



Corporate Governance Declaration of paragon AG pursuant to § 289a HGB

As a German stock corporation (*Aktiengesellschaft*), paragon AG's corporate governance is determined by the German Stock Corporation Act (AktG), the company's Articles of Incorporation, voluntary adherence to the guidelines contained in the current version of the German Corporate Governance Code, and the valid versions of the Codes of Procedure for the Managing and Supervisory Boards. The current Declaration of Conformity with the German Corporate Governance Code is published on the company's website at: <http://www.paragon.ag/startseite/investor-relations/corporate-governance/entsprechenserklaerung>.

Consistent with legal requirements, paragon AG has a dual management system, which is characterized by a strict segregation of personnel between the Managing Board as the managing body and the Supervisory Board as the supervisory body. The Managing and Supervisory Boards work together closely in the interests of the company. The Managing Board provides the Supervisory Board with regular, timely and comprehensive reports about all relevant issues pertaining to the company's strategy, planning, business performance, risk situation, risk management, and compliance. Their collaboration is characterized by openness and trust. The Managing Board thus regularly attends Supervisory Board meetings.

The Managing Board manages the company under its own responsibility in accordance with the requirements of law, the Articles of Incorporation, and its Code of Procedure. Among other items, the Code of Procedure includes regulations governing the allocation of responsibilities, the decision-making powers of the Managing Board as a whole, the rights and obligations of the Chairman (CEO), the adoption of resolutions, and the organization of meetings. The Managing Board of paragon AG comprises two individuals, the Chief Executive Officer (CEO) Klaus Dieter Frers and the Chief Technology Officer (CTO) Dr. Stefan Schwehr. The CEO is responsible for business strategy and performance, production, finance, and personnel, while the CTO is responsible for development, marketing and sales, and customer management.

The Supervisory Board monitors the Managing Board in its management of the company and accompanies the Managing Board in an advisory capacity. It appoints and dismisses Managing Board members, stipulates the list of transactions requiring its approval,

determines the compensation system for the Managing Board and sets the total compensation for Managing Board members. The Supervisory Board is involved in all decisions of fundamental importance to paragon AG provided for by the German Stock Corporation Act (AktG) and its Code of Procedure. The Supervisory Board comprises three members. The principles governing the way in which the Supervisory Board works together are laid down in its Code of Procedure, which deals in particular with the adoption of resolutions and its duty to maintain confidentiality. By its own assessment, the Supervisory Board works efficiently with its three members. It has therefore continued to forego forming committees.

The Supervisory Board of paragon AG performed the advisory and control duties incumbent on it by law, the company's Articles of Incorporation, the German Corporate Governance Code, and its Code of Procedure with great care in fiscal 2014. In its ongoing supervision of the management, the Supervisory Board was at all times satisfied with the legality, correctness, expediency and efficiency of the company's management. At Supervisory Board meetings, the Managing Board kept the Supervisory Board extensively informed, both orally and in writing, about all matters of material significance, the company's overall business performance, and its current situation. It dealt in particular with the company's strategy, planning, business performance, risk situation, and risk management. In addition to Supervisory Board meetings and conference calls between all members of the Managing and Supervisory Boards, the Chairman of the Supervisory Board and the Managing Board also discussed key issues by telephone or e-mail when necessary. The Supervisory Board was kept fully informed of exceptional developments relevant to any assessment of the company's annual results.

Activities of the Supervisory Board

The Supervisory Board held four scheduled and three extraordinary meetings in person and one conference call in fiscal 2014. The meeting held to approve the financial statements for fiscal 2013 took place on March 12, 2014. Apart from one Supervisory Board meeting at which the contracts with Managing Board members were discussed, all meetings were held in the presence of the Managing Board. All meetings were attended by all members of the Supervisory Board. Resolutions were also adopted in writing outside the meeting framework when necessary.

The most important topics addressed in the past year included:

- Audit, approval and adoption of the 2013 annual financial statements
- Proposal for the appropriation of profit for 2013
- Proposal for the election of the new auditor
- Growth and internationalization strategy
- Development of production in the USA and China
- Key figures and business performance
- Supervisory Board efficiency review
- Employment contracts with Managing Board members

At paragon AG, our entrepreneurial activity is closely linked to our responsibility towards employees, customers, the environment, and society. Values such as accountability, team spirit, integrity, dedication, and professionalism play a decisive role in our daily interactions and are part of our corporate culture. Furthermore, paragon AG attaches particular importance to ensuring that all of the company's managers set an appropriate example by adhering to the above values.

Delbrück, February 2015

The Managing Board

Corporate governance

The recommendations of the German Corporate Governance Code promote transparency and thus enhance the confidence placed in the company by international and national investors, customers and employees, as well by the financial market as a whole. The Managing and Supervisory Boards of paragon AG are committed to these objectives and ensured that paragon continued to adhere to the principles of the Code as closely as possible in the period from January 1 to December 31, 2014.

Shareholders and Annual General Meeting

paragon upheld its proven, close dialog with analysts and journalists on the capital market in fiscal 2014 as well. Key focuses included providing timely, simultaneous information to all parties concerned, as well as extensively responding to questions and suggestions from shareholders. The Managing Board attended various events in Germany's financial center Frankfurt am Main and presented the company's current situation and prospects.

