



# ANNUAL REPORT 2021

Please note that this is a translation for information purposes only. In case of any discrepancies between this version and the Swedish, the Swedish version shall prevail.

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## ABOUT PARADOX

Paradox Interactive is one of the premier developers and publishers of strategy and management games on PC and consoles. The group today consists of publishing and nine studios in six countries that develop gaming experiences for the company's over five million monthly active users. The players are located all over the world but some of the biggest markets are North America, Western Europe, Scandinavia and Asia.

The game portfolio consists of popular franchises such as Stellaris, Europa Universalis, Hearts of Iron, Crusader Kings, Prison Architect, the Surviving games, Age of Wonders and Victoria. Paradox Interactive also owns the World of Darkness brand catalogue which is enjoyed by vampire fans all over the world.

The games are, among others, developed by Paradox Development Studio in Stockholm, Paradox Arctic in Umeå, Paradox Thalassic in Malmö, Harebrained Schemes in Seattle, Triumph Studios in Delft, Paradox Tectonic in Berkeley, Playrion Game Studio in Paris, Iceflake Studios in Tampere, and Paradox Tinto in Barcelona. Paradox also collaborates with multiple external studios.

Paradox Interactive's headquarters is on Södermalm in Stockholm and is listed on Nasdaq First North Premier Growth Market.

### History

Paradox Interactive emerged from Swedish board game history and was, until the early 2000s, the video game section of Target Games which, amongst other games, developed classic tabletop roleplaying games such as Drakar och Demoner and Mutant as well as board games such as Rappakalja. In 2004, the business became independent and Paradox Interactive stood on its own two feet, with seven employees and Fredrik Wester at the helm. Since then, the company has grown to today's 721 employees with a wide portfolio of games.

### Facts about Paradox Interactive

Number of studios: 9

Number of employees: 721

Monthly Active Users: + 5 million



## COMMENTS BY THE CEO

### BACK TO THE FUTURE!

The year that has passed has, in many ways, been a readjustment for Paradox. We started 2021 with a record-breaking year behind us and ended the year with a new direction for the company, which leads back to Paradox's core. In that timespan we have grappled with delays, had too few releases of new content, too low quality on some releases and have had to cancel a number of unannounced projects. For the full year, that ultimately leads to a financial result that we are not satisfied with. However, the results of the changes we've initiated due to the year's trials are so far very positive and spur us on for the future.

There are no negatives without positives. The year's trials have urged us to reflect on what Paradox should be doing and what it should mean for those who are interested or engaged in our operations. At the end of the day Paradox exists to create games that our fans love to play and explore. Everything we do should be done with this in mind: to create games and experiences that our players want and can continue to return to. This has meant that the whole company has had to show a great drive to find our way back.

Therefore, we have focused on strengthening our core in strategy and management games. We have set clearer goals and roles, freed up resources for the company's most promising projects, ensured the quality of all content we release and we have cleaned up our main pipeline so that it has a good risk profile. The work has involved a wide range of changes; simplification of organisation and decision-making processes, better goals and governance, better conditions for leadership as well as better use





of resources, to name a few initiatives. We started to see good effects at the end of the year, which gives us good momentum for the coming years.

In parallel, we need to ensure that we have the right conditions for being on-point in the industry's and the players' ever-changing priorities. There are interesting game areas near our core segments that we want to take a closer look at, but cannot or should not master ourselves. In the past, we have invested too much of our resources in such areas. Now our investments are smaller, faster, and made by a dedicated team whose main focus is to find and support the development of this type of (for us) riskier titles. Simultaneously, we have become more austere in how we collaborate with third-party developers in order to sharpen the focus and identify and handle problems early when they arise.

Finally, this direction also means a greater care for the many players who every day partake of our games and actively engage in them via our community channels. It is a community that we will continue to build on.

#### **A stronger company**

In order to create more and better content for our games and, at the same time, strengthen the community around them, we must also continue to meet the expectations that employees, partners and owners have for Paradox. This means that we must strengthen more parts of the company.

Paradox's best work arises and develops in the interaction between our employees and their imagination, skills and abilities. We have an obligation to ensure that our employees have a positive and developing work environment, not only because it

leads to fantastic games but also because it helps us become a workplace that they and others want to be a part of, regardless of background. My goal is for all employees to develop in their profession and career through training, skill development, career support and other means. We hope this makes their time at Paradox as meaningful as we can make it while creating content that our players love.

We have also started to develop codes of conduct for employees and suppliers to be able to become better and clearer partners. We continue to work to ensure that our player platforms are places which everyone can take part in.

#### **Growing with the challenge**

Despite the year's challenges I don't think I'm exaggerating if I say that 2021 is a year when we've grown as a company, in more ways than one. Not least, we've been able to lay the foundation for our journey ahead. Personally, I really look forward to the time ahead; as a player, colleague and CEO for a company which has the privilege to have so many people that show a fantastic engagement for Paradox and our games.

Fredrik Wester, VD



# PARADOX'S BUSINESS MODEL

Paradox creates intellectually challenging games with long lifespans and great opportunities for immersion and community. The games are mainly within the strategy and management segments and are released to PC and console according to a so-called premium business model. The games are continuously developed with frequent releases of downloadable content which increases the depth and width of the games' universes which contributes to a growing player base and recurring revenue.

An important component of the games are the brands and the other intangible assets that the games are based on. These intangible assets are developed by the company's employees or are acquired from other companies which provides creative control and the ability to develop the games with the players' expectations in mind. The company's intangible assets enable new games at a lower risk since there is an

established and often engaged player base in place. Moreover, the intangible assets provide opportunities for exploring new revenue streams and forms of entertainment as well as new technologies.

The development of games and downloadable content is primarily done by employees in internal development studios as well as by external partner studios. New games are developed for several years before they are released, and the releases are preceded by efforts to market the games and activate the games' intended players.

When the games are released, downloadable content is often developed that can be released at shorter time intervals and often in close dialogue with players who provide important feedback on the content as well as the game mechanics. Games are distributed primarily through platform owners and distribution partners.

## Financing

Game development, marketing, organisational growth and the acquisition of studios and intangible assets are mainly financed by the cash flow from operating activities. This enables the company to grow in a sustainable manner and with good control.

## The people behind the games

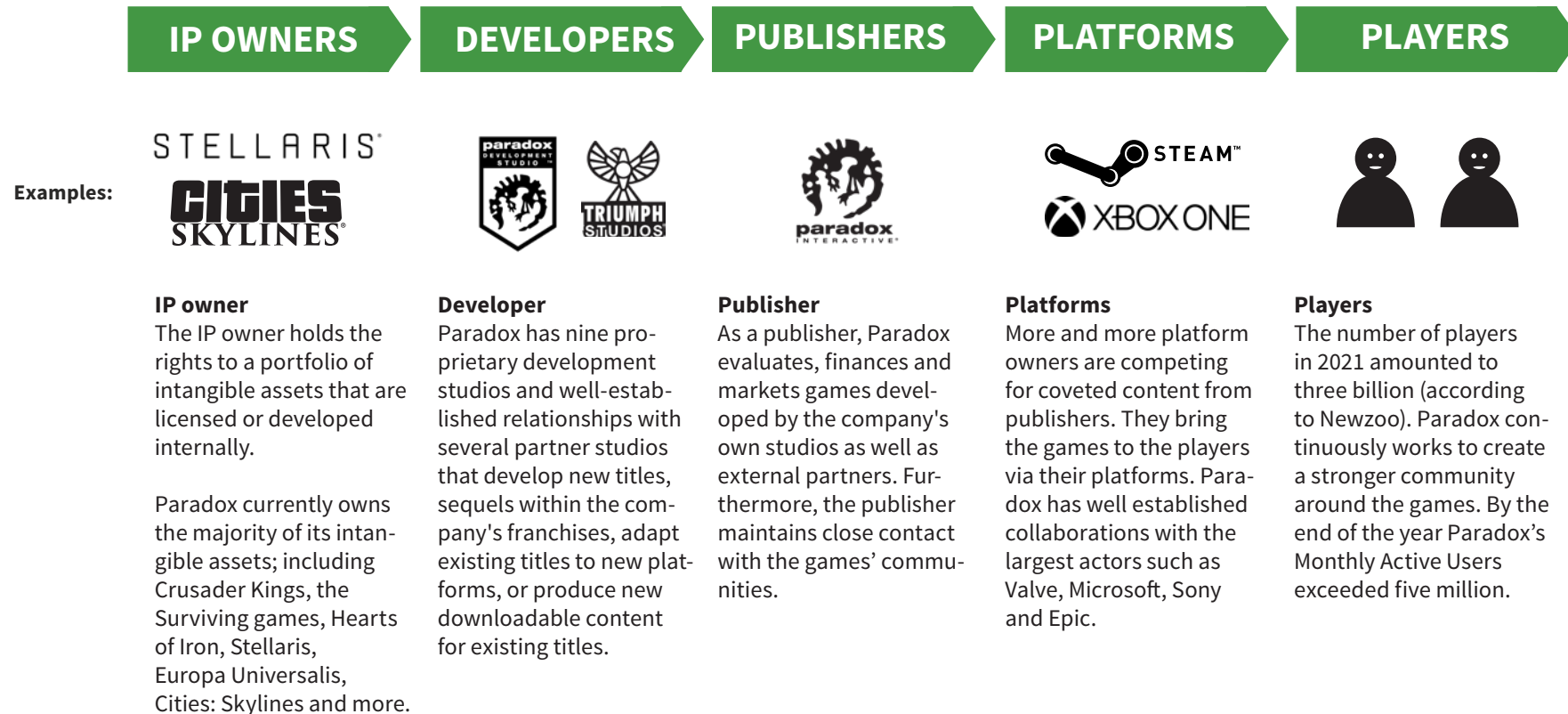
To make and sell intellectually challenging games with a long lifespan, a creative and skilled staff in many different disciplines with the right preconditions for collaboration is required. Game development is a creative process where the individual benefits from high degrees of agency and responsibility in a collaborative work environment, where it is possible to have good health, and to develop and create content that the individual feels a passion for.





