

## 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. With the Management Chairman as the majority 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.”

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 contains the corporate governance declaration pursuant to Section 161 of the German Stock Corporation Act and the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code.

With regard to Section 76 (4) and Section 111 (5) of the German Stock Corporation Act as well as points 4.1.5 and 5.1.2 of the German Corporate Governance Code (GCGC) on the topic of diversity, in 2020 the Supervisory Board and the (then) Management Board jointly determined the current proportion of women on the Supervisory Board and the corporate management body (Management Board/Management) and defined target figures for February 28, 2023. The current quota for paragon GmbH & Co. KGaA is zero for both bodies. The defined targets for both bodies were set at zero, taking into consideration the status quo at that time, since the contract periods or the terms of office of these two bodies continued beyond this date.

On December 31, 2019, the share of women at the downstream management levels accounted for 15.6% of the management personnel (prior year: 14.7%). The Group intends to increase the quota of women for downstream management levels to 25% in the long term.

At paragon GmbH & Co. KGaA, entrepreneurial activity is closely linked with responsibility towards employees, customers, the environment and society. Values such as taking responsibility, team spirit, integrity, passion and a respectful, appreciative approach to daily interaction play a decisive role for paragon GmbH & Co. KGaA and form the core of its corporate culture. The members of the Management are aware of their own function as role models and pay particular attention to ensuring that all company executives exemplify the aforementioned values.

Delbrück, Germany, February 2020

The Management

## Corporate Governance Report

### German Corporate Governance Code

The recommendations of the German Corporate Governance Code (GCGC) promote transparency and thereby strengthen the trust of international and national investors, business partners and company employees. The Management and the Supervisory Board of paragon GmbH & Co. KGaA uphold the obligation highlighted in the 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.”

### Legal Form-Specific Details

The German Corporate Governance Code (GCGC) has been designed for companies with the legal form of a stock corporation (AG) or a European company (SE) and does not take into consideration the specific characteristics of a partnership limited by shares (KGaA). Many of the recommendations made in the GCGC can therefore only be applied to paragon GmbH & Co. KGaA in a modified form. In particular, the following legal form-specific details have resulted in significant modifications:

#### Legal Nature of a Partnership Limited by Shares (KGaA)

A partnership limited by shares is a legal entity that combines a stock corporation with a limited partnership. In place of the capital contributions provided by limited liability partners, the limited liability shareholders participate in the company under stock corporation law. The shares of the partnership limited by shares are tradable in the same way as the shares of a stock corporation and may therefore be admitted to trading on a stock exchange, unlike in the case of capital contributions provided by limited liability partners. A partnership limited by shares thus has one or more general partners and one or more limited liability shareholders. The legal status of the general partner (also in relation to the limited liability shareholders and the creditors of the company) is subject to limited partnership law pursuant to Section 278 (2) of the German Stock Corporation Act and Sections 161, 105 et seq. of the German Commercial Code, while the partnership limited by shares itself and the limited liability shareholders are subject to stock corporation law pursuant to Section 278 (3) of the German Stock Corporation Act. 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.

#### Annual General Meeting

As in the case of a stock corporation, the company’s Annual General Meeting is the decision-making body for the limited liability shareholders of the partnership limited by shares. The Annual General Meeting 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 will require the consent of paragon GmbH as 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 paragon GmbH as the general partner.

The limited liability shareholders exercise their rights in the company's affairs at the Annual General Meeting, unless otherwise stipulated by law. The Annual General Meeting passes resolutions on issues expressly specified in the law and in the Articles of Association. Only those limited liability shareholders who have registered in good time and proven their right to participate in the Annual General Meeting and to exercise their voting right are entitled to take part in the Annual General Meeting and exercise voting rights. Registration must be done in writing (Section 126b of the German Civil Code [BGB]) and must be in German or English. The right to participate in the Annual General Meeting and to exercise voting rights is demonstrated by means of a written proof of share ownership from the custodial institution.

At the Annual General Meeting, the Management shall, upon request, provide each limited liability shareholder or limited liability shareholder representative with information on the company's affairs, including the company's legal and business relationships with affiliated companies, as well as on the Group's position and that of the companies included in the consolidated financial statements, insofar as the disclosure is necessary for the proper assessment of an item on the agenda and there is no right to withhold the information.

At the Annual General Meeting on May 15, 2019, the (then) Management Board submitted to the shareholders the adopted annual financial statements of the company and the approved consolidated financial statements as of December 31, 2018, the status reports of the company and the Group, the explanatory Management Board report on the information required in accordance with Sections 289 (4), 315 (4) of the German Commercial Code as well as the respective Supervisory Board report for fiscal year 2018.

