

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

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 German Corporate Governance Code in their respective current versions and the respective valid 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 regularly reports to the Supervisory Board promptly and comprehensively on all questions relevant to the Company regarding Company strategy, planning, business development, the risk situation, risk management and compliance. This cooperation is characterized by an open, trusting relationship. In this regard, the Management Board also regularly attends meetings of the Supervisory Board.

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 currently consists of the sole executive officer and Chief Executive Officer Klaus Dieter Frers.

The Supervisory Board monitors 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 included in making all decisions of fundamental importance for paragon AG. The Supervisory Board comprises three members. The Supervisory Board's rules of procedure

govern its principles of cooperation. In particular, they specify decision-making and confidentiality procedures. According to its own assessment, the Supervisory Board works efficiently with 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 2013. It monitored the Management Board in leading the Company and provided advice. As part of the ongoing monitoring of management, the Supervisory Board was always able to verify the legal and regulatory compliance, appropriateness and effectiveness of Company management. 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. 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 via telephone or electronic communication when necessary. The Supervisory Board was fully informed about exceptional instances that were of material importance for assessing the year's results.

Work of the Supervisory Board

In fiscal year 2013, the Supervisory Board convened at four ordinary plenary meetings and one extraordinary plenary meeting, and held three conference calls. The meeting to approve the annual accounts for the fiscal year 2012 occurred on March 20, 2013. With the exception of one extraordinary Supervisory Board meeting, the Management Board was present at all Supervisory Board meetings. All members of the Supervisory Board were present at all of the Management Board's meetings. When necessary, resolutions were also approved in a circulation procedure.

The most important consulting topics during the previous year included

- Audit, approval and assessment of the 2012 annual financial statements

- Audit of the 2012 dependency report
- 2012 recommendation on the distribution of profits
- Recommendation for selection of the new auditor
- Growth and internationalization strategy
- Key figures and business development
- Efficiency audit of the Supervisory Board
- Issuance of a corporate bond
- Expansion of the Management Board
- Management Board Remuneration

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 and professionalism play a decisive role in daily interactions and are part of the Company culture. Furthermore, paragon AG pays particular attention to ensuring that all Company managers exemplify the aforementioned values through model behavior.

Delbrück, Germany, February 2014

The Management Board

Corporate Governance

The recommendations of the German Corporate Governance Code promote transparency and thereby strengthen the trust of international and national investors, customers and Company employees as well as the entire financial community. The Management Board and Supervisory Board of paragon AG are committed to these goals and have taken care to ensure that paragon also complied with the principles of the Code to the greatest extent possible in the period of January 1 to December 31, 2013.

Shareholders and Annual General Meeting

In fiscal year 2013, paragon continued to carry out its proven intensive dialogue with analysts and journalists in the capital market. This dialogue was focused on informing all participants in a timely and simultaneous manner and providing comprehensive replies to questions and suggestions from shareholders. The Management Board attended numerous events at the financial center of Frankfurt am Main to present on the Company's current situation and perspectives.

At the twelfth Annual General Meeting on May 15, 2013, at the town hall in Delbrück, where the Company is headquartered, shareholders approved all proposals put forward by the administration with nearly 100 percent of the vote. On the recommendation of the Management Board and Supervisory Board, the original recommendation on the distribution of profits in the amount of 0.25 euros per dividend-bearing share was increased by a one-time special dividend of 0.10 euros for the Company's 25-year anniversary. This recommendation was also met with overwhelming approval from the shareholders.

Cooperation Between the Management Board and the Supervisory Board

The dialogue between the Management Board and the Supervisory Board in fiscal year 2013 was characterized by professional cooperation. In ordinary and extraordinary meetings, the Management Board informed the members of the Supervisory Board, Hans J. Zimmermann (Chairman), Hermann Börnemeier (Vice-Chairman) and Walter Schäfers, about all relevant questions relating to business development, planning, the risk situation and compliance. With the exception of one extraordinary Supervisory Board meeting, the Management Board was present at all Supervisory Board meetings.

Management Board

As of December 31, 2013, the Management Board of paragon AG consisted of one member. During the period of January 1 to December 31, 2013, the rules of procedure continued to apply unchanged to the Management Board. Pursuant to the specifications of the German Corporate Governance Code, the remuneration of the Management Board consisted of components that were based on performance and components that were not based on performance. Both the fixed and variable components of the remuneration were compared with the peer group. The Supervisory Board confirmed the remuneration to be appropriate.

Supervisory Board

In the fiscal year 2013, the Supervisory Board of paragon AG continuously consisted of the three elected members. Under the leadership of the Chairman Hans J. Zimmermann, the Supervisory Board monitored the work of the Management Board and was available to give advice. In fiscal year 2013, there were no conflicts of interest among the members that would have to have been disclosed to the Supervisory Board. The Supervisory Board will evaluate its efficiency with a self-assessment. 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 2013.

Transparency

paragon 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 2012 (published on March 21, 2013), the quarterly report as of March 31, 2013 (published on May 15, 2013), the half-year report as of June 30, 2013 (published on August 21, 2013) and the interim report as of September 30, 2013 (November 20, 2013), among others. Parallel to these dates, the Company published corresponding press releases, which also included the Management Board's assessments of further business development.

Directors' Holdings

The founder and CEO of paragon AG, Klaus Dieter Frers, held around 2.1 million shares (51.32%) in the Company as of the balance sheet date. As of December 31, 2013, the Chairman of the Supervisory Board Zimmermann directly held 4,000 shares, and member of the Supervisory Board Börnemeier held 3,000 shares. Other members of the Supervisory Board held no shares as of December 31, 2013.

Accounting

paragon AG prepared the annual financial statements as of December 31, 2013, 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, 2013, selected RölfsPartner AG, headquartered in Düsseldorf, to be the auditor for the fiscal year from January 1, 2013, to December 31, 2013, 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 Government 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 the following deviations:

- The Management Board does not comprise multiple persons (item 4.2.1).
- The current management contract does not specify any maximum limit for overall remuneration and variable remuneration components because the contract was concluded before the relevant adjustment of the Code dated May 13, 2013. The Management Board and Supervisory Board of paragon AG intend to implement this recommendation in future contract negotiations (item 4.2.3).
- A limitation on severance (severance cap) has not been agreed with the Management Board (item 4.2.3). In concluding a new contract of employment with the Management Board, the Supervisory Board will take corporate governance recommendations into consideration.
- No remuneration report is being prepared as a part of the Corporate Governance Report (item 4.2.5 and item 7.1.3).
- The Supervisory Board has not formed any committees (item 5.3.1 to item 5.3.3).

- No age limit has been set for the members of the Supervisory Board or the Management Board (item 5.1.2 and item 5.4.1).
- Information about the remuneration of the members of the Supervisory Board is not disclosed on an individualized basis. As part of the invitation to the Annual General Meeting on May 15, 2013, this remuneration was nevertheless itemized on an individualized basis, so that this point has been indirectly complied with (item 5.4.6).
- 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 if necessary by a few days for organizational reasons (item 7.1.2).

Delbrück, Germany, February 21, 2014

paragon AG

The Management Board
The Supervisory Board