

PARAGON®

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



Table of Contents

Table of Contents.....	2
Company Structure and Executive Bodies	4
Management Board	6
Supervisory Board	7
Potential Conflicts of Interest	8
Annual General Meeting	8
Strategy	9
Business Model.....	9
Significance and Measures.....	10
Nonfinancial Performance Indicators	11
Strategic Analysis and Orientation.....	12
Goals	13
Depth of the Value Chain.....	14
Process Management	14
Responsibility.....	14
Rules and Processes.....	14
Control.....	15
Incentive Systems.....	15
Participation of Stakeholder Groups	15
Innovation and Product Management	15
Environment.....	16
Utilization of Natural Resources.....	16
Resource Management	16
Climate-Relevant Emissions.....	17
Society	17
Employee Rights.....	17
Equal Opportunity.....	17
Qualification.....	19
Human Rights	19
Communities.....	19
Public Policy	19
Conduct in Compliance with Statutory and Internal Provisions/Combating of Corruption and Bribery	19
German Sustainability Code (DNK) – Declaration of Compliance	21

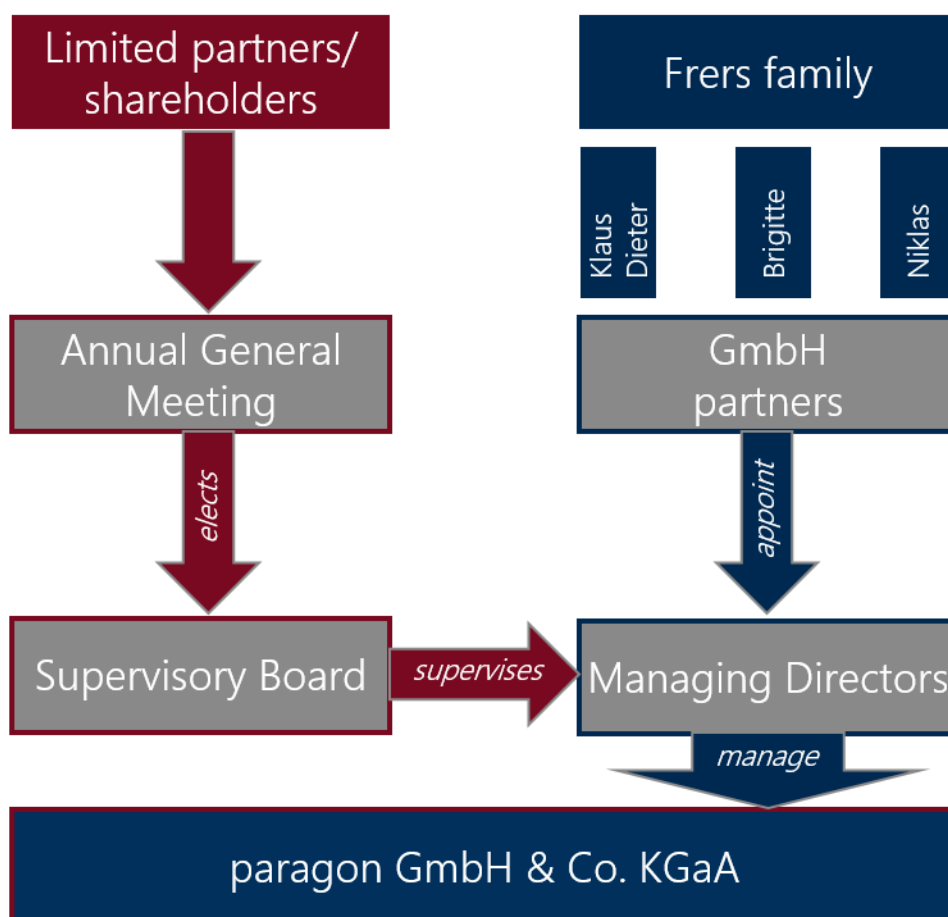
Legal Notice22

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").

