Supervisory Board and Deputy Chairman of the Supervisory Board since October 1, 2010. His term of office will end cyclically at the end of the Annual General Meeting to be held in 2023.

Walter Schäfers, attorney, member of the Supervisory Board since October 1, 2010. His term of office will end cyclically at the end of the Annual General Meeting to be held in 2023.

The members of the Supervisory Board can be contacted at the company's headquarters at Artegastrasse 1, 33129 Delbrück, Germany.

The Supervisory Board does not currently have any committees.

Potential Conflicts of Interest

Mr. Klaus Dieter Frers is simultaneously a managing director and shareholder of the general partner as well as the majority shareholder of paragon GmbH & Co. KGaA. In this regard,

potential conflicts of interest exist on the part of Mr. Klaus Dieter Frers, between his obligations to paragon as a managing director of the general partner on one hand, and his interests as the majority shareholder of paragon GmbH & Co. KGaA and shareholder of the general partner paragon GmbH on the other. Mr. Frers has significant influence over the appointment of the Supervisory Board members of paragon GmbH & Co. KGaA, who are elected by a simple majority of the Annual General Meeting and can thus also have a decisive influence over who indirectly supervises him.

With regard to the extent of relationships and transactions with associated persons, we refer to the disclosures in the consolidated financial statements as well as the combined management report for paragon GmbH & Co. KGaA and the paragon Group.

Annual General Meeting

The Annual General Meeting of paragon GmbH & Co. KGaA takes place within the first eight months of each fiscal year and is convened by the general partner or by other persons when provided for by the law. Extraordinary general meetings can be convened as often as appears necessary in the interest of the company.

The Annual General Meeting passes resolutions on issues expressly specified in the law and in the Articles of Association, and thus on issues including the appointment of members of the Supervisory Board (provided they are not appointed to the Supervisory Board by other means), the approval of the annual financial statements, the appropriation of balance sheet profits, the approval of the actions of the general partner and the Supervisory Board, the appointment of the auditor, any relevant changes to the Articles of Association, measures regarding capital increases or reductions, the appointment of auditors to review the Management's procedures or the dissolution of the company.

The resolutions of the Annual General Meeting require the consent of the general partner, insofar as matters of fundamental importance are concerned. These primarily include changes to the Articles of Association, capital and transformation measures and the conclusion of agreements on profit-sharing and control.

Strategy

Business Model

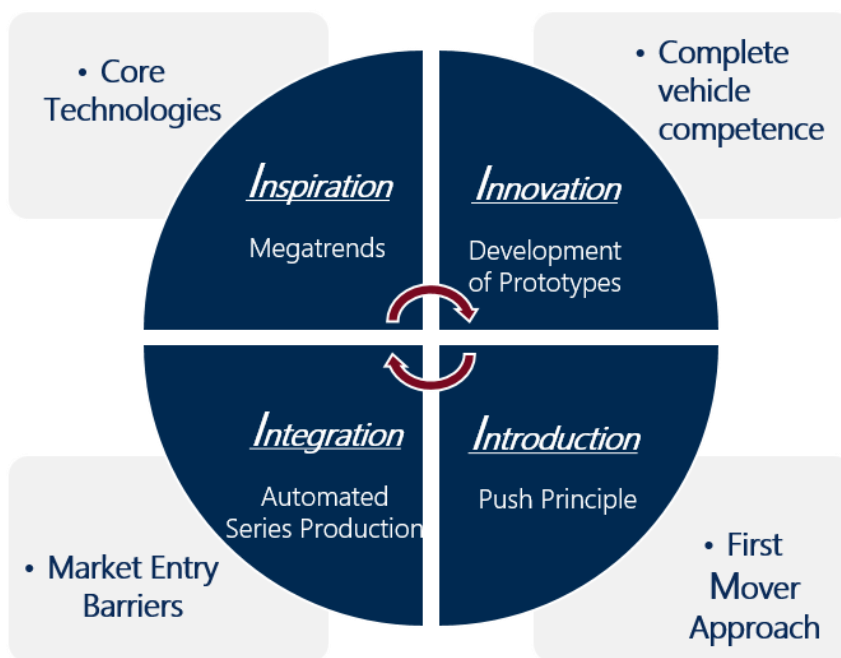
According to its Articles of Association, the business purpose of paragon is the research and development of microelectronics, the manufacture and sale of electronic devices, related peripherals and modules, and the management of patents, licenses and utility models. paragon may establish or acquire other companies, hold interests in companies, establish branches, and implement any other measures and legal transactions that are necessary or serve to achieve or promote the company's aims.