In addition, the following resolutions were passed with the required majority of voting capital in each case:

- Resolution on the adoption of the annual financial statements of paragon GmbH & Co. KGaA for fiscal year 2018
- Resolution on the appropriation of the balance sheet profits from fiscal year 2018
- Resolution on the discharge of the former Management Board of paragon Aktiengesellschaft for the period from January 1, 2018 to July 5, 2018
- Resolution on the discharge of the former Supervisory Board of paragon Aktiengesellschaft for the period from January 1, 2018 to July 5, 2018
- Resolution on the discharge of the general partner for the period from July 5, 2018 to December 31, 2018
- Resolution on the discharge of the Supervisory Board for the period from July 5, 2018 to December 31, 2018
- Selection of the auditor and Group auditor for fiscal year 2019 as well as of the auditor for an audit review of the half-year financial report for fiscal year 2019, where applicable
- Amendment to the Articles of Association in accordance with Section 58 (5) AktG

## Supervisory Board

The Supervisory Board of paragon GmbH & Co. KGaA consisted of three members throughout fiscal year 2019: Prof. Dr. Lutz Eckstein (Chairman), Hermann Börnemeier (Vice-Chairman) and Walter Schäfers. The Supervisory Board oversaw the work of the Management Board and the Management and provided them with advice. In fiscal year 2019, there were no conflicts of interest among the members that would have to have been disclosed to the Supervisory Board. The Supervisory Board regularly assesses the efficiency of its work through self-evaluation.

In respect of the services personally provided by members of the Supervisory Board for the company in fiscal year 2019, 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.

As in the case of a stock corporation, the supervisory board of a partnership limited by shares 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.

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.

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.

In principle, the members of the supervisory board will be appointed in accordance with the rules applicable for a stock corporation. However, the mandatory statutory incompatibility prescription of

the members of the supervisory board and general partners must be complied with. The mandatory statutory prescription concerning the incompatibility of members of the supervisory board and general partners must also be complied with. Pursuant to Section 287 (3) of the German Stock Corporation Act, general partners may not be supervisory board members. If the general partner is a limited liability company, this ground for exclusion will apply analogously for the managing director(s) of paragon GmbH as the general partner and for the shareholders with significant interests in this company.

## Management

Unlike a stock corporation, a partnership limited by shares does not have a management board. The general partner(s) is/are responsible for the company's management. 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. It is not necessary for the general partner to participate in the company's share capital; however, the general partner may simultaneously be a limited liability shareholder.

General partners could be natural persons, a limited liability company, a stock corporation or other legal persons (capital-based partnership limited by shares). In the case of a capital-based partnership limited by shares, the management bodies of the general partner thus effectively manage the business of the partnership limited by shares. Moreover, due to its legal form (stock corporation or limited liability company) in the case of a capital-based partnership limited by shares the otherwise direct, personal and unlimited liability of the general partner for all of the company's liabilities is limited to the company assets of the general partner and thus effectively to its share capital or nominal capital.

The company's general partner is paragon GmbH, headquartered in Delbrück. In the reporting year, the Management of paragon GmbH initially consisted of the three members Klaus Dieter Frers (Chairman), Dr. Matthias Schöllmann and Dr.-Ing. Stefan Schwehr. The appointment of Dr.-Ing. Stefan Schwehr ended on 3/31/2019. From then on, and on 12/31/2019, the Management consisted of Klaus Dieter Frers (Chairman) and Dr. Matthias Schöllmann. Unlike in the case of the management board of a stock corporation, the managing directors of paragon GmbH have not been appointed for a limited period of time. The shares in paragon GmbH are held by Klaus Dieter Frers, Brigitte Frers and Niklas Frers. The associated shareholder rights are exercised by the shareholders' meeting.

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

The company is committed to a high degree of transparency in its reporting. This also applies to the remuneration of the Management, which is disclosed and explained in full in the remuneration report, together with all its components and on an individualized basis. The Management and the Supervisory

Board have therefore decided to use the Management Board remuneration sample tables provided by the GCGC in the remuneration report, which is contained in the combined management report for the paragon Group and paragon GmbH & Co. KGaA for fiscal year 2019.