A partnership limited by shares is a legal entity that combines a stock corporation with a limited partnership. It thus has one or more general partners – in this case paragon GmbH – 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.

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.

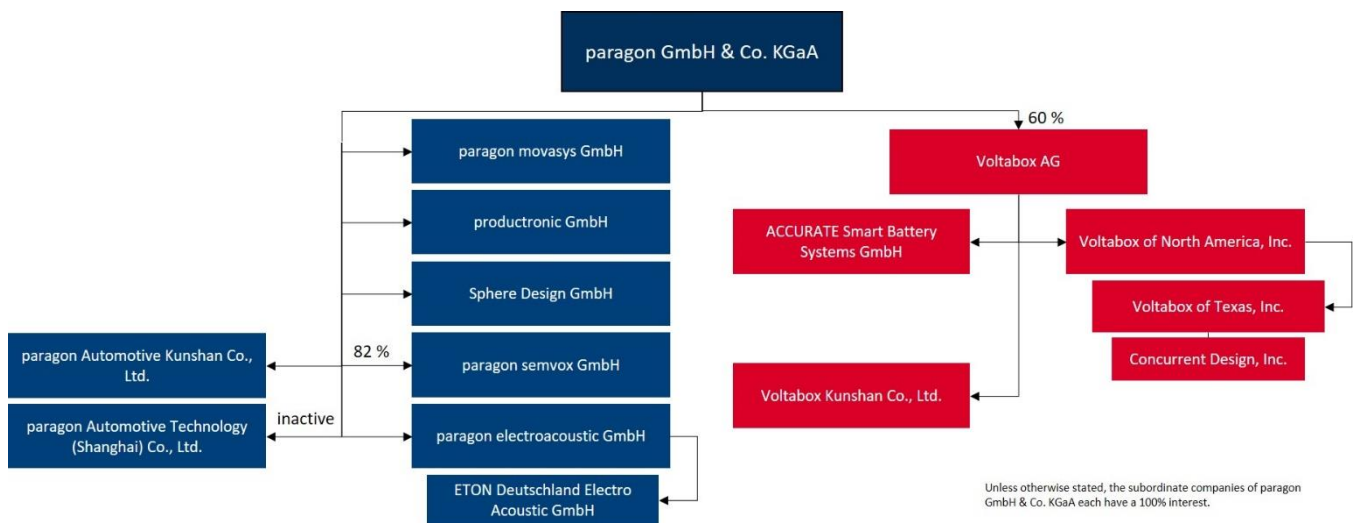
Nor is the supervisory board responsible for the appointment and dismissal of the general partner, since the general partner will assume this role with permanent effect according to the articles of association. Pursuant to Section 287 (3) of the German Stock Corporation Act, general partners may not 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 Board

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 Management Board. 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 Oscar of SMEs from the Oskar-Patzelt Foundation in 2000, nomination as the Entrepreneur of the Year by Ernst & Young in 2006, designation as "Premier" by the Oskar-Patzelt Foundation in the same year and the Plastics Industry Oscars by SPE Central Europe in 2010.

Mr. Frers, whose managing director contract with paragon GmbH is permanent, is responsible for corporate strategy and corporate development, as well as the Electromobility operating segment, in his capacity as Chairman of the Management 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, is now responsible for paragon's Automotive unit, which encompasses the two operating segments of Electronics and Mechanics.

Dr. Stefan Schwehr (Managing Director)

Dr.-Ing. Stefan Schwehr, following his education in electrical engineering, has accumulated roughly 20 years of management experience at Daimler AG in the area of the predevelopment and development of electronic components. He was most recently responsible for the predevelopment of vehicle display and operation systems.

Dr. Schwehr, whose managing director contract has a cyclical term until March 31, 2019, concentrates his management activities on the integration of new digital subjects, including corresponding cooperations.