# PARADOX'S PRESENCE IN THE VALUE CHAIN

With a wide-spanning game portfolio, nine internal development studios and a global publishing capacity, Paradox has a strong position in many parts of the gaming industry's value chain.



## Sustainable game development and publishing

Paradox strives for sustainable studio and publishing operations. The focus is on supporting high-performing teams and to have sustainable operations. Read more about the work in the Sustainability Report, on pages 30-31 and 33-34.

## Responsible gaming

Millions of people play Paradox games every month. Paradox strives to make both the games and the community around them accessible. Read more about Paradox work for responsible gaming in the Sustainability Report, on page 32.



# STRATEGY

In order to continue to offer players new experiences that they can return to for a long time, Paradox prioritises six main areas that are considered important for future growth.

## 1. Recurring revenues through growing live games with strong communities

Paradox has a large number of active game titles with a long lifespan. Through continuous releases of new content and a focus on developing a loyal and growing player base, recurring revenues are secured.

## 2. Invest in long-term organic growth

Long-term organic growth is driven by ongoing investments in and development of the company's portfolio of games. Paradox is continuously developing its project portfolio with a focus on in-house developed game projects within the company's core segments. This is complemented by smaller investments in externally developed projects with an estimated break-out potential in nearby segments, as well as the acquisition of intangible assets and development capacity when opportunities arise.

Over time, Paradox has invested more and more of the company's revenue in game development. In 2021, Paradox invested MSEK 744 in game development and had a total capitalised development of MSEK 1,199.

|  | 2019 | 2020 | 2021  |
|--|------|------|-------|
| Investments in game development (MSEK) | 422  | 614  | 744   |
| Capitalised development (MSEK)         | 581  | 920  | 1 199 |

## 3. Decision making close to games and players

Paradox development depends on creativity, speed and quality awareness. A decentralised decision-making process, close to the games and the players, ensures that the company takes advantage of the developers' skills, wealth of ideas and develops content that is in demand.

## 4. Owned IPs in entrenched niches

Paradox owns some of the strategy and management game sector's strongest franchises in segments with high entry barriers. Full rights over intangible assets give creative freedom as well as control over their development.

## 5. Robust finances

Paradox safeguards good margins, a strong balance sheet and a strong operating cash flow. This reduces financial risk, ensures the ability to continuously invest in the project portfolio and makes it possible to take advantage of attractive business opportunities.

Historically, Paradox has had strong revenue growth, a strong profit margin and a strong cash flow. In 2021, revenues and profit margin decreased compared with previous years. During the year, Paradox took several measures to rebuild its growth and continue to have robust finances.

|                                     | 2019 | 2020 | 2021 |
|-------------------------------------|------|------|------|
| Revenue growth                      | 14%  | 39%  | -19% |
| Profit after financial items (MSEK) | 467  | 628  | 304  |
| Profit margin                       | 36%  | 35%  | 21%  |

## 6. Attract and retain the right talent

Paradox needs to attract and retain skilled and creative employees to be able to create and sell fantastic games and experiences. In addition to market-based benefit programs, the work environment must be characterised by cooperation, trust, respect and passion. Then Paradox employees can achieve phenomenal results.



# GAME DEVELOPMENT

Paradox's heart and soul lies in creating strategy and management games that can be explored and experienced over and over. To achieve this, all internal and external development is based on five guiding principles (see fact box) which ensure that the games offer deep experiences that give the player many opportunities, interesting challenges, and that will last for many years. In 2021, Paradox adjusted the direction and structure of its studio operations to sharpen game development further.

## Change in direction

Both existing and future game portfolios were evaluated in 2021 and going forward, there is a clearer focus on building on the company's strength and experience in strategy and management games. In the past year, Paradox therefore discontinued the development of unannounced game projects of MSEK 236 to free up resources for projects with greater potential, a better risk profile and which are closer to the company's core competence. In future game investments, greater emphasis will also be placed on internal development, instead of external development partners.

## A better foundation for game development

One of Paradox's hallmarks is the ability to gradually develop games with new content after launch, often for several years, which enables the games to grow in depth and users over time. Lifespan varies with title and player base, but the common starting point is to provide players with free updates of systems and features combined with frequent releases of downloadable content that players can purchase to expand the game's universe and possibilities.

The games' long life cycles require dedicated development resources, in accordance with a long-term game vision and plan for the game. To strengthen the development of new and existing games, Paradox Development Studio (PDS), the company's largest internal studio, has in 2021 been organized into four sub-studios: Red, Green, Gold and Black. In addition, Paradox Tinto was established in 2020. Each studio has a clearer ownership of their games' development path to give existing and future titles the best possible conditions to meet and exceed players' expectations. PDS has also been strengthened with resources from the Malmö-based studio Paradox Thalassic and the Umeå-based studio Paradox Arctic. Furthermore, the developer of Stellaris, PDS Green, has divided its development teams into three: a

team that develops free content, a team that develops expansions and Story Packs and a team developing new Species Packs, which has increased both the cadence and the quality in the game's development.

## Quality and cadence

To ensure that the company releases content that has the right quality, a stronger framework for continuously targeting, working with and evaluating the quality level of releases has been implemented in 2021. During autumn, clearer ownership and accountability was introduced in quality processes and decisions are now made closer to the development teams who have the best understanding of their product and are close to the players.



### Looks Good, Plays Perfect

Paradox games never sacrifice function to form, and always prioritize gameplay over everything else.



### Gives Agency to the Player

Paradox games give players tools to express their creativity and make gaming experience their own; from character customization to emergent storytelling, or extensive modding.



### Challenges the Mind

Paradox games challenge the player's mind more than their reflexes. They reward curiosity, dedication and intelligence.



### Offers an Endless Experience

Whether through replayability, alternative playthroughs or no end state at all, Paradox games provide content to play for a very long time.



### Invites a Deeper Dive

Paradox games provide incredible depth and endless engagement but strive to onboard players in their worlds and gameplay system in a smooth and forgiving way.



## LINDA TIGER

**Studio Manager, PDS Black. Former Production Director, PDS Green**

### ***Tell us about 2021, what has been your most memorable experience?***

Last year was tough on development in general — even though PDS was fairly well prepared for going fully remote a couple of years back, I don't think anyone could have imagined this pandemic to go on for so long. We started to feel some of those more long-term effects during last year. But despite not being able to work closely together, we managed to put together some pretty amazing releases, and something that really stood out to me was the exceptionally positive reception we have seen for the Aquatics Species Pack for Stellaris. It's a real testament to the talent and creativity this team possesses and I mean everyone from — developers to marketing. I am also really proud that we managed to establish the Custodians team for Stellaris; not only does it give us an avenue to boost our older DLCs with extra things, but it lets us focus on quality-enhancing updates and bug fixes, and give our players more frequent releases to look forward to.