## Cooperation Between the Management 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 2019. Here, the Supervisory Board supervised the company's Management on an ongoing basis and made sure of its legal and regulatory compliance, appropriateness and effectiveness. Furthermore, the Supervisory Board was available to the Management for consultation and was involved in discussions and decisions regarding issues of material importance. Thanks to the good cooperation between the Supervisory Board members, even time-sensitive decisions were resolved quickly after appropriate consideration.

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

## 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 2018 (published on April 1, 2019), the interim report as of March 31, 2019 – 1st quarter (published on May 13, 2019), the interim report as of June 30, 2019 – 1st half-year (published on August 22, 2019) and the interim report as of September 30, 2019 – 9 months (published on November 13, 2019), among others. In addition to these reporting dates, paragon GmbH & Co. KGaA published financial notices, which also included the Management's assessment of further business development.

The Management's revenue and earnings forecast for fiscal year 2019 dated March 7, 2019 was outlined in the Group management report published on April 1, 2019 as an interval forecast including the key assumptions on which the forecasts are based. On August 12, 2019, the company issued a profit warning, mainly as a result of postponed projects at subsidiary Voltabox AG and the resulting delays in sales, which led to a reduction in the forecast for revenue and EBIT margin.

In the past fiscal year, the company continued to solidify its ongoing communication with institutional and private investors both at the paragon Group level and at the level of its subsidiary Voltabox AG, which is also publicly traded.

More than 250 individual meetings were held with institutional investors from Germany, the United Kingdom, France, Finland, Sweden, Denmark, Luxembourg, the Netherlands, Switzerland, Austria, Italy, Spain, Poland, the USA and Canada as well as with private investors. Over the course of the year, 6

research firms (prior year: 6) published a total of 30 studies (prior year: 31) on paragon GmbH & Co. KGaA, and 7 research firms published a total of 35 studies on the subsidiary Voltabox AG.

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.

## Directors' Holdings

Taking into consideration the allocation pursuant to Section 34 of the German Securities Trading Act, the Management Chairman (and founder of the predecessor company), Klaus Dieter Frers, held 2,263,134 shares in the company as of the reporting date. This equates to a proportion of 50% plus one share of the share capital of paragon GmbH & Co. KGaA.

The Management member Dr. Matthias Schöllmann held 2,920 shares of the company as of the reporting date.

The members of the Supervisory Board held 4,000 shares of the company as of the reporting date.

## Accounting

paragon GmbH & Co. KGaA prepared the consolidated financial statements as of December 31, 2019, in accordance with the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) as adopted by the EU. The Annual General Meeting on May 15, 2019, selected Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, to be the auditor for the fiscal year from January 1, 2019, to December 31, 2019, and the company was subsequently commissioned accordingly by the Supervisory Board.

## Declaration of paragon GmbH & Co. KGaA on the German Corporate Governance Code

The German Corporate Governance Code 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.

Pursuant to Section 161 of the German Stock Corporation Act, the Management and the Supervisory Board of paragon GmbH & Co. KGaA make the following declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code in the version from February 7, 2017, that was published on April 24, 2017, in the German Federal Gazette:

The Management and the Supervisory Board welcome the suggestions and rules of the German Corporate Governance Code. They are committed to transparent, responsible and value-oriented management and governance. paragon GmbH & Co. KGaA complied and complies with the recommendations of the German Corporate Governance Code, with the following deviations:

- It is planned to push ahead with the integration of a compliance management system in accordance with ISO 19600 in 2020 (No. 4.1.3).
- The current employment contracts of the managing directors do not currently stipulate any maximum limits for the total remuneration or the variable remuneration components. The Management and the Supervisory Board do not consider this necessary because of the clear correlation between the variable portions and earnings indicators (No. 4.2.3).
- A limit on severance payments (severance payment cap) has not been agreed for Management Chairman Klaus Dieter Frers because he holds the majority of the company's share capital (No. 4.2.3).
- The shareholders' meeting of paragon GmbH has not been influenced by the issue of diversity in its appointment of the current members of the Management (No. 5.1.2).
- The Supervisory Board has not formed any committees as this is considered inefficient by the three members due to the small size of the Supervisory Board (Nos. 5.3.1 to 5.3.3).
- No age limit has been set for the members of the Supervisory Board or the Management since the expertise of the members is given priority (Nos. 5.1.2 and 5.4.1).
- paragon GmbH & Co. KGaA publishes the annual financial statements and the interim reports in accordance with legal requirements and also strives to comply with the periods recommended by the Code (90 days for annual financial statements, 45 days for interim financial statements). However, these periods may be exceeded for organizational reasons (No. 7.1.2).

Delbrück, Germany, February 2020

The Management

The Supervisory Board