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 a requirement of approval from the Supervisory Board in cases of 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 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

The Supervisory Board comprises the following members:

Prof. Dr. Lutz Eckstein, Head of the Chair and 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 of the Supervisory Board 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 headquarters of the issuer at the address Artegastrasse 1, 33129 Delbrück, Germany.

The Supervisory Board does not have any committees at present.

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.

In respect of 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 in the relevant applicable statutory cases. 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 activities of the general partner and the Supervisory Board, the appointment of the auditor, any relevant changes to the Articles of Association, measures on 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. This primarily includes changes to the Articles of Association, capital and transformation measures and the conclusion of agreements on profit-sharing and control.

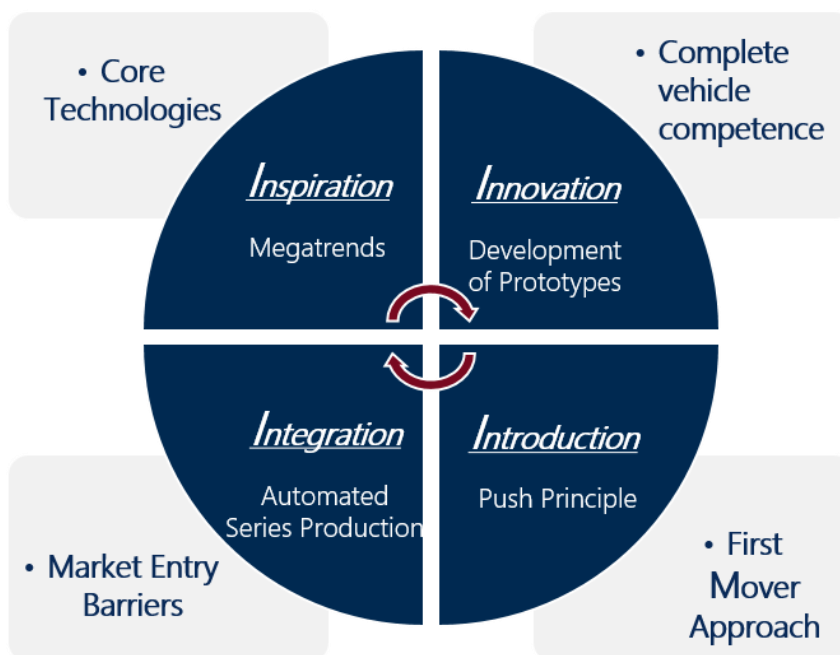
Strategy

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 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 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.

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, digitization and urbanization, paragon identifies the megatrends that are of relevance for the automotive value chain: digitization, 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.

Significance and Measures

paragon develops, produces and sells products and systems in the area of automotive electronics and body kinematics, as well as in 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 of 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, as well as adaptive spoilers in the Mechanics operating segment.

Since 2011, paragon has also been active in the e-mobility segment. The subsidiary responsible for this field of activity, Voltabox AG, has been publicly traded since 2017 and forms a subgroup within the paragon Group together with its subsidiaries in Germany, China and the US. Its focus is on selected industrial submarkets that are marked by the replacement of lead-acid batteries and diesel backup generators with modern lithium-ion battery systems. Voltabox develops, produces and sells these systems independently. Relevant submarkets primarily include local public transportation, intralogistics and mining applications. Voltabox is

increasingly dealing with standardized mass applications such as starter batteries for motorcycles and motorsport, battery packs for pedelecs and electronic drive systems.

All paragon locations are organized according to the international standard IATF 16949 and were last certified in March 2018. 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 in position to successfully compete with substantially larger corporations and expand its position as a direct supplier to renowned automotive manufacturers.

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

paragon uses a comprehensive risk management system as part of its risk-oriented corporate governance. There are no known material risks associated with its own business activities which have or are likely to have serious negative effects on the environmental, employee and social concerns listed in this statement. There are no known material risks associated with the business relationships, products or services of paragon which have or are likely to have serious negative effects on the environmental, employee and social concerns listed in this statement. In respect of the Group-wide risk management performed 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. Employees and the area of quality and the environment are critical success factors for the Group in this respect.