### ***PDS at large has undergone a pretty big change and PDS Green in particular. Could you give some more depth on these changes and what it means for Stellaris?***

Indeed, the decision to split the original development studio into smaller, more game-specific studios, was not done overnight. With the smaller studios we can focus on our games more actively, with decision making where it makes the most sense — in direct connection to the game and development team. It gives us more freedom and flexibility in how we plan and execute our productions, collaborate with other studios, and allows us to own our priorities to a greater extent. The studio goals are also easier to connect directly to the games we make, since our PDS studios focus mainly on one live game per studio.

For PDS Green we've broken it down further to cross-functional release teams, who can work in parallel on a specific DLC or patch, without too much impact from changes happening in other development tracks. In a smaller group each individual gets a bigger say, moves faster, can work with greater focus and solve problems where they occur. On a studio-wide scale this is really cool as it enables us to work on several releases with different focus, at the same time — like developing a big expansion, while wrapping up and releasing a Species Pack, as well as putting out quality updates through the Custodians team. This helps us increase our cadence a



lot, since we can provide new content to our players at a greater pace — giving our players a reason to come back to the game more often. Another great thing about this set-up is that it has given us new ways and opportunities to collaborate with other teams and studios, like Paradox Arctic for Stellaris and Paradox Thalassic for Crusader Kings III.

***At PDS Green you've been a Production Director, but you're now leaving the great beyond for new pastures. Can you tell us more about your new job and studio?***

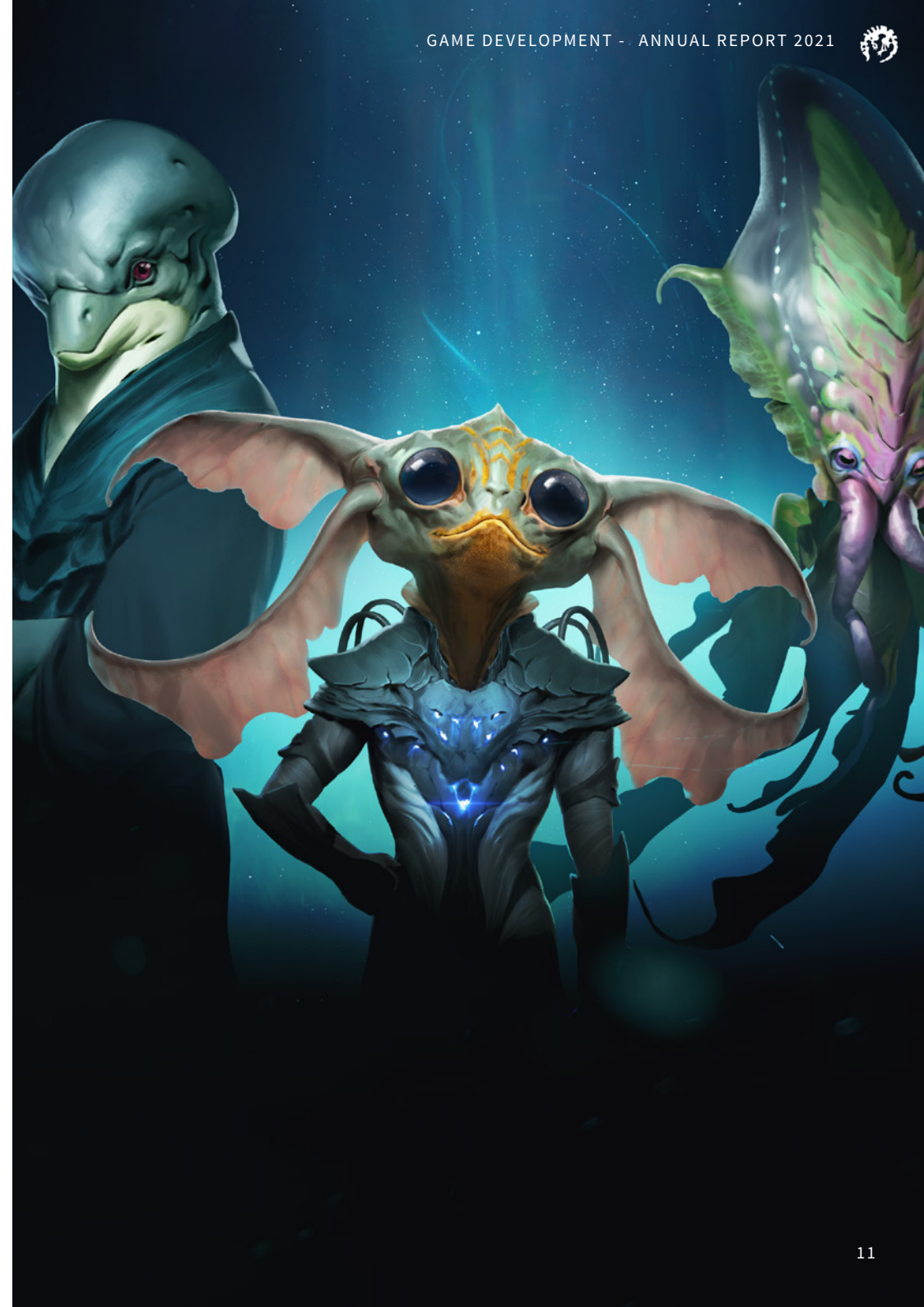
I am super excited to become Studio Manager for the newly started PDS Black — the designated home of Crusader Kings. We are working on upcoming releases that will keep expanding on the game's content and features, making Crusader Kings III both wider and deeper over time. I really look forward to our upcoming release — a true collaboration development, led by our sister studio Paradox Thalassic.

***You were the Lead Producer for Crusader Kings III when it launched, how does it feel to come back to it?***

It is definitely a homecoming. Working with the talented people in the Stellaris studio has been a fantastic experience, but now I get to return to a game and a team which holds a very special place in my heart. Crusader Kings III is still very much at the beginning of its journey, there are many big and game-changing things we can do for it, both in terms of width and depth. I think the Royal Court expansion is a great example of how we can push the boundaries of the game, offering a new kind of experience that we haven't tried before in our grand strategy games.

***If we touch upon the organisational stuff once more, I think a lot of people who don't work in the industry wonder about the difference between Studio Manager and Game Director. What influence do you have over the game's development?***

The Studio Manager and the Game Director have the same goal; to make great games that our players love and come back to often. While the Game Director sets the game vision and defines the experience we want to give the players, the Studio Manager helps realize that vision by making sure we have the right conditions to develop our games. That includes building a sustainable work environment for the studio's employees, with the right tools, technical support and focus on collaboration. We help with practical aspects short term, but more importantly we make sure there is a long term plan for the studio. It helps us navigate when challenges and changes arise, without losing direction or sight of what is important to us.





# PUBLISHING

The publisher Paradox Interactive works closely with in-house studios as well as third-party developers to be able to strengthen sales of base games and downloadable content. Sales are supported by creating strong promotional campaigns, building and developing the games' communities, strengthening relationships with important platform owners and developing the ecosystem of services around the games.

Within publishing, there is a breadth of competencies that support the company's and the games' development. The departments include: product owners and marketing managers who develop the games' revenue generation in the short and the long term, a user research team that strives to better understand the player, a team for digital marketing that develops the games' digital presences, and a communications team which develops the important player base via events, livestreams and player interactions. There are also departments for partner relationships, business development and more.

## Strengthening the core business

In 2021, publishing changed course as a result of shifts in Paradox's strategic priorities. To a greater extent, publishing now focuses on implementing sales-driven activities and partnerships, supporting the development of the loyal player base and strengthening Paradox's core business in other ways.

Among other things, this has meant that more of publishing's resources are invested in the company's core games and internal studios, there is a clearer focus on having a continuous market presence, and the cooperation with third-party developers has changed. In the future, third-party development will take place either with larger and proven partners and then within a more austere framework, or with smaller developers within the scope of the New Games Team (see below).

## Platforms and business models

Since 2006, Paradox content has mainly been published and distributed digitally. Paradox strives to be where players are and makes available and markets the company's games on all relevant platforms such as Steam, Epic Games Store, Apple Store and Xbox Game Store.