The business model of the paragon Group 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.

In view of the different business models that underlie the paragon Group's Automotive and Electromobility business segments, paragon has focused since the last reporting year on explaining and disclosing specific automotive product business indicators in the Group's publications. The goal is to increase transparency.

Business Model:



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 relevant to the automotive value chain: digitalization, CO₂ reduction, increased comfort and urbanization. The fields of innovation relevant for paragon's business model are derived from these trends: shared mobility, connectivity, e-mobility, autonomous driving, digital assistance and emission control. These are systematically covered by its Sensors, Interior, Digital Assistance, Body Kinematics and Electromobility units. This allows paragon to accurately anticipate the demands of end customers for modern features and characteristics in future models.

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.

Materiality and Measures

paragon develops, produces and sells products and systems in the area of automotive electronics and body kinematics, as well as e-mobility. Since January 1, 2017, the company has subdivided its business activities into three operating segments: Electronics, Mechanics and Electromobility.

In the Electronics and Mechanics operating segments, paragon focuses on the automotive sector, and can now – together with its predecessor – look back over a 30-year company history. As an established and innovative direct supplier to the automotive industry, its customers include leading German and international automotive manufacturers such as Audi, Volkswagen, Porsche, Daimler and BMW.

German premium manufacturers in particular, as well as Chinese manufacturers to an increasing degree, appreciate paragon's innovative solutions, which are consistently oriented toward the identified megatrends of climate change/CO₂ reduction, urbanization and digitalization, and which place the highest priority on improving the individual driving experience for end customers. For example, paragon's portfolio in the Electronics operating segment includes innovative air quality management, state-of-the-art display systems, connectivity solutions and high-end acoustics systems. The Mechanics operating segment includes adaptively extendable spoilers and electric powertrain components.

Moreover, since 2011 paragon has been active in the development and production of lithium-ion battery systems through its subsidiary Voltabox AG, which has been listed on the stock exchange since 2017.

Together with the subsidiaries in Germany, China and the USA, Voltabox forms a subgroup within the paragon Group. Its focus is on selected industrial submarkets that are mostly seeing lead-acid batteries, diesel backup generators or even complete combustion engine drives being replaced with modern lithium-ion battery systems. Voltabox develops, produces and sells these systems independently. Voltabox also actively pursues sales partnerships in order to penetrate individual markets with its own products as rapidly as possible. Relevant submarkets primarily include local public transportation, intralogistics, construction and agriculture. Voltabox increasingly concentrates on standardized mass applications such as starter batteries for motorcycles and motorsports as well as battery packs for pedelecs.

All paragon locations are organized 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.

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 an owner-operated, 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, paragon is able to successfully compete with substantially larger corporations and to expand its position as a direct supplier to renowned automotive manufacturers.

The Management regularly compares its strategy with the actual results achieved by the company. In review meetings, follow-up activities are determined at the management level and optimization measures or fundamental changes in direction are taken when necessary.

paragon uses a comprehensive risk management system as part of its risk-oriented corporate governance. There are no known significant risks linked with the company's own business activities that are or will be likely to have severe negative effects on the environmental, employee and social concerns listed in this report. There are no known material risks associated with the business relationships, products or services of paragon that have or are likely to have serious negative effects on the environmental, employee and social concerns listed in this statement. With regard to the Group-wide risk management system implemented by paragon and the description of the risk categories and individual risks covered, we refer to the disclosures in the combined management report for paragon GmbH & Co. KGaA and the paragon Group.

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. In this respect, our employees, quality, and the environment are critical success factors for the Group.

The current megatrends have initiated a fundamental change in the automotive value chain. This is having a far-reaching influence on the future qualification requirements of employees in this sector. Aside from the high production standards, new technologies and management concepts, shortened innovation cycles and agile development methods increasingly present a challenge for the recruitment and development of employees in the automotive sector. Location factors, working conditions and demographic trends are further key success factors in competition on the labor market.

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

Strategic Analysis and Orientation

In the Automotive unit, paragon's sustainable strategy is based on the independent development of product innovations in fields relevant for the automotive industry – shared mobility, connectivity, e-mobility, autonomous driving, digital assistance and emission control. The goal is to achieve a sustained improvement in the driving experience for the company's end customers: modern car users.