The current megatrends have triggered 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. As well as high production standards, new technologies and management concepts, shortened innovation cycles and agile development methods increasingly represent 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 already organized according to the new international standard IATF 16949 and have been certified since July 2018. The established interactive and process-oriented management system provides continuous improvements while emphasizing error prevention, waste prevention and continuous improvement.

Strategic Analysis and Orientation

In the automotive sector, paragon's sustainable strategy is based on the independent development of product innovations from the relevant fields – shared mobility, connectivity, e-mobility, autonomous driving, digital assistance and emission control – for the automotive industry, in order 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, so far 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 also stands to be developed for individual applications in a targeted manner 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 in the premium segment of the automotive sector in particular early on, paragon develops technological innovations by means of a tried-and-tested process and thus identifies fields of action for the automotive industry that will be explored in future research and development activities.

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, mining vehicles and construction and agricultural vehicles. Here, existing submarkets are replacing lead-acid batteries or diesel backup generators (in the case of trolleybuses) with lithium-ion battery systems. In these submarkets, paragon is able to benefit from substitution effects that result from users' rational investment decisions.

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

Gaining new automotive manufacturers as customers (market penetration)

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 supported through targeted sales activities, in particular thanks to additional account managers as well as tailored acquisitions and the side effects of acquisitions.

Tapping into new sales areas (market development)

For its future growth, paragon is also increasingly seeking to internationalize its business activities. Besides its home market of Germany and Europe's key automotive markets, paragon is therefore concentrating particularly strongly on the high-growth markets in Asia and North America, where the Group is already present through subsidiaries.

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 world market leaders. 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.

Through its acquisition of 82% of the shares in SemVox GmbH, Saarbrücken, (now: paragon semvox GmbH) in the third quarter of 2018, paragon is also seeking to enter relevant market segments in the field of digital assistance systems early on and to become one of the leading system providers thanks to innovative product and system solutions. Here, paragon is emerging as a supplier of technology for proactive assistants based on artificial intelligence (AI) and machine learning. From paragon's perspective, its system solutions based on the latest AI technologies – such as its high-performance and versatile platform ODP S3 for proactive interactive and assistance systems – are providing it with a clear technological competitive edge in this rapidly growing market segment. The goal is to expand the range of integrated solutions in the future and likewise in this market to increasingly establish the company as a system provider for automotive manufacturers.

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.

Aspects of sustainability stand to be integrated even more strongly into decision-making processes in the future in order to drive sustainable corporate activity from the strategy into its operational implementation.

Depth of the Value Chain

Since 2016, productronic GmbH has uniformly controlled the domestic production activities of paragon GmbH & Co. KGaA in the Electronics operating segment at its Suhl, St. Georgen and Bexbach sites. 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 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 following specific measures were in focus for fiscal year 2018:

- 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 supplier quality

Through these measures, defective goods and customer-related quality costs, “zero-km complaints” (factory incidents) and field complaints have been reduced by around 20% (prior year: 25% decrease). The costs mainly arose in the Interiors (Cockpit specialist area) and Sensors units.

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 the use of 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 the entire value chain of paragon.

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 the purpose of control, interdisciplinary meetings are conducted along hierarchies on a regular basis; in these, projects and activities are also discussed in regard to sustainability aspects.

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

Control

Our actions in the relevant fields of activity for sustainability are measurable through certifications and are analyzed on a continuous basis. On the basis of these certifications and analyses, we derive improvements under the framework of continuous dialog in the interdisciplinary meetings.

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

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

On the basis of the 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 guided by the requirements of the role, the individual performance of employees and corporate success. Target agreements are defined in employee meetings held at regular intervals. Furthermore, the success-dependent variable components of managing director compensation are linked to the company's sustainable value creation.