In 2021, Paradox continued its collaboration with Microsoft to make its games available on the Game Pass subscription service, which helped the games reach new target groups and tested a subscription model for the DLC catalogues of Europa Universalis IV and of Crusader Kings II.

## Expanding brands and the universes

Many of the company's games have organically built a strong brand among players over many years. By expanding these brands to other media and platforms, the company can reach new audiences and explore new player experiences and technology. In 2021, Paradox started a number of new projects to expand and strengthen its brands.

Moreover, a New Games Team was created whose mission is to identify, finance and work with more but smaller externally developed projects where they deem that there is potential for success.

**DANIEL GRIGOROV****Head of the New Games Team, Paradox Interactive*****Looking back at 2021, what are the most significant changes in the video game industry?***

For me, what really stands out is the sheer number of games that are being released. It doesn't seem that long ago when the conversation revolved around 10-20 big titles per year that everyone played and discussed and that formed some sort of overarching benchmark for the industry as a whole. We've definitely shifted away from that, everything is much more segmented and layered, especially so if we're looking at system-driven games.

***How is Paradox positioned to develop and grow in an industry that is more segmented and layered than before?***

Looking at how Paradox invests in new projects we've made a big transition. We of course have our internal teams that are working on new things, but we're also building up a new structure that will allow for us to have a more flexible approach to third-party projects.

***Can you give a slightly more nuanced picture of Paradox's new approach to third-party projects?***

I guess in essence you can say that it's an incubator for our proven business. It's a team within Paradox that's dedicated to finding the next big thing for Paradox and that is redefining the way we source external projects and work with third-party developers. The guiding principle, no matter the size of the project, is that the creative ownership always remains with the developer. We're there to support the studio but at the end of the day it's their game and we're not going to try to make it



fit a certain format. Either it works or it doesn't, it's as simple as that really. Making games is difficult and failing is a very natural part of the process. We cannot change that. But we can adapt the process and weigh our bets. It's a very different thing if we're talking about investing in DLC for one of our grand strategy titles compared to if we say that we are going to try something that's completely new to us. They can be equally important, but should be approached in different ways.

***In addition to the fact that more games are released, a large part of the industry discussion revolves around distribution, business models and monetisation of games. Paradox has a pretty clear DLC focus but we have tested different models. Where are we heading?***

Yes, Paradox has run various tests in various parts of the organisation. I think very few people doubt that the way games are being distributed and monetized is changing. But at the end of the day — whether a game is best suited for a free to play business model, a subscription service or something else — will be up to the players. We're going to continue to explore what this means for us and make sure that we have an infrastructure that will let us release content in whatever way is best for each individual title. It's not going to be one format that fits all.

***What are you most excited for in 2022?***

Besides all the cool projects we're working on ourselves, can I say Starfield?





# COMMUNITY

Paradox exists to create experiences that players love to explore and return to. But the players are more than that; they are an asset in Paradox's business. They are a source of feedback, ideas, content and energy that make the games even better and longer-lasting. During the year, Paradox's developers and community teams continued to have a close dialogue with players to create a stronger community around the games.

## Player interaction

To strengthen the community and create natural meeting places for fans, Paradox annually holds a long series of events where developers, content creators and players can interact with one another, take part in game related news and broaden their interest in Paradox games. For example, PDXCON Remixed, a 72-hour digital homage to the company's amazing fans and the games they love was held. The players' engagement was clearly seen in the record high participation; The content from the event has been played over 3.5 million times and had over 250,000 unique viewers over the weekend. PDXCON Remixed was preceded by PDX Insider which updated players on Paradox development and various initiatives.

## PDX Accounts

An important way into the communities that surround Paradox games is the PDX account. Via it the player can download and use mods; collect points, achievements and rewards which are distributed through the account; actively participate in the forums and gain access to closed game-specific sub-forums; contribute knowledge and experience to Wikis; get personal news and offers via email and other channels and get access to Paradox Multiplayer.

## Mods

User-generated content is and continues to be a key factor in the development and marketing of Paradox games. That players have the freedom to adapt and improve the games themselves is a strength, which drives both new sales and improves player experience. Paradox also has its own modding platform which is a platform-independent solution where console players can download and use the same mods as on a PC.

## Forums och Wikis

Paradox Forum and Wikis are both meeting places and knowledge banks for Paradox fans. Players can immerse themselves in the games, strategies, and mechanics, and make contacts with others who share their interests. They also create an interface between developers and players where Paradox game teams can directly engage in dialogue with, and receive feedback from, players. The Forum and Wikis had 185 million views and 21 million users during the year.

## Livestreams

On Twitch, daily live broadcasts are made where the games are shown, new releases are presented, and personal meetings and conversations take place between game developers and other guests. In 2021, viewers had seen Paradox Twitch content for 468,720 hours, the content had approximately 1.1 million views and at most 35,000 contemporary viewers. The company's YouTube channels livestream Cities: Skylines as well as company presentations by the CEO and CFO. Much of the material is edited and spread in other channels for more people to take part of.



## DEBBIE LANE

**Community Manager responsible for the Surviving games, Forum and Wikis**

### ***Tell us about 2021, what has been among the most memorable experiences?***

The last few years have really been a "pandemic blur" but an absolute milestone was to take on my new role as community manager. Now I can really get a grip on our forums and work on making it a great place for players and our game developers.

### ***Congratulations on your new job. Can you provide some insight into the change, what has happened?***

Thanks! Before I worked in Paradox's customer service, which is a small tight-knit team that helps customers with account problems and all types of issues such as game code or installation. And a big part of the job is to be a detective and help the player get started. Every time I had the opportunity, however, I was drawn to our forums and tinkered with its features, moderated various discussions and so on.

Then I realised that there was a need because the forums are such a big part of our player experience and we needed a clearer ownership from Paradox. I talked to my managers and a role was created because we want to strengthen our own channels and the community among our players. At the same time, I took over our Wikis and now work with Surviving Mars and Surviving the Aftermath's communities.

### ***You mentioned earlier that your job is to make the forum a good meeting place, what does that work entail?***

I would venture to say that our forums are a rather unique place where developers and players can meet. Most forums have one foot in the grave or stagnated but ours continues to grow and become even more active. Part of my job is to make sure that it continues to be a good place for everyone who has been there for a long time and for those who have just found it, in everything from how we moderate the forums, what parameters we close accounts on and how we reduce toxic behavior.

### ***What role do community channels, such as Forums and Wikis, play for Paradox now and in the future?***

For the players it is a fantastic way to share thoughts and ideas with like-minded



people and for us at Paradox it is a totally magical channel to get direct player contact. We believe this will only become more and more important in the future.

One should not underestimate channels such as Discord which is growing very fast, but the forum has a special place in the hearts of many because it is a place that provides the opportunity to read and reflect in peace. Overall, our Wikis are in a very good place and we have the pleasure of having really sharp Community Ambassadors who keep it updated and there is very good information that helps players get into our games. It is a source of knowledge I feel that we will continue to develop.

***Can you give an idea of how our community has developed over the past year?***

Our community is actually growing constantly but especially during the past year, not least after we announced Victoria 3. It is a game that many have been waiting for over ten years and it has created a great commitment which has seeped out to a wider group of players which in turn leads to many discovering more Paradox games and more and more people finding our forums.

***If we switch tracks and talk about games for a while: You're elbows deep in Surviving the Aftermath, which left Early Access in November 2021. What are our players' mood after the Early Access period?***

First I have to say that it is a game that suits me like a glove. I am a post-apocalyptic LARPer in my spare time, which means that I have actually played since the Alpha version. Iceflake Studios has really captured the post-apocalyptic feeling well in the game and the community have given the 1.0 version a warm welcome.

We see that players on all our platforms like the experience they get, think that the mechanics are good and that the setting is fantastic. The community as such is small but very nice and committed. It has many good modders, many who are helpful and basically everyone is nice. So I'm really looking forward to the upcoming content.

***If you look ahead, what do you personally look forward to most in 2022?***

On the one hand, I look forward to more content for Surviving the Aftermath and on the other hand, I am psyched for further developing the forums and making them a better place for players and developers to meet.



# MARKET

Paradox publishes and develops games for the global gaming market. For the most part, the group releases games for PC and console, and has a strong presence in the US and in the European markets. Games are mainly sold via digital platform owners such as Valve, Sony and Microsoft.

