



**Statement on Corporate Governance by paragon AG pursuant to para. 289a of the German Commercial Code**

The management of paragon AG as a German public company is determined by the Stock Corporation Act, the Articles of Association of the Company, a voluntary commitment to the requirement of the German Corporate Governance Code in its current version and the applicable Rules of Procedure for the Executive Board and Supervisory Board. The current declaration of the German Corporate Governance Code has been published under <http://www.paragon.ag/investoren/corporate-governance.html>.

According to the statutory requirements, paragon AG operates a so-called dual management system. This is manifested by a strict personnel separation of the Management Board as executive body and the Supervisory Board as monitoring body. Both Boards work closely together in the interests of the Company. The Management Board reports regularly, promptly and comprehensively about all questions relevant to the Company's corporate strategy, planning, business development, risk status, risk management and compliance. The cooperation is characterized by an open and trusting relationship. The Management Board is also regularly present at meetings of the Supervisory Board.

The Management Board, under its own responsibility, manages the company in accordance with the law, the statute and its Rules of Procedure. The Rules of Procedure also contain regulations for the allocation of responsibilities, decision-making powers of the entire Executive Board and the rights and duties of the CEO with regard to decision-making and meetings. The Managing Board of paragon AG consists of two members: the Chief Executive Officer, Klaus Dieter Frers and Chief Technical Officer, Dr. Stefan Schwehr. The divisions of business strategy & development, production, finance and human resources fall within the jurisdiction of the CEO, while the CTO is responsible for development, marketing & sales and customer management.

The Supervisory Board monitors and advises the Management Board in managing the company. It appoints and dismisses directors, determines the decisions requiring approval, resolves the compensation system for the Board and sets the total remuneration package for each member. It is involved in all the fundamentally important decisions taken on behalf of paragon AG relating to the Stock Corporation Act and the Rules of Procedure. The Supervisory Board consists of three members. The principles of cooperation regulate the



Rules of Procedure of the Supervisory Board in which the passing of resolutions and confidentiality are especially defined. By its own assessment the Supervisory Board works efficiently with its three members, without the need for the formation of further committees.

The Supervisory Board of paragon AG fulfilled its obligations set out by the law, statutes, Corporate Governance Code and obligatory Rules of Procedure relating to advisory and monitoring tasks, with the utmost of care in fiscal 2015. Within the bounds of the ongoing supervision of management, the Supervisory Board is convinced of the legality, regularity, appropriateness and efficiency of the business management. The Supervisory Board meetings are informed in writing and verbally by the Management Board on all significant events, general business and the current status of the Company. The focus is on issues of strategic planning, business development, risk status and risk management in particular. Where necessary important issues are discussed via telephone or electronic communication with reference to Supervisory Board meetings between all members of the Management and Supervisory Board. The Supervisory Board was fully informed about extraordinary events that are relevant to the assessment of the annual results.

### **Work of the Supervisory Board**

In fiscal 2015, the Supervisory Board held four regular and two extraordinary meetings in person. The meeting to determine the balance for fiscal year 2014 took place on 11 March 2015. All meetings of the Supervisory Board were held in the presence of the Management Board. The entire Supervisory Board was present with one absentee on the grounds of sick leave. Where necessary, resolutions were passed via circulation procedure.

The main topics discussed last year included the following:

- Audit, approval and confirmation of the Annual Financial Statement 2014
- Accumulated profit in 2014
- Proposal for the election of a new auditor
- Growth and internationalization strategy
- Opening of the production plants in the USA and in China
- Social outsourcing of production
- Medium-term financing strategy for paragon AG
- Key figures and business development
- Targets for the proportion of women on the Management and Supervisory Board



With reference to section 76 para. 4 and section 111 para. 5 of the Stock Corporation Act and clauses 4.1.5 and 5.1.2 of the Corporate Governance Code version 5 May 2015 on the subject of “female quotas”, the current number of women was identified by the Supervisory Board and Management Board with targets defined for 30 June 2017. At paragon AG, the current rate for both Boards stands at zero. The target for 30 June 2017 fixed by both panels was also set at zero because the contractual terms of the Board Members and the tenure of the Supervisory Board go beyond that date. A possible expansion of the Board is not planned. At other levels of management in the Company, the current proportion of women stands at 6%. A target quota of 10% women has been set for 30 June 2017.

At paragon AG, corporate activity is closely linked with responsibility towards employees, customers, the environment and society. Values such as assuming responsibility, team spirit, integrity, passion and professionalism play a critical role in our daily life and are an integral part of our corporate culture. In addition, paragon AG ensures that the conduct of all company executives is exemplary with regard to the aforementioned values.

Delbrück, February 2016

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, employees and the entire financial market. The Management and Supervisory Boards of paragon AG are committed to these goals and have ensured that for the period from 1 January to 31 December 2015 the principles of the Code have, as far as possible, been complied with.

## **Shareholders and Annual General Meeting**

The evidential intensive dialogue with analysts and journalists in the capital market continued to bolster paragon in fiscal 2015, at the center of which was timely and simultaneous information from all parties, together with comprehensive answers to questions and suggestions from shareholders. The Management Board attended various events at the main financial headquarters in Frankfurt / Main where it presented the current status and prospects of the Company.

At the 14<sup>th</sup> AGM on 12 May 2015 in the town hall at the Company headquarters in Delbrück, shareholders voted to accept all proposals put forward by the Management by nearly 100 percent. These included the redistribution of a dividend of EUR 0.25 per dividend-bearing share, the election of the Supervisory Board and the approval of a profit transfer agreement between paragon AG and SphereDesign GmbH.

## **Cooperation between the two Boards**

The dialogue between the Management and Supervisory Board was characterized by a professional cooperation in fiscal 2015. The Management Board informs the Supervisory Board Members - Prof. Dr.-Ing. Lutz Eckstein (Chairman), Hermann Börnemeier (Deputy Chairman) and Walter Schäfers – in ordinary and extraordinary Supervisory Board meetings about all relevant issues of business development, planning, risk status and compliance. All Supervisory Board meetings were held in the presence of the Management Board.

## **The Management Board**

As at 31 December 2015, the Managing Board of paragon AG consists of two members: Chief Executive Officer Klaus Dieter Frers and Chief Technical Officer Dr. Stefan Schwehr. For the period 1 January to 31 December 2015, the Rules of Procedure of the Management Board, as regards the various divisions, have been adjusted once. In accordance with the requirements of the German Corporate Governance Code, the Management Board remuneration package comprised bonuses and non-performance related components. Both the fixed and variable components were comparable with the Peer Group. The Supervisory Board has confirmed these remunerations as appropriate.

## **The Supervisory Board**

Throughout fiscal 2015 the Supervisory Board of paragon AG has comprised three members. All the Board Members were re-elected at the AGM on 12 May 2015. In the subsequent Supervisory Board meeting, Prof. Dr.-Ing. Lutz Eckstein was elected as Chairman. The Supervisory Board monitored the work of the Management Board and also acted in an advisory capacity. In fiscal 2015 there were no conflicts of interest with the Board Members that would have necessitated disclosure to the Supervisory Board. The Supervisory Board assessed the efficiency of its own work on a regular basis. Individual services were provided in the reporting period by Supervisory Board Member Hermann Börnemeier, who has been the tax consultant for paragon AG for many years, together with Supervisory Board Member Walter Schäfers, who has provided legal advice in the past year. The Supervisory Board has unanimously approved this work for fiscal 2015.

## **Transparency**

paragon informed all capital market players regularly and concurrently about the economic status of the company. Continuous updates included, amongst other things, the Annual Report for fiscal 2014 (published 11 March 2015), the Quarterly Report dated 31 March 2015 (published 12 May 2015), the Half-Year Report dated 30 June 2015 (published 20 August 2015) and the Interim Report dated 30 September 2015 (published 19 November 2015). In addition to these, the company released press reports, which also included assessments by the Management Board on further business developments.

## **Directors' Holdings**

On the balance sheet date, founder and CEO of paragon AG, Klaus Dieter Frers, held 2.1 million shares (51.32%) and the CTO, Dr. Stefan Schwehr held 2,950 shares in the Company. Supervisory Board Member, Hermann Borne Meier, holds 4,000 shares.

## **Accounting**

The consolidated financial statements as at 31 December 2015 were prepared by paragon AG in accordance with the International Financial Reporting Standards (IFRS) and as adopted by the EU. The auditor for the financial year from 1 January 2015 to 31 December 2015 was Baker Tilly Roelfs AG who is headquartered in Düsseldorf. They were selected at the AGM on 12 May 2015 and subsequently instructed by the Supervisory Board.

## **Declaration by paragon AG on the German Corporate Governance Code**

The Management Board and Supervisory Board of paragon AG made the following declaration pursuant to section 161 of the German Stock Corporation Law as recommended by the Governing Commission of the German Corporate Governance Code. The Management and Supervisory Boards welcome the suggestions and rules of the Code. They agree to a transparent, responsible and value-oriented corporate governance and management. paragon AG has complied with the recommendations of the German Corporate Governance Code with the following exceptions:

- There are no limits as to the current contractual arrangements of Board Members with respect to the total and variable remunerative components. The Management and Supervisory Boards consider this unnecessary in view of the clear commitment to the variable proportion of earnings ratio. (Section 4.2.3).
- A payment cap (severance cap) is not agreed with the CEO, Klaus Dieter Frers, (Section 4.2.3) as he holds the majority of shares in the Company.
- The Supervisory Board has no committees (Section 5.3.1 to 5.3.3) as due to the minimal size of the Supervisory Board, this would not be an efficient use of resources.
- An age limit has not been specified for either the Supervisory or Management Boards (Section 5.1.2 and Section 5.4.1) as the competence of individual Members will be given priority.
- paragon AG publishes the Annual and Interim Reports in accordance with legal requirements and strives for compliance with the deadlines recommended by the Code (90 days for the annual accounts, 45 days for interim financial statements). For organizational reasons these limits may, on occasion, be exceeded by a few days (Section 7.1.2).

Delbrück, February 2016

paragon AG

The Management Board

The Supervisory Board