Participation of Stakeholder Groups

Direct contact with customers, suppliers, society and the public holds great importance for paragon GmbH & Co. KGaA. However, there is no fixed stakeholder analysis in writing. To date, the inclusion of our stakeholders has only been handled selectively. In this context, the focus has been placed primarily on employees, customers and suppliers.

Innovation and Product Management

In the automotive sector, paragon is recognized as a technology leader for systems pertaining to air quality in vehicle interiors. Through the development of innovative products and procedures, paragon is able to offer sensors and actuators for the most demanding requirements in this cost-sensitive market segment. In addition, paragon products worldwide contribute toward reducing the energy and resource consumption of vehicles, 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 production of sensors, microphones, display instruments and kinematic products, paragon processes modules and semifinished products that, to the furthest possible extent, do not contain toxic components. In all production steps, strict care is taken to ensure that the use of plastics, metals, energy and packaging (through the use of reusable containers) is consistently minimized, including through the use of equipment that is technologically up to date. This takes place with the objective of saving costs and relieving 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 furthest possible extent. In regard to the unavoidable portion of waste, ongoing reviews are conducted in regard to what options exist for reuse in the production process, for recycling measures and any other applicable uses of the resulting waste products, such as for energy. Defective goods resulting from the manufacturing process are recycled to the furthest possible extent. In cases where recycling is impossible, the waste is routed to thermal utilization. Pursuant to internal provisions, disposal of materials is only permitted when utilization is technically impossible or economically unfeasible.

The sustainable management of resources is a fixed element of paragon's corporate philosophy. For this reason, the identification of potential optimizations and opportunities to increase efficiency in regard to the utilization of natural resources is pursued continuously in both development and production.

In 2018, paragon acquired additional buildings in Landsberg am Lech in Bavaria and in Limbach, near Saarbrücken. It immediately began to modernize the technical infrastructure here to ensure compatibility with the Group's structures, in order to increase its own production and storage capacities. Moreover, its Voltabox subsidiary installed a charging station for battery-powered vehicles at its Artegastrasse site in Delbrück. In addition, fully electric battery-powered vehicles that are entirely carbon neutral are in use at the Delbrück and Suhl locations. Since these vehicles are used for a large number of necessary journeys between the Group's various sites in Delbrück during everyday production activities, paragon significantly reduces CO₂ emissions.

Resource Management

The consideration of ecological concerns is highly important to the paragon Group. The goal set out in the corporate governance guidelines and in the organizational policies applicable to all employees is to act in the most environmentally friendly manner possible and to optimally fulfill the relevant social and ecological responsibilities as a manufacturing company. This particularly applies for the raw materials and semifinished assemblies processed by paragon, but also pertains to Group-wide energy and water consumption, emissions caused, and wastewater and waste material quantities (for more on this subject, see also: "Environment" section). With regard to transport packaging, paragon Group employees make sure that, in line

with customer specifications, reusable packaging is used first and foremost. This serves to reduce resource consumption and, as a result, to save natural resources. paragon's packaging specifications reflect quality and environmental requirements. paragon also encourages its customers to introduce packaging specifications in line with these requirements.

paragon obtains its raw materials and semifinished products exclusively from approved suppliers. Through continuous cooperation with suppliers under the framework of measures for quality assurance and optimization, paragon ensures a high level of material conservation and, in doing so, also strives to further improve resource input and reduce the defect ratio.

Climate-Relevant Emissions

paragon GmbH & Co. KGaA is a global market leader and a technological pioneer in regard to 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 reducing energy consumption and CO₂ emissions and protecting the environment. In this manner, paragon makes a decisive contribution toward climate protection. Energy is used as efficiently as possible in internal processes. The associated reduction of CO₂ emissions results in considerable relief for the environment. At the Suhl location, for example, which accounts for a substantial portion of the paragon Group's production, we carry out an energy audit on a cyclical basis.

Society

Employee Rights

Employees hold a place of utmost importance to paragon GmbH & Co. KGaA. Sustainable value creation substantially depends on the appreciation of each individual employee. In light of increasing challenges in regard to technology, regulation, law and customers and the associated increasing requirements, motivated and qualified employees are indispensable for the fulfillment of the company's obligations. 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. As such, 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, and its workforce reflects 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 the strengthening of social competencies, such as through training programs on communication.

A low fluctuation rate and positive return rates after parental leave indicate a high level of satisfaction among our employees. As a values-oriented company, our corporate culture 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 personalized benefits for our employees serves to underscore the fulfillment, in practice, of the social responsibilities of paragon GmbH & Co. KGaA:

- **Career & private life**
We place a premium on ensuring that our employees can achieve an optimal balance between career and family and that unique living situations can be taken into account. We achieve this through flexible and modern working models that can be adjusted to suit the different stages of life of our employees. These include adaptable flex-time provisions and part-time models.
- **Health management**
In the context of occupational health management, we employ methods such as cooperation with a physiotherapist at our headquarters in Delbrück. Through this cooperation, we offer massages for our employees 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 the elimination of safety risks for our employees.
- **Further company benefits**
We offer our employees further benefits including a company retirement pension from a market leader in retirement insurance products, bright and modern workspaces, fast internet, company parking, common areas and a Christmas party.

Qualification

At paragon GmbH & Co. KGaA, employees are offered prospects in every stage of life and career to ensure that their individual needs can be coordinated with the requirements of the company.

With health management measures, high levels of individual responsibility and discretion in the workplace and systematic qualification and professional development opportunities, we pursue the goal of protecting the health and capabilities of our employees and actively promoting life-long learning.

Maintaining and promoting the health of our employees is a major priority for us. We seek to ensure working conditions that guarantee the highest possible level of worker safety.

We also invest intensively in the training of young people, and generally retain all trainees following the successful conclusion of training.

By reaching out to potential specialists and young talent in a targeted manner at career fairs and through electronic media, we also hope to secure the most talented individuals in the employment market in order to face future challenges. We are committed to cooperations with schools, and also offer internships and assistance with graduate theses.

Human Rights

The observance of human rights is a major priority for paragon GmbH & Co. KGaA. We emphatically speak out against any form of forced or child labor, as well as slavery and human trafficking. We apply these values not only 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 our political independence at all times in our exchanges with the areas of business, politics and academia. 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 Statutory and Internal Provisions/Combating of Corruption and Bribery

The business of the paragon Group is based on integrity, appreciation and compliance with laws and regulations. Compliance with all criminal and fine-related laws, their company-internal implementation provisions and ethically correct, values-oriented business conduct thus hold a place of substantial importance for 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 relevant legal obligations for their activities.

A particular level of responsibility is held by managers in regard to the prevention of legal violations. For this reason, all managers of paragon GmbH & Co. KGaA are obligated to inform the employees reporting to them of the content and significance of their conduct obligations 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 planned for 2019.

German Sustainability Code (DNK) – Declaration of Compliance

Area	DNK criterion	Page
Strategy	Strategic Analysis and Orientation	12, 13
	Significance and Measures	10, 11
	Goals	13
	Depth of the Value Chain	14
Process Management	Responsibility	14
	Rules and Processes	14, 15
	Control	15
	Incentive Systems	15
	Participation of Stakeholder Groups	15
	Innovation and Product Management	15
Environment	Utilization of Natural Resources	16
	Resource Management	16, 17
	Climate-Relevant Emissions	17
Society	Employee Rights	17
	Equal Opportunity	17, 18
	Qualification	19
	Human Rights	19
	Communities	19
	Public Policy	19
	Conduct in Compliance with Statutory and Internal Provisions/Combating of Corruption and Bribery	19, 20

Legal Notice

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