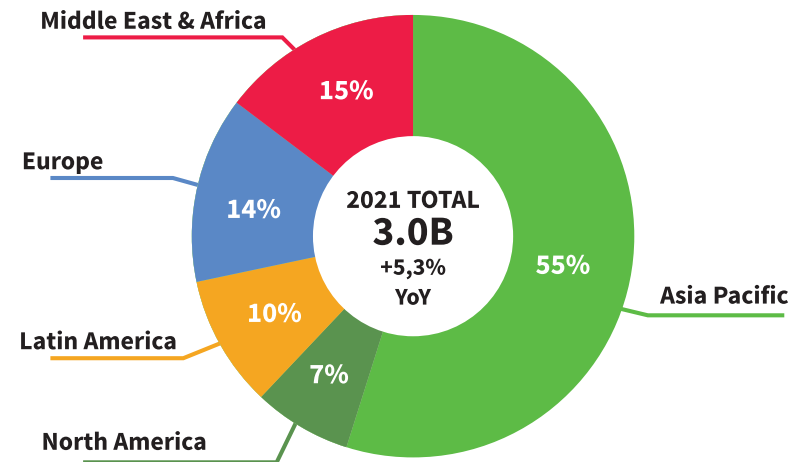
The global gaming market continues to grow, reaching USD 180.3 billion in 2021, an increase of 1.4% compared to the previous year, according to research firm Newzoo. Growth is expected to continue in the coming years and Newzoo has estimated that the gaming market will have sales of USD 218.8 billion in 2024, which would mean a compound annual growth rate of 8.7% during the period 2019-2024.

Mobile platforms experience the strongest growth and in 2021 account for 52% of the total market. PC games accounted for 20% of the total market in 2021, a decrease of -0.8% compared to 2020. Downloadable PC games, however, grew by 0.9% and accounted for 19% of the total PC segment while browser-based games decreased by -18.2% compared to the previous year. According to Newzoo, the console market decreased by -6.6% in 2021.

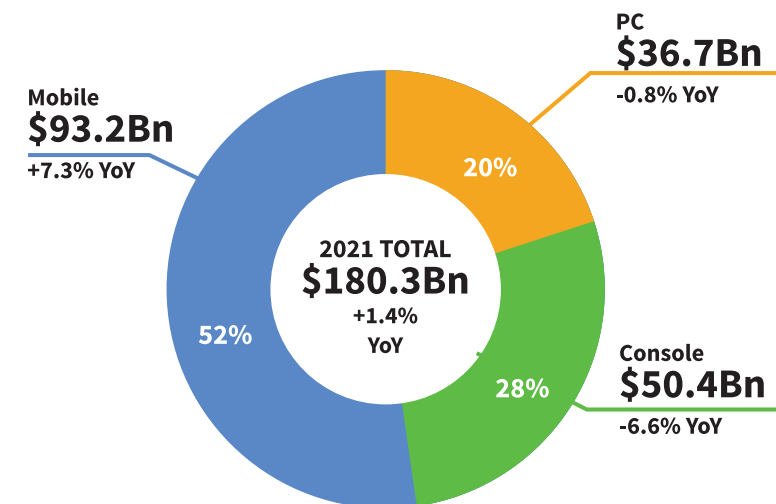
At the end of 2021, there were three billion players worldwide, a growth of 5.3% compared to 2020 according to Newzoo. Although all regions are growing in number of players, the Asia-Pacific region continues to be the largest, housing 55% of the global player base and has seen a continued growth of 4.8% compared to the previous year.

The market continues to see increased competition in the distribution chain, where Valve's platform Steam has been the largest player in PC games for over a decade. Epic Games Store continues to challenge Steam by offering publishers and game developers 88% of revenues and the company already has a large user base from Fortnite. Subscription models also grew during the year and are expected to continue to grow. An example is Microsoft's Game Pass, where players are offered access to a large number of games in subscription form, and publishers receive compensation for providing their games on the platform.

## REGIONAL BREAKDOWN OF GLOBAL GAME REVENUES



## SEGMENT BREAKDOWN OF GLOBAL GAME REVENUES



SOURCE: NEWZOO'S 2021 GLOBAL GAMES MARKET REPORT



# ORGANISATION



## PARADOX INTERACTIVE

**Stockholm, Sweden**

**Founded:** 1999, but current company registered in 2004

**Description:** Paradox Interactive is a global publisher of strategy and management games for PC and console and publishes the group's proprietary titles as well as titles from third-party developers. The game catalogue dates back to 1999 with players hailing from all over the world. The publishing business also develops the gaming communities, handles the company's business development and the licensing business that is linked to the company's intangible assets.



## PARADOX DEVELOPMENT STUDIO

**Stockholm, Sweden**

**Founded:** 1995, but current company registered in 2007

**Description:** Paradox Development Studio is the game studio behind successful strategy games such as Crusader Kings, Europa Universalis, Hearts of Iron, Stellaris and Victoria. The studio has developed globally recognised strategy games since 1995. Since 2021, the studio consists of four sub-studios: PDS Green, PDS Red, PDS Black and PDS Gold. PDS Green further develops Stellaris, PDS Black further develops Crusader Kings III, PDS Red develops Victoria 3 and PDS Gold further develops Heart of Iron IV.

**Developed games:** Crusader Kings, Europa Universalis, Victoria, Hearts of Iron, Stellaris, Imperator: Rome and a number of other titles.



## HAREBRAINED SCHEMES

**Seattle, Washington**

**Founded:** 2011

**Description:** Harebrained Schemes are the developers behind the award-winning Shadowrun and Battletech series that combine tactical games with nuanced and engaging stories. The studio was acquired by Paradox in 2018 and is currently working on an unannounced project.

**Developed games:** Battletech, Shadowrun, Necropolis.



## TRIUMPH STUDIOS

**Delft, Netherlands**

**Founded:** 1997

**Description:** Triumph Studios are the creators of the critically acclaimed Age of Wonders and Overlord series. The studio was acquired by Paradox in 2017 and is currently working on an unannounced project.

**Developed games:** Age of Wonders, Age of Wonders: Planetfall, Overlord.



## PARADOX TECTONIC

**Berkeley, California**

**Founded:** 2019

**Description:** Paradox Tectonic is leading the development of a brand new game that will be published by Paradox Interactive, with details to be announced at a later date. The studio is led by Rod Humble, former EVP at Electronic Arts and former CEO of Linden Lab, creator of Second Life.

**Developed games:** -



## PARADOX ARCTIC

**Umeå, Sweden**

**Founded:** 2014, legally a part of Paradox Development Studio

**Description:** Paradox Arctic has worked on the development of the War of series, Magicka 2, Pillars of Eternity for console and developed the Paradox multiplayer backend. The studio is now developing content for Stellaris together with PDS Green.

**Developed games:** War of series, development for Magicka 2, Pillars of Eternity: Complete Edition.

**ICEFLAKE STUDIOS****Tampere, Finland****Founded:** 2007

**Description:** Iceflake Studios consists of a team of experienced game developers and has created games for PC, consoles and mobile platforms. They have previously developed Premium Pool and the ice fishing game Ice Lakes. The studio was acquired in 2020 during the development of Surviving the Aftermath which was released in version 1.0 in 2021.

**Developed games:** Surviving the Aftermath, Ice Lakes, Premium Pool.

**PARADOX THALASSIC****Malmö, Sweden****Founded:** 2018, legally a part of Paradox Development Studio

**Description:** The studio was established in 2018 to develop games for mobile platforms but is currently working on developing content for Crusader Kings III together with PDS Black.

**Developed games:** -

**PLAYRION GAME STUDIO****Paris, France****Founded:** 2010

**Description:** Playrion is Paradox's mobile game studio and the creator of Airlines Manager, a leading aviation industry management game with over 10 million downloads. The studio was acquired by Paradox in 2020 and today the studio supports the game Airlines Manager with live updates and new features while developing additional mobile projects.

**Developed games:** Airlines Manager.

**PARADOX TINTO****Barcelona, Spain****Founded:** 2020

**Description:** Paradox Tinto is home to Europa Universalis and is currently developing new content for Europa Universalis IV.

