

## Corporate Governance Statement Pursuant to Section 289a of the German Commercial Code (HGB)

The Management Board and the Supervisory Board of paragon AG are committed to the principles of a transparent and responsible corporate governance and control structure. They ascribe a high priority to the standards of good corporate governance. With the CEO as the majority shareholder, the working methods of the Management Board conform with the principles of the “honorable merchant” in terms of its entrepreneurial responsibilities. 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 289a of the German Commercial Code (HGB) can be accessed at any time on the paragon website at <http://www.paragon.ag/en/investors/corporate-governance.html>. It contains the corporate governance declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) and the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code (GCGC).

The management of paragon AG as a German joint stock corporation is specified by the German Stock Corporation Act, the company’s Articles of Association, the voluntary commitment to the provisions of the GCGC in its most recent version and the respective current rules of procedure for the Management Board and Supervisory Board.

Pursuant to the statutory provisions, paragon AG has what is known as a dual management system. This is characterized by a strict separation of personnel between the Management Board as the management body and the Supervisory Board as the supervisory body. The Management Board and the Supervisory Board work together closely in the interests of the company. The Management Board is directly responsible for leading the company according to the laws, the Articles of Association and its rules of procedure. The rules of procedure include regulations on the allocation of responsibilities, the decision-making authority of the entire Management Board, the rights and responsibilities of the Chief Executive Officer, as well as on resolutions and meetings, among other things. The Management Board of paragon AG consists of two people, Klaus Dieter Frers (CEO) and Dr. Stefan Schwehr (Chief Technology Officer [Electronics]).

The Supervisory Board oversees the Management Board in leading the company and provides advice. It appoints and discharges the members of the Management Board, determines the transactions requiring approval, decides the remuneration system for the Management Board and sets its respective total remuneration. It is involved in all decisions of fundamental importance for paragon AG, which are provided for in the German Stock Corporation Act and the rules of procedure. The Supervisory Board comprises three members. The rules of procedure for the Supervisory Board govern the principles for the cooperation of the Supervisory Board. In particular, they specify decision-making and confidentiality procedures. According to its own assessment, the Supervisory Board works efficiently with all of its three members, meaning that it does not need to form any further committees.

The Supervisory Board of paragon AG fulfilled the consulting and monitoring obligations incumbent upon it according to law, the Articles of Association, German Corporate Governance Code and rules of procedure with great care in fiscal year 2016. 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 Board 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.

The Management Board 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, risk situation and risk management. The Supervisory Board intensively reviewed the Management Board's reports and discussed them at its meetings. In addition to the Supervisory Board meetings and conference calls involving all members of the Management Board and Supervisory Board, the Supervisory Board Chairman and the Management Board 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.

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 Corporate Government Code in the version dated May 5, 2015 on the topic of female quotas, the Management Board and Supervisory Board jointly determined the current proportion of women in 2015 and the target figures for June 30, 2017. The current quota for paragon AG is zero for both bodies. The target figures that were determined by resolution for June 30, 2017 were also set at zero for both bodies because the contractual periods for the Management Board and the term of office for the Supervisory Board members extend beyond this date. A possible enlargement of the Management Board is not planned. For the downstream management levels in the company, the current female quota is 6%. A target figure for June 30, 2017 of a 10% proportion of women was set for these levels.

At paragon AG, 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 us and form the core of our corporate culture. The Management Board of paragon AG pays particular attention to ensuring that all company managers exemplify the aforementioned values through model behavior.

Delbrück, February 2017

The Management Board

## Corporate Governance Report

### German Corporate Government 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 Board and Supervisory Board of paragon AG 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”.

### Annual General Meeting

The shareholders exercise their rights in the company's affairs in the Annual General Meeting, unless the law stipulates otherwise. The Annual General Meeting passes resolutions on issues expressly specified in the law and in the Articles of Association. Only those 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 Board shall, upon request, provide each shareholder or 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 April 27, 2016, the Management Board submitted to the shareholders the adopted annual financial statements of paragon AG and the approved consolidated financial statements as of December 31, 2015, the status reports of paragon AG and the paragon Group, the explanatory Management Board report on the information required in accordance with Sections 289 (4), 315 (4) HGB as well as the respective Supervisory Board report for fiscal year 2015.

In addition, the following resolutions were passed with more than 99 percent of the voting capital in each case:

- Resolution on the appropriation of the balance sheet profits from fiscal year 2015,
- Resolution on the approval of the activities of the Management Board for fiscal year 2015,
- Resolution on the approval of the activities of the Supervisory Board for fiscal year 2015,
- Selection of the auditor and Group auditor for fiscal year 2016 as well as of the auditor for the audit review of the half-year financial report for fiscal year 2016 if necessary,
- Resolution on the revocation of existing authorized capital and resolution on the authorization of the Management Board to increase the share capital with authorization to exclude subscription rights (Authorized Capital 2016/I) and corresponding amendment to the Articles of Association,
- Resolution on the consent for a spin-off and transfer agreement between paragon AG and productronic GmbH on the spin-off of production from paragon AG,

- Resolution on the consent to conclude a profit transfer agreement between paragon AG and productronic GmbH

## Supervisory Board

The Supervisory Board of paragon AG consisted of three members throughout fiscal year 2016: Prof. Dr. Lutz Eckstein (Chairman), Hermann Börnemeier (Vice Chairman) and Walter Schäfers. The Supervisory Board oversaw the work of the Management Board and provided them with advice. In fiscal year 2016, 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. Personal services were performed during the period under review by Supervisory Board member Hermann Börnemeier, who has given tax advice to paragon AG for many years. The Supervisory Board unanimously approved this activity for fiscal year 2016.