In its Electromobility operating segment, paragon has, via its Voltabox subgroup, pursued the strategy of entering rapidly growing submarkets for lithium-ion battery systems on the capital goods market early on. On this basis, the consumer market will be targeted for development of individual applications in the future.

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

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

To enter lucrative submarkets early on – particularly in the premium segment within the automotive industry – 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.

The digitalization trend and the growing demand for enhanced comfort mean that not only do modern car users have increasingly high expectations in terms of connecting their cars to the internet and seamless use of in-car apps, they also expect intelligent, thinking technologies that react to the driver's needs in real time. From paragon's perspective, the trend of CO₂ reductions will lead to increased demand for reduced weight and improved aerodynamics. Urbanization has led to a fundamental change in consumer behavior in terms of individual mobility and therefore to alternative mobility concepts, such as shared mobility and automated (autonomous) driving. However, increasing urbanization is also leading to a rise in demand for solutions to improve the air inside the vehicle.

In the Electromobility operating segment, the strategic focus is currently on submarkets for capital goods such as local public transportation, intralogistics and automated guided vehicles, as well as construction, agricultural and mining vehicles. In the already existing submarkets, lead-acid batteries (e.g. in forklift trucks), diesel backup generators (in trolley buses), and even entire drive trains with conventional combustion engines (in conventional diesel buses) are being replaced by modern lithium-ion battery systems. paragon can therefore benefit in these submarkets from the effects of sound substitutions that result from users' rational investment decisions and are also driven by increasing regulatory requirements.

paragon also seeks to systematically expand 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.

Increasing Added Value in Models for Existing Customers (Market Penetration)

One of paragon's key strengths is the customer relationships it has developed over the years with leading German and international automotive manufacturers in the premium and luxury segments, and with the Volkswagen Group in particular. 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 facilitated by targeted sales activities, especially by additional account managers, as well as by tailored acquisitions and/or cooperation agreements or their corresponding side effects.

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 many products. Production for the Electronics operating segment is optimized through paragon electronic GmbH's (formerly productronic GmbH) unified management of the German production sites in Suhl, Limbach, St. Georgen – and until 2019, Bexbach. This makes it possible to pursue the trend further and to also make it accessible to customers in the mid-range and compact segments. The same is true of the Mechanics operating segment, where paragon implements production through paragon movasys GmbH at its Landsberg am Lech and Delbrück production sites.

Development of New Sales Areas and Acquisition of New Automobile Manufacturers as Customers (Market Development)

For its future growth, paragon is increasingly seeking to internationalize its business activities. The share of revenue with other OEMs based in Europe, apart from the leading German car manufacturers, is still relatively low. Nevertheless, the paragon products that are geared to the automotive megatrends are no longer primarily relevant for premium series, but increasingly also for volume models. This will successively open up future sales areas for paragon with manufacturers whose focus is outside the premium segment. paragon is focusing its internationalization efforts in particular on the fast-growing markets in Asia and America, where the Group is already represented by subsidiaries. China remains especially attractive for paragon's strategic focus, as its largest individual market. The Chinese automotive industry is one of the world's largest growth drivers, promoting the rapid spread of resource-conserving technologies. The Chinese automotive market therefore offers particularly strong sales potential for paragon in the medium term.

Tapping Into New Submarkets With New Product Offers (Diversification)

Another key component of paragon's growth strategy is to tap into new submarkets with innovative product ranges. In the past, paragon has established itself strategically in select, high-growth industrial e-mobility submarkets as a pioneer for high-performance battery systems. In the field of complex battery systems and battery management systems, paragon already sees itself one of the leading suppliers worldwide – especially with regard to technology and product requirements. paragon has now also positioned itself in new

submarkets as a leading provider of motorcycle starter batteries as well as batteries for intralogistics applications and mining vehicles, and it has a technological lead over its competitors here.

With the acquisition of SemVox GmbH (now: paragon semvox GmbH) in fiscal year 2018, paragon has also expanded its product portfolio to include solutions for digital assistance systems. It is pursuing the goal of using its superior technology to expand its range of integrative solutions and to become one of the leading system providers in this field. The paragon Group focuses not only on the automotive industry, but also on numerous other possible applications. paragon is developing into a technology supplier for proactive assistants that are based on artificial intelligence (AI) and machine learning.

Furthermore, paragon has succeeded in entering the vehicle powertrain sector through the formation of paragon electrodrive GmbH, which comprises the former Voltamotion product segment from Voltabox AG. paragon is thereby expanding its existing range of actuators in the area of Body Kinematics to include power electronics components so it can meet the growing demand for specific e-mobility solutions in the future.

Goals

Through its strategy, paragon pursues the goal of sustainable and stable growth in order to safeguard the company's long-term success. In paragon's view, this can only be achieved if economic, social and ecological aspects can be brought into harmony. Accordingly, sustainability is a prerequisite for the success of the corporate strategy and is therefore already a key element of decision-making at all levels of management.

As a result, aspects of sustainability stand to be integrated even more strongly into decision-making processes in the future. By doing so, we want to drive sustainable corporate activity from strategy to operational implementation.

Depth of the Value Chain

paragon electronic GmbH (formerly productronic GmbH) bundles and controls the domestic production activities of paragon GmbH & Co. KGaA in the Electronics operating segment at its sites in Suhl, St. Georgen and Limbach (until 2019 also at the Bexbach location, which is now combined with nearby Limbach). This structure, which pools production within a single subsidiary, enables improved management of the production processes, more detailed controlling of production costs and optimal distribution of production and resources across the various sites.

Ongoing process optimization in production is ensured via smaller control loops. In conjunction with a consistent service and customer orientation, this results in a continuous improvement of internal quality standards. The paragon Group operates according to a "zero-defect strategy" that is pursued on a long-term basis along the entire production value chain.

The following specific measures were in focus for fiscal year 2019:

- Optimization of quality for series launches through the use of preventive methods such as “Failure Mode and Effects Analysis” (FMEA) and “Advanced Product Quality Planning” (APQP)
- Extensive development programs focusing on quality planning and assurance
- Workshops with suppliers to increase delivery quality

Partly due to numerous production start-ups at paragon movasys, defective goods and customer-related quality costs, “zero-km complaints” (factory incidents) and field complaints have increased by around 19% (prior year: 20% decrease).

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.

Corporate social responsibility thus plays a crucial role throughout paragon’s entire value chain.

Process Management

Responsibility

Central responsibility for sustainable activities at the paragon Group is borne by the Management. Sustainability is also implemented in operational processes and internal procedures. Implementation is carried out by the responsible units and specialist departments.

Rules and Processes

For management purposes, interdisciplinary meetings are conducted along hierarchies on a regular basis. The sustainability aspects of these projects and activities are among topics discussed in these meetings.

This takes place in conformity with the applicable internally-documented notifications and guidelines, as well as through the integration of sustainability into the existing management system under IATF 16949, quality management standard ISO 9001, and international environmental management standard ISO 14001.

Control

Our actions in the fields of activity that are relevant for sustainability can be measured through certifications and are analyzed on a continuous basis. Through continuous discourse in the interdisciplinary meetings, we derive improvements based on these analyses.

In the area of Human Resources, for example, we record

- Illness rate
- Participation in professional development measures
- Effectiveness of professional development measures

- Staff turnover

On the basis of standards IATF 16949 and ISO 9001, which are implemented Group-wide, these performance indicators are available for all locations.

Incentive Systems

Target agreements and compensation at paragon GmbH & Co. KGaA are oriented to the requirements of the position, individual employee performance and the success of the company. Target agreements are defined in employee meetings held at regular intervals. Furthermore, the performance-related variable components of Management remuneration are linked to the company's sustainable value creation.

Stakeholder Participation

Direct contact with customers, suppliers, society and the public is very important to paragon GmbH & Co. KGaA. However, there is no fixed stakeholder analysis in written form. To date, our stakeholders have only been included on a point by point basis. The focus has been primarily on employees, customers and suppliers.

Innovation and Product Management

In the automotive sector, paragon is recognized as a technology leader for systems relating to air quality in vehicle interiors. By developing innovative products and procedures, paragon is able to offer sensors and actuators for the most demanding requirements in this cost-sensitive market segment. paragon products worldwide contribute toward reducing vehicle energy and resource consumption, generating pleasant and healthy interior air quality, and facilitating optimal protection of vehicle occupants from environmental pollution such as harmful gases and fine particles.

Environment

Utilization of Natural Resources

In the manufacture of sensors, microphones, display instruments and kinematic products, paragon processes modules and semifinished products and is careful to ensure that these contain no toxic components. In all production steps, strict care is taken to ensure that the use of plastics, metals, energy and packaging (in reusable containers) is consistently minimized, including through the use of equipment that is technologically up-to-date. The goal is to save costs and protect the environment. Manufacturing the products mentioned above inevitably results in waste. By optimizing production systems and manufacturing processes, paragon continuously reduces the quantity of waste to the greatest extent possible. Ongoing reviews are conducted regarding the options that exist for reuse of the unavoidable waste generated in the production process. These include recycling measures and other use of waste products, such as for energy generation. Waste generated in the manufacturing process is recycled to the greatest extent possible. In cases where recycling is impossible, the waste is used to generate

heat. Pursuant to internal provisions, disposal of materials is only permitted when recovery is technically impossible or economically unfeasible.

The sustainable management of resources is a fixed element of paragon's corporate philosophy. For this reason, in both development and production, the company continuously tries to identify optimization potential and ways to increase the efficient use of natural resources.

In 2018, paragon acquired additional buildings in Landsberg am Lech in Bavaria and in Limbach near Saarbrücken. The company immediately began to modernize the technical infrastructure and to ensure compatibility with the Group's structures in order to increase its own production and storage capacities. Employees moved into the buildings in the year under review. Moreover, the company's Voltabox subsidiary operates two charging stations for battery-powered vehicles at its Artegastrasse site in Delbrück. In addition, fully electric – and therefore carbon-neutral – battery-powered vehicles are in use at the Delbrück and Suhl locations. Since these vehicles are used for many necessary journeys between the Group's various sites in Delbrück during everyday production activities, paragon significantly reduces CO₂ emissions.

Resource Management

Ecological concerns are very important to the paragon Group. Our goal as set out in the corporate governance guidelines and the organizational policies applicable to all employees is to act in the most environmentally conscious manner possible, and to meet our social and ecological responsibilities as a manufacturing company in the best possible way. This particularly applies for the raw materials and semifinished assemblies processed by paragon, but also pertains to Group-wide energy and water consumption, emissions produced, and wastewater and waste material quantities (see also the chapter on Environment). With regard to transport packaging, paragon Group employees make sure that, in line with customer specifications, reusable packaging is used first and foremost. This reduces operating resource consumption and saves natural resources as a result. paragon's packaging specifications reflect quality and environmental requirements. paragon also encourages its customers and suppliers to introduce packaging specifications in line with these requirements.

paragon obtains its raw materials and semifinished products exclusively from approved suppliers. The company's quality assurance and optimization measures include continuous cooperation with suppliers. With this paragon aims to achieve the highest possible level of material savings as well as continually improved resource use and waste reduction.

Climate-Relevant Emissions

paragon GmbH & Co. KGaA is a global market leader and a technological pioneer in innovative, high-quality automotive electronics, body kinematics and lithium-ion battery systems in the field of e-mobility. The products developed and produced by paragon contribute worldwide to reduced energy consumption and CO₂ emissions, and consequently environmental protection. With its product innovations, paragon thus makes a significant long-

term contribution to climate protection and actively supports the automotive industry and other commercial vehicle manufacturers in their efforts to achieve sustainable mobility.

Energy is used as efficiently as possible in internal processes. The associated reduction of CO₂ emissions results in considerable environmental protection. Monitoring is reliably ensured by regular energy audits at the paragon Group's production sites. In the year under review, the paragon Group implemented comprehensive measures to efficiently use energy and reduce its carbon footprint – particularly at the Suhl site, which covers a significant portion of the paragon Group's production. This includes, for example, the use of absorption refrigeration from the need for molecular nitrogen in the cooling circuit. This measure alone made it possible to save 22 thousand kilowatt hours of electricity in fiscal year 2019.

Society

Employee Rights

Employees are of utmost importance to paragon GmbH & Co. KGaA. Sustainable value creation is highly contingent on the appreciation of each individual employee. In light of increasing challenges and the associated increasing requirements regarding technology, regulations, laws and customers, motivated and qualified employees are indispensable for the fulfillment of the company's functions. paragon GmbH & Co. KGaA views diversity among its workforce as a significant competitive factor.

On the basis of this belief, the company offers its employees a healthy working environment marked by appreciation. The observance of statutory provisions for employees and the establishment of additional binding standards in a number of policies thus serve as clear foundations for cooperation between the workforce and company management.

Equal Opportunity

paragon GmbH & Co. KGaA promotes diversity in the workforce, reflecting the demographic and cultural diversity of the business environment. In order to provide all of its employees with equal opportunities and to motivate them to contribute their potential for the benefit of the company, the company cultivates an organizational culture characterized by mutual respect and appreciation of every individual, regardless of gender, nationality, ethnic origin, religion or world view, disability, age or sexual orientation or identity.

In order to promote the personal and professional development of each individual employee in the face of short technical and economic development cycles, equal opportunities and work-life balance, the company has created its own processes and projects.

Personnel development, which starts with the long-term planning of jobs and ranges from personnel selection to continuous promotion of employees, is a central component of paragon's sustainable corporate success.

In order to continuously promote the professional and personal potential of its employees, the company offers on-the-job training and further education, day seminars or in-house training

and practical seminars and training. This also includes strengthening social skills, for instance through communication training programs.

A low staff turnover rate and positive return rates after parental leave indicate a high level of satisfaction among our employees. As a values-oriented company, we foster a corporate culture that contributes to ensuring that our employees are proud to work with us. It provides a source of orientation for our conduct and our dealings with one another that is marked by openness, tolerance and mutual respect. The provision of a wide variety of personal benefits for our employees serves to underscore the lived social responsibility of paragon GmbH & Co. KGaA:

- Career & Private Life

We place emphasis on ensuring that our employees achieve an optimal balance between career and family and that they can take particular life situations into account. We achieve this through flexible and modern working arrangements that can be adjusted to suit our employees' various life stages. These include flextime and part-time arrangements.

- Health Management

In the context of occupational health management, we collaborate with a physiotherapist at our headquarters in Delbrück. Through this cooperation, we offer our employees massages in our facilities.

- Workplace Safety

We have high safety standards that are reviewed on a regular basis in order to guarantee protection against hazards and eliminate safety risks for our employees.

- Additional Company Benefits

We offer our employees further benefits that include a company retirement pension from a market leader in retirement insurance products; bright, modern workspaces; fast internet; company parking; common areas; and a Christmas party.

Qualification

In the paragon Group, employees are offered a perspective in every stage of their life and career so that their individual needs can be coordinated with the requirements of the company.

Through health management measures, high levels of individual responsibility and creative margins in the workplace, and systematic qualification and professional development opportunities, we pursue the goal of maintaining the health and performance of our employees and actively promoting lifelong learning.

It is important that we promote the physical and mental health of our employees. We seek to ensure working conditions that guarantee the highest possible level of worker safety.

We also invest intensively in training young people and generally retain all trainees upon the successful completion of training.

By targeting potential specialists and young talent at career fairs and through electronic media, we hope to secure talented individuals in the employment market so we can face future challenges. We are committed to partnerships with universities, and also offer internships and supervision of thesis work.

Human Rights

The observance of human rights is a major priority for paragon GmbH & Co. KGaA. We speak out clearly against all forms of forced or child labor, slavery and human trafficking. We not only apply these values to ourselves, but also expect such behavior from our contractual partners.

Communities

paragon GmbH & Co. KGaA is thoroughly aware of its social responsibilities and thus strives to play an active and collaborative role in the communities to which it belongs.

Public Policy

We maintain political independence at all times in our exchanges with business, political and academic communities. This applies at the local, regional and international levels. We do not seek to influence public policy through donations or any other activities.

Conduct in Compliance with Laws and Standards/Combating Corruption and Bribery

The business of the paragon Group is based on integrity, esteem and compliance with laws and regulations. Compliance with all criminal laws and laws punishable by fines, the regulated implementation of compliance within the company, and ethically correct, value-based business conduct are therefore crucially important to paragon.

As an internationally active group of companies, the paragon Group is subject to a wide range of country-specific and international laws, ordinances, regulations and internal Group policies, which as a whole constitute the binding framework for the commercial activities of the paragon Group worldwide. For this reason, it is imperative for the executive bodies, managers and all employees to know and comply with the legal obligations that are relevant for their activities.

Managers are particularly responsible for preventing legal violations. For this reason, all managers at paragon GmbH & Co. KGaA are obligated to inform their subordinates about the content and significance of the rules of conduct and to make them aware of legal risks. Managers must review compliance with conduct requirements on a regular basis.

The integration of a compliance management system in accordance with ISO 19600 is currently planned for 2020.

German Sustainability Code (DNK) – Statement of Compliance

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Legal Notice

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