**Developed games:** -





# THE GAMES



## CRUSADER KINGS III

**Release date:** September 1, 2020

**Platforms:** PC, XBOX, PLAYSTATION

**Description:** An Heir is Born in Crusader Kings III.

Crusader Kings III is the newest generation of Paradox Development Studio's beloved medieval role-playing grand strategy game. Expand and improve your realm, whether a mighty kingdom or modest county. Use marriage, diplomacy and war to increase your power and prestige in a meticulously detailed map that stretches from Spain to India, Scandinavia to Central Africa.

**Developer:** Paradox Development Studio

**Releases during the year:** Northern Lords (PC)



### **SURVIVING THE AFTERMATH**

**Release date:** October 20, 2019

**Platforms:** PC, PLAYSTATION, XBOX, SWITCH

**Description:** Survive and thrive in a post-apocalyptic future — resources are scarce but opportunity calls. Build the ultimate disaster proof colony, protect your colonists and restore civilization to a devastated world. Remember: The end of the world is just the beginning.

**Developer:** Icelake Studios

**Releases during the year:** Version 1.0 (PC/XBOX/PS/SWITCH)



### **SURVIVING MARS**

**Release date:** March 15, 2018

**Platforms:** PC, XBOX, PLAYSTATION

**Description:** Surviving Mars is a sci-fi city builder all about colonizing Mars and surviving the process. Choose a space agency for resources and financial support before determining a location for your colony. Build domes and infrastructure, research to unlock more elaborate ways to shape and expand your settlement. Cultivate your own food, mine minerals or just relax by the bar after a hard day's work. Most important of all, though, is keeping your colonists alive. Not an easy task on a strange new planet.

**Developer:** Haemimont Games

**Releases during the year:** Below and Beyond (PC/XBOX/PS)



### HEARTS OF IRON IV

**Release date:** June 6, 2016

**Platforms:** PC

**Description:** Victory is at your fingertips! Your ability to lead your nation is your supreme weapon, the strategy game Hearts of Iron IV lets you take command of any nation in World War II. It is time to show your ability as the greatest military leader in the world. Will you relive or change history?

**Developer:** Paradox Development Studio

**Releases during the year:** No Step Back (PC)



### STELLARIS

**Release date:** May 9, 2016

**Platforms:** PC, XBOX, PLAYSTATION

**Description:** Get ready to explore, discover and interact with a multitude of species as you journey among the stars. Discover buried treasures and galactic wonders as you spin a direction for your society, creating limitations and evolutions for your explorers. Alliances will form and wars will be declared.

**Developer:** Paradox Development Studio

**Releases during the year:** Lithoids (XBOX/PS), Megacorp (XBOX/PS), Nemesis (PC), Federations (XBOX/PS), Necroids Species Pack (XBOX/PS), Aquatic Species Pack (PC)



### CITIES: SKYLINES

**Release date:** March 10, 2015

**Platforms:** PC, XBOX, PLAYSTATION, SWITCH

**Description:** **Cities:** Skylines is a modern take on the classic city simulation. The game introduces new game play elements to realize the thrill and hardships of creating and maintaining a real city whilst expanding on some well-established tropes of the city building experience.

**Developer:** Colossal Order

**Releases during the year:** -



### PRISON ARCHITECT

**Release date:** October 6, 2015

**Platforms:** PC, XBOX, PLAYSTATION, SWITCH, ANDROID, IOS

**Description:** Build and manage a Maximum Security Prison. You've got to crack on and build a holding cell to detain the job lot of maximum security prisoners that are trundling to your future prison on their yellow bus. As your workmen lay the last brick you don't have a moment to let them rest as they need to get started on the first proper cell block so you can make room for the next prisoner intake. Once they've all got a place to lay their weary heads the fun can really start.

**Developer:** Introversion Software and Double Eleven

**Releases during the year:** Going Green (PC/XBOX/PS/SWITCH), Second Chances (PC/XBOX/PS/SWITCH)



### EUROPA UNIVERSALIS IV

**Release date:** August 13, 2013

**Platforms:** PC

**Description:** Fulfill Your Quest For Global Domination.

The empire building game Europa Universalis IV gives you control of a nation to guide through the years in order to create a dominant global empire. Rule your nation through the centuries, with unparalleled freedom, depth and historical accuracy. True exploration, trade, warfare and diplomacy will be brought to life in this epic title rife with rich strategic and tactical depth.

**Developer:** Paradox Development Studio

**Releases during the year:** Leviathan (PC), Origins (PC)



### EMPIRE OF SIN

**Release date:** December 1, 2020

**Platforms:** PC, XBOX, PLAYSTATION, SWITCH

**Description:** Empire of Sin, the strategy game from Romero Games and Paradox Interactive, puts you at the heart of the ruthless criminal underworld of 1920s Prohibition-era Chicago. It's up to you to hustle, charm and intimidate your way to the top of the pile and do whatever it takes to stay there.

**Developer:** Romero Games

**Releases during the year:** Make it Count (PC/XBOX/PS/SWITCH)



# SUSTAINABILITY REPORT

For Paradox Interactive, sustainability is an important part of the company's value creation for players, employees, owners, partners and the societies in which the company operates. Robust and forward-looking sustainability work contributes to sound operations and governance, and creates the conditions for long-term sustainable growth that meets the requirements and expectations of the company's stakeholders. At the same time, it supports Paradox in limiting the negative effects that its operations have on its operating environments and in managing non-financial risks that are judged to affect Paradox's business.

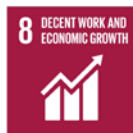
## Sustainability targets

Paradox wants to do its part to contribute to sustainable development by reducing its negative impact on the spheres in which the company operates and increase its positive contribution to people's everyday lives, both within its own operations and in its value chain.

The starting point for Paradox's sustainability work is the 17 UN Sustainable Development Goals. Of these, the company deems that goals 3, 8, 10 and 12 are particularly significant, as they affect Paradox and the company, in turn, can have an impact on them.



By enabling and ensuring a healthy workplace and work environment, inclusive corporate culture, and player platforms as well as increasing the availability of its games, Paradox continuously works towards this goal.



As a global employer of 721 employees, Paradox has a great responsibility to act to create the best opportunities for the company's employees to perform. By offering a healthy and positive working environment with good working conditions, and through ongoing reinvestment in the company's operations and future, Paradox works towards this goal. The work also consists of continuously striving to strengthen the company's supply chain.



Paradox is convinced that everyone's idiosyncrasies and differences are what create a healthy, engaging and motivating workplace as well as a community. By giving employees equal opportunities, the company works towards increased equality, inclusion, creativity and the ability to innovate. Accessibility is a key word for Paradox, where games and platforms are available to everyone and create a community in the global market.



Paradox has an impact on society, environment and climate through its purchases and collaborations. Through responsible purchasing, good use of resources, efficient operations and governance, the company strives to contribute to responsible consumption and production.

## Focus areas for sustainable growth

In 2020, Paradox conducted a materiality analysis in order to create a framework for how the company works with sustainability in accordance with the four significant goals of the 17 UN Sustainable Development Goals. In this work, four main areas were developed from which the company's work has taken its point of departure: Influence in the Value Chain, Prosperous Employees, Responsible Gaming, and Long-Term Financial Value.

The significant areas were developed by Senior Management based on Paradox's operations. In order to be able to develop as Paradox's stakeholders' demands and expectations of the company increase, Paradox has in 2021 chosen to further develop the significant areas and measures within them. Influence in the Value Chain has been redefined to Sustainable Operations to better capture the nature of work and Prosperous Employees has been redefined to High-performing Teams in order to capture more aspects of Paradox's work with people and performance. The report describes Paradox's initiatives within High-performing Teams, Sustainable Operations and Sustainable Operations. Long-Term Financial Value is described in more detail on pages 6-8, as it is closely linked to Paradox's strategic direction.





## SUSTAINABILITY GOVERNANCE

Paradox's ambition is for all employees to feel ownership of sustainability aspects that are close to their own role and to integrate sustainable business into daily operations. The Board of Directors is responsible for preparing the Sustainability Report and approves and evaluates the Senior Management's work.

The general governance is done by Senior Management, which is responsible for conducting long-term and sustainable operations. Senior Management decides on strategy, goals and relevant policies to support a sustainable business. Senior Management also develops and implements the company's strategic business plan, including ambition, direction and goals.

Sustainability governance is based on a number of basic policies that are important tools in the work.