## Management Board

As of December 31, 2016, the Management Board of paragon AG consisted of two members, CEO Klaus Dieter Frers and Dr. Stefan Schwehr (Chief Technology Officer [Electronics]). In the period from January 1 to December 31, 2016, the rules of procedure for the Management Board regarding the allocation of responsibilities were adjusted once.

The remuneration of the members of the Management Board 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 Board, which is disclosed and explained in full in the remuneration report, together with all its components and on an individualized basis. The Management Board and Supervisory Board have therefore decided to use the Management Board remuneration sample tables provided by the German Corporate Governance Code (GCGC) in the remuneration report, which is included in the Group management report for fiscal year 2016.

## Cooperation between the Management Board and the Supervisory Board

The dialog between the Management Board and the Supervisory Board in fiscal year 2016 was characterized by trustworthy cooperation. The Management Board 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, risk situation and risk management. The Supervisory Board intensively reviewed the Management Board's reports and discussed them at its meetings. In addition to the Supervisory Board meetings and conference calls involving all members of the Management Board and Supervisory Board, the Supervisory Board Chairman and the Management Board 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 AG regularly and simultaneously informed all capital market participants about the economic situation of the company. The continuous reporting included the annual report for fiscal year 2015 (published on March 3, 2016), the interim report as of March 31, 2016 – 1st quarter 2016 (published on April 27, 2016), the interim report as of June 30, 2016 – 1st half-year 2016 (published on August 16, 2016) and the interim report as of September 30, 2016 – 9 months 2016 (published on November 18, 2016), among others. Parallel to these dates, paragon AG published corresponding financial notifications, which also included the Management Board's assessment of further business development.

The Management Board's forecast for fiscal year 2016 from December 3, 2015 was revised on November 18, 2016 with regard to the investment amount given the cash capital increase implemented on October 5, 2016.

In fiscal year 2016, the company reorganized its Investor Relations department with the development of internal capacities. This allowed the company to solidify and further expand its ongoing communications with institutional and private investors. Particularly in connection with the capital increase, existing and new shareholders made extensive use of the company's offer for direct dialogue at the Management Board and Investor Relations level.

A total of 193 individual meetings were held with institutional investors from Germany, the U.K., France, Finland, Sweden, Denmark, Luxembourg, the Netherlands, Switzerland, Austria, Italy, Spain and Poland. In the course of the year, five (prior year: four) research institutions have published a total of 21 (prior year: eight) studies on paragon 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 AG. Accordingly, the ongoing dialog with 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 diverse media channels.

## Directors' Holdings

The founder and CEO of paragon AG, Klaus Dieter Frers, held 2,263,134 company shares as of the balance sheet date. This equates to a proportion of 50% plus one share in the share capital of paragon AG. Klaus Dieter Frers informed the company in his position as Chief Executive Officer that he acquired 120,533 shares in the company at a price of € 32.50 per share and for a total consideration of € 3,917,322.50 in a transaction not executed on a stock exchange on October 5, 2016, by subscribing for those shares as part of a capital increase.

## Accounting

paragon AG prepared the consolidated financial statements as of December 31, 2016 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 April 27, 2016 selected Baker Tilly Roelfs

AG Wirtschaftsprüfungsgesellschaft, headquartered in Düsseldorf, to be the auditor for the fiscal year from January 1, 2016 to December 31, 2016, and the company was subsequently commissioned accordingly by the Supervisory Board.

## Declaration from paragon AG on the German Corporate Governance Code

Pursuant to Section 161 AktG, the Management Board and Supervisory Board of paragon AG make the following declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code: The Management Board and Supervisory Board of paragon AG welcome the suggestions and rules of the German Corporate Governance Code. They are committed to transparent, responsible and value-oriented management and governance. paragon AG complied and complies with the recommendations of the German Corporate Governance Code with following deviations:

- The current Management Board contracts do not currently provide any maximum limits for the total remuneration and the variable remuneration components. The Management Board and Supervisory Board of paragon AG 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 CEO Klaus Dieter Frers because he holds the majority of the company's share capital (No. 4.2.3).
- 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 Management Board since the expertise of the members is given priority (Nos. 5.1.2 and 5.4.1).
- paragon AG 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, February 2017

The Management Board

The Supervisory Board