At the 13th Annual General Meeting, held in the Civic Center in Delbrück on May 14, 2014, all of the proposals made by the management were approved by almost 100 percent of shareholders in each case. These proposals included the renewed distribution of a dividend of € 0.25 per share with dividend entitlement, the spin-off of the Electromobility business segment into a subsidiary under the independent brand name of "Voltabox", and the election of the new Supervisory Board member, Prof. Dr.-Ing. Lutz Eckstein, who succeeded the previous Supervisory Board Chairman, Hans J. Zimmermann, on the Board and was himself subsequently elected as the new Supervisory Board Chairman.

Cooperation between Managing Board and Supervisory Board

The dialog between the Managing and Supervisory Boards in fiscal 2014 was characterized by cooperation in a spirit of professionalism. At the scheduled and extraordinary meetings of the Supervisory Board, the Managing Board briefed the Supervisory Board members Hans J. Zimmermann (until May 14, 2014, Chairman), Prof. Dr.-Ing. Lutz Eckstein (from May 14, 2014, Chairman), Hermann Börnemeier (Deputy Chairman) and Walter Schäfers about all relevant issues concerning the company's business performance, planning, risk situation, and compliance. Apart from one extraordinary Supervisory Board meeting at which contracts



with Managing Board members were discussed, all Supervisory Board meetings were attended by the Managing Board.

Managing Board

As of December 31, 2014, the Managing Board of paragon AG comprised two members, the Chief Executive Officer Klaus Dieter Frers and the Chief Technology Officer Dr. Stefan Schwehr. The Code of Procedure for the Managing Board was adjusted on a one-off basis in the period from January 1 to December 31, 2014 to account for the allocation of responsibilities. Consistent with the requirements of the German Corporate Governance Code, Managing Board compensation comprised performance-related and non-performance-related components. Both fixed and variable compensation components were subject to a peer group comparison. The Supervisory Board confirmed that this compensation was appropriate.

Supervisory Board

The Supervisory Board of paragon AG comprised three members throughout fiscal 2014. In the context of the Annual General Meeting, there was nevertheless one change in the composition of the body. Prof. Dr.-Ing. Lutz Eckstein, a Supervisory Board member newly elected by the Annual General Meeting, replaced the previous Supervisory Board Chairman, Hans J. Zimmermann, who stood down from his position upon the conclusion of the Annual General Meeting on May 14, 2014 and whom paragon AG thanks for his longstanding contribution. Prof. Dr.-Ing. Lutz Eckstein was also elected as the new Supervisory Board Chairman at the subsequent meeting of the Supervisory Board. The Supervisory Board monitored the work of the Managing Board and accompanied it in an advisory capacity. No conflicts of interest which would require disclosure to the Supervisory Board arose among its members in fiscal 2014. The Supervisory Board regularly reviews the efficiency of its activities by way of a self-assessment. The Supervisory Board member Hermann Börnemeier, who has provided paragon AG with tax advice for many years, continued to render personal services during the year under report. The Supervisory Board unanimously approved this activity for fiscal 2014.

Transparency

Paragon kept all capital market participants regularly and simultaneously informed of the company's business situation. Among other instruments, this continuous reporting included



the annual report for fiscal 2013 (published on March 12, 2014), the quarterly report as of March 31, 2014 (May 14, 2013), the half-year report as of June 30, 2014 (August 20, 2014), and the interim report as of September 30, 2014 (November 19, 2014). In parallel with these dates, the company published corresponding press releases, which also included the Managing Board's assessment of the company's future business performance.

Directors' holdings

As of the balance sheet date, Klaus Dieter Frers, founder and CEO of paragon AG, held more than 2.1 million (51.32%) and Dr. Stefan Schwehr, CTO, held 2,950 of the company's shares. The Supervisory Board member Hermann-Josef Börnemeier held 4,000 shares. No other members of the Supervisory Board owned any shares in the company as of December 31, 2014.

Financial reporting

paragon AG prepared its consolidated financial statements as of December 31, 2014 in accordance with International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) as adopted by the EU. The Annual General Meeting held on May 14, 2014 elected Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, as auditor for the fiscal year from January 1, 2014 to December 31, 2014. This auditing company was subsequently commissioned by the Supervisory Board.

Declaration of paragon AG in respect of the German Corporate Governance Code

The Managing and Supervisory Boards of paragon AG submit the following Declaration of Conformity with the recommendations of the Government Commission on the German Corporate Governance Code. The Managing and Supervisory Boards of paragon AG welcome the suggestions and recommendations made in the German Corporate Governance Code. They are committed to transparent and responsible corporate governance and control geared to value creation. paragon AG has in the past conformed and continues to conform to the recommendations made in the German Corporate Governance Code with the following deviations:

- The current Managing Board contracts do not provide for a cap on total compensation and variable compensation components. Given the clear link between variable

compensation components and the company's key earnings figures, the Managing and Supervisory Boards of paragon AG do not deem any such cap necessary (Point 4.2.3).

- No limitation on severance pay (severance cap) has been agreed with CEO Klaus Dieter Frers (Point 4.2.3), as he owns a majority of the shares in the company.
- The Supervisory Board has not formed any committees (Points 5.3.1 to 5.3.3) as this would not be efficient given the small size of the Supervisory Board with three members.
- No age limit has been set either for Supervisory Board members or for Managing Board members (Points 5.1.2 and 5.4.1) as priority is accorded to members' competence.
- paragon AG publishes its annual financial statements and interim reports in accordance with legal requirements and also endeavors to comply with the deadlines recommended by the Code (90 days for the annual financial statements, 45 days for interim financial statements). For organizational reasons, however, these deadlines may possibly be exceeded by a few days (Point 7.1.2).

Delbrück, February 2015

paragon AG

The Managing Board

The Supervisory Board