- The Personnel Handbook and Work Environment Policy state the company's responsibility for business ethics and human rights.
- The whistleblower system and a policy that stipulates what Paradox considers to be good ethics, honesty and accountability. Employees and other stakeholders are expected to report any irregularities that occur or are discovered.
- In light of the company's global presence, it is important that Paradox employees act in the same manner regardless of where they are situated. Therefore, the company in 2021 has developed a Code of Conduct for all employees that is expected to be implemented in 2022.
- A Code of Conduct for suppliers will be developed.
- A Sustainability Policy with a special focus on climate and environmental issues will be developed and implemented in 2022.

## Stakeholder dialogue

As a public company, Paradox has several stakeholders who influence or are affected by the company's operations. An important part of the sustainability work is to continuously have a dialogue with and understand the most important stakeholders which are players, distribution partners, employees and owners. Paradox currently has various dialogues with stakeholders through, for example, employee development dialogues, involvement in player networks, board meetings, dialogues with suppliers and ongoing dialogues with analysts and shareholders.

In 2022, the ambition is to deepen and broaden the stakeholder dialogue, both in terms of topics and stakeholders, in order to gain a better insight into how different subject areas are prioritised by stakeholders and to gain new approaches to developing Paradox's work within them.





## SUSTAINABILITY RISKS

| Area from the materiality analysis | Explanation   | Mitigation  |
|------------------------------------|---|---|
| High-performing Teams              | <p>The gaming industry has general problems with overtime, lack of diversity, discrimination and psychosocial health. Personnel-related risks are that employees are exposed to unsustainable stress, poor psychosocial conditions, are discriminated against and/or harassed, are excluded from the workplace or do not have the opportunity to make their voices heard. It risks affecting their well-being, which can have long-term consequences for their health which affect them at work and in private.</p> <p>For the company, it risks affecting employees' creativity and commitment, which affects the ability to make and sell games. It also affects the ability to recruit new talent, which affects Paradox's ability to grow.</p>  | <p>Paradox works continuously to reduce overtime work, provide conditions for good psychosocial health, create an inclusive workplace and increase the company's diversity.</p> <p>The company continuously offers education, training and benefit programs to employees.</p> <p>The company has a whistleblower system in place to be able to identify victimization and discrimination.</p>   |
| Responsible Gaming                 | <p>The gaming industry has general problems with toxic behaviour in digital forums.</p> <p>An unhealthy and excluding environment around the company's games degrades the community that surrounds them. This means that fewer people want to take part in them. The direct effect is that the games risk losing popularity, which has a negative effect on the company's revenues. Furthermore, Paradox risks receiving less feedback and having lower quality interactions with players, which can negatively affect the games' long-term development path. Finally, toxic behavior risks affecting the well-being of both employees and players; employees who interact with players in their work experience a worse work environment and players may be excluded from one of their interests due to offensive posts, racism, sexism or the like.</p> <p>Games with high complexity and that handle sensitive historical periods risk reducing their availability, which can affect the company's revenues and exclude players.</p> | <p>Paradox has zero tolerance for all forms of toxic behavior and has Community Management teams as well as terms of use. Furthermore, in 2021/2022, Paradox will implement a new Code of Conduct for its digital platforms. The company also offers employees training in social media and player contact.</p> <p>Paradox works to increase the availability of games through guides as well as guidelines for the company's game development.</p> |
| Influence in the Supply Chain      | <p>The actions of suppliers and partners have a direct impact on Paradox's operations if they do not act in a sustainable manner, as this entails risks that are social and/or business-ethical. The risks include everything from Paradox receiving an inferior result from the business relationship with the stakeholder to Paradox's reputation being affected. Furthermore, unsustainable actions by a supplier or partner can affect their employees and the societies in which the supplier or partner operates in a negative way.</p>   | <p>Paradox works continuously to identify risks that arise in and of its supplier relationships. The company examines, for example, suppliers and partners, including through site visits.</p> <p>In 2022, a Code of Conduct will be developed for suppliers that is expected to be implemented in 2022/2023.</p>   |



| Area from the materiality analysis           | Explanation   | Mitigation   |
|--|---|--|
| Environmental Footprint                      | <p>Environmental and climate-related risks include that the business has a large footprint, especially when purchasing goods and services.</p> <p>Climate change affects all societies and people and thus the conditions for all business. In the long term, climate change can affect electricity and energy consumption, which affects the conditions for Paradox products that are dependent on computers, consoles and servers. There are also reputational risks linked to the climate issue that can negatively affect owners, partners, players and employees' view of the company.</p> | <p>From 2021, Paradox will make an annual climate statement to continuously evaluate its climate footprint. Furthermore, the company tries to minimize air travel in favor of digital meetings, extend the lifetime of equipment, reduce paper handling and work with suppliers who has a focus on sustainability. Furthermore, a Sustainability Policy will be developed in 2022.</p> |
| Business Ethics                              | <p>The foremost business-ethical risk associated with Paradox's operations is small-scale corruption. Corruption risks deteriorating relationships, ending current and future relationships and leading to decisions that are neither businesslike nor have the company's best interests in mind.</p>   | <p>All expenses are approved by a manager and a whistleblower system is in place to better detect irregularities.</p> <p>In 2021/2022, a Code of Conduct has been developed that further clarifies Paradox's view of corruption for employees.</p>   |
| Regulatory risks connected to sustainability | <p>In light of Paradox's size and public nature, the company risks being affected by various sustainability-related regulations at local and regional levels. Failure to comply with applicable laws and regulations can lead to fines as well as a loss of confidence from important stakeholders such as shareholders.</p> <p>Likewise, climate change and developments in other areas of sustainability are likely to lead to more regulations and policy initiatives that may also affect Paradox's operations.</p>   | <p>Paradox continuously monitors regulatory developments and ensures that the company complies with applicable laws and regulations that are related to sustainability.</p>  |



## HIGH-PERFORMING TEAMS

With 721 employees on several continents, Paradox has a great responsibility and an important task in creating a safe and meaningful workplace where outstanding people feel involved, are healthy and can create and sell fantastic games. Paradox strives for the company to be characterised by collaboration, continuous competence development, a safe working environment and being a place where everyone feels welcome. Therefore, the goal is to work together through collaboration and dialogue between company management, trade unions, managers and employees to contribute to a continued positive development of the company.

### *Continuous monitoring of employees' well-being and confidence in Paradox as an employer*

In order to understand employees' well-being, work environment and confidence in the company, Paradox conducts monthly surveys in order to be able to identify risks at an early stage and quickly implement improvements. Paradox measures this mainly through the engagement score and staff turnover; both are followed up on a monthly basis

In the engagement score, Paradox has the tech industry as a benchmark in the measurement tool Peakon. To ensure that the company can attract and retain expertise, the long-term goal is to have an engagement score that is in the upper quartile of the tech industry, which means having a stable score of 8.0 or more on the index's ten-point scale.

In 2021, the Paradox engagement index decreased to 7.1 (8.0). The decrease has two reasons: since the Covid-19 pandemic began, the company has seen a declining engagement as employees have been isolated in their homes; in addition the autumn's changes in the organisation and closures of projects have had a negative effect on this score.

Paradox strives to have a long-term staff turnover of 10% as it indicates that the company retains competence but has a healthy influx of new talent. In 2021, staff turnover increased by 9 percentage points to 20% (11%). The increase in staff turnover is believed to have the same reasons as the change in the engagement index.

In 2021, there were reports of work environment problems in Paradox's Swedish operations. The company subsequently investigated this information during the autumn, among other things through employee surveys and in-depth interviews. In 2022, compulsory training in counteracting discrimination and harassment are conducted for all employees in Sweden.

### **Employee health**

Balance in life should be a given. The risk that the boundary between work and leisure is blurred in today's working life is great, which entails a high risk of overtime, increased workload and stress. It poses a risk to employees' psychosocial well-being as well as physical health.

Paradox places great emphasis on improving the work environment and preventing ill health, and the company prioritises measures for employee well-being. To create the conditions for good mental and physical health, Paradox offers employees various health initiatives, such as training in mental health and conversational support with external behavioural scientists. The company's game development-projects are also planned so that they are carried out as much as possible without overtime work.

In 2021, Covid-19 continued to spread, which meant that many employees mainly worked remotely

during the year. Paradox has continued its efforts to support employees during the pandemic. Among other things, this support came from the company's Safe and Sane Ambassadors who have arranged various support measures, for example access to mental health apps. In addition, leaders have been offered training in leading remotely.

Furthermore, Paradox offers various forms of activities that promote physical activity, such as company-adapted group training and other activities that encourage physical activity and healthy choices. Managers are also offered training that is to strengthen the important preventive work.

|   | 2019 | 2020 | 2021 | Goal 2025 |
|---|------|------|------|-----------|
| Attendance rate, %  | 97%  | 98%  | 98%  | ≥ 97%     |
| When I work here, I feel that I can live a physically healthy lifestyle (employee survey) | 7.4  | 8.0  | 7.9  | ≥ 8.2     |
| Paradox Group cares about my mental wellbeing (employee survey)                           | 7.0  | 8.1  | 7.4  | ≥ 8.2     |

*The attendance rate is calculated on the basis of employees' general sick leave during a calendar year. The questions from the employee survey are answered on a 10-point scale where 10 stand for completely agree, 5 for partially agree and 1 for do not agree at all. To be in the upper quartile of the engagement index, Paradox strives for a result that is equal to or greater than the stated target score.*

In 2021, the biggest change is that employees feel that Paradox cares less about their mental health than in previous years. This is a problematic development that mainly emerged during the third and fourth quarters, which makes it likely that it was affected by the change processes that began during the autumn.

### **Career development & personal growth**

For Paradox, a meaningful workplace means, among other things, that employees have many paths to development and self-fulfillment on both a personal and professional level. Therefore, Paradox focuses on the continuous development of employees, where education, career development and impact on decision-making are important components.

Within Paradox, a large part of the work takes place in small groups, which makes it important that everyone sees themselves as leaders. Therefore, employees are offered leadership development in different stages depending on the role. In parallel, job-specific training is offered depending on the employee's role and skills. During the year, for example, a program for knowledge-sharing was developed where different competencies are gathered to discuss common issues and challenges. Furthermore, managers are offered a so-called toolbox training that will support them in leadership, and in 2021, the Great Leaders management training continued in order to strengthen the company's leaders.

The company has designed a staircase for seniority levels within each position to enable a clear development and a fair wage setting for the work performed. To ensure that all employees have the opportunity to discuss their development, development talks are conducted twice a year with follow-up dialogues in between. Furthermore, Paradox tries as much as possible to recruit internally to give employees the opportunity to take greater responsibility in their existing area or take on new challenges in other fields.



Game development is a creative and iterative process that requires a breadth of skills that interact. In order for the work to be meaningful and that employees are given the opportunity to grow on a personal and professional level, Paradox strives for the work to take place in small autonomous teams with short decision paths so that everyone has the opportunity to get an outlet for their skills and bring forth their ideas.

|  | 2019 | 2020 | 2021 | Goal 2025 |
|--|------|------|------|-----------|
| Internal recruitments  | 19%  | 21%  | 22%  | 25%       |
| I see a path for my career development in our organization (employee survey) | 6.5  | 7.2  | 6.9  | ≥ 7.3     |
| My manager encourages and supports my development. (employee survey)         | 8.0  | 8.5  | 8.2  | ≥ 8.2     |

*Internal recruitments are calculated on the basis of all internal appointments made to all recruitments made during the year. The questions from the employee survey are answered on a 10-point scale where 10 stand for completely agree, 5 for partially agree and 1 for do not agree at all. To be in the upper quartile of the engagement index, Paradox strives for a result that is equal to or greater than the stated target score.*

In 2021, the number of internal recruitments increased by 1 percentage point compared to 2020. At the same time, employees' views on career development and development support from managers have decreased by 0.3 points each on a ten-point scale. The result should be seen in light of the fact that the company underwent several organisational changes during the year where many changed jobs while the development of several unannounced projects were canceled, which is perceived to have reduced the number of development paths for employees.

### Diversity & Inclusion

The making and selling of fantastic games requires different approaches and ideas, which is why Paradox strives to have good diversity and inclusion. Paradox has both a gender equality plan, an action plan and a policy on harassment and victimization that are to ensure that measures are taken in the event of any shortcomings and that the risk of discrimination is minimised. The company works to assess people based on their skills, treat everyone with respect, and give everyone equal rights and opportunities regardless of gender, ethnicity, age, sexual orientation, transgender identity or expression, religion or other beliefs, as well as disabilities. These policies are handled and followed up by the company's Human Resources department. Internal training is conducted with all managers and employees with group responsibilities to ensure that they have satisfactory knowledge in the area.

All employees have the opportunity to submit feedback or complaints anonymously, either directly to the Human Resources department, an external firm, safety representatives, union representatives or through employee surveys.

The proportion of women in the Group amounted to 24% in 2021, compared with 23% in 2020. In Paradox Interactive AB's (publ) Board of Directors, one out of five members is a woman and of the company's Senior Management at the end of 2021, two out of six members were women. The group

language is English and in most cases language skills in Swedish are not a requirement for employment.

|   | 2019 | 2020 | 2021 | Goal 2025 |
|---|------|------|------|-----------|
| Share of women %  | 19%  | 23%  | 24%  | 30%       |
| People from all backgrounds are treated fairly at Paradox Group (employee survey) | 8.1  | 8.5  | 8.4  | ≥ 9.0     |

*The proportion of women is as of 31 December 2021 and is stated as a percentage of the total number of employees at the date.*



## RESPONSIBLE GAMING

For Paradox, gaming and its community are not just a matter of revenue. It is a matter of strengthening the social conditions that surround its games, as well as a human right: everyone should have the opportunity to explore and express their interests, regardless of background.

The social community that surrounds Paradox games is an important part of the players' experience because it provides a social exchange, provides an opportunity for a deeper dive, and the opportunity to discuss the games they love with the developers. It is also a community that has a major impact on Paradox's operations as it enables feedback and direct dialogue with core customers, as well as affecting employees' work environment. Paradox, in turn, has the ability to influence the discussion between and with players as these revolve around Paradox games and often take place in channels that Paradox owns.

Therefore, the company works continuously to enable players to take part in the games and in the company's platforms in a safe and pleasant manner, without risk of being subjected to harassment or other abusive behavior. To ensure this, the company works to counter toxic behavior in digital channels and make the games accessible to more people.

### Work against toxicity

Paradox works to offer everyone who wants to take part in the community around its games a safe and pleasant environment where they feel welcome to share their interest in the company's games with others. To ensure that the company's communities can grow in a constructive and safe way, Paradox has zero tolerance for all forms of toxic behavior in the company's channels, which include racism, sexism, harassment, discrimination, hate speech, bullying or threats as well as attacks on players, society and the company's employees.

The company strives to keep games, forums and other platforms free from such behaviours by regulating it in the terms of use for games and forums, having dedicated staff who moderate the company's platforms and having a privacy policy. Players are also encouraged to report abusive behavior on the company's platforms.

In 2021, the company continued to develop its work against toxic player behaviour. A new Code of Conduct for moderation of platforms has been developed and will be implemented in 2022 to provide new matrices for banning users from digital platforms, in order to curb bad behavior more effectively.

Furthermore, employees who have or want to have contact with players are offered training in social media. In addition, there are now clearer channels for employees to be able to escalate issues such as abusive treatment or personal attacks from players, to staff responsible for player interactions, in order to more easily get support in issues that affect their work environment and well-being.

### Further actions against toxicity

In order to safeguard the company's employees' and players' social conditions and human rights, Paradox will in 2022/2023 investigate more indicators that can be used in the work of curbing toxic behavior on its player platforms.

### Accessibility

Paradox strives for everyone to feel encouraged and welcome to try the company's games and take part in the community that surrounds them as well as to get in touch with the company.

Paradox facilitates accessibility by:

- Developing paths into the games
- Maintaining player contact and transparency
- Protecting privacy
- Providing guidelines for game development

#### *Developing paths into the games*

Many of Paradox's games have a high level of complexity, which means that they can be difficult for new players to absorb. To simplify the opportunity to learn and immerse oneself in the games, the company offers a range of instructional guides; including dedicated Wikis, guides on forums and contracted content creators on YouTube and Twitch who create and update beginner guides for the games.

#### *Maintaining player contact and transparency*

The company strives for transparency and inclusion in all contacts with players. Game developers, senior executives and other team members make themselves available to players in everything from presentation of and discussions about game and content design to presentation of interim reports. The goal is to continuously take in views and thoughts, and transparently explain the company's decisions and direction. In 2021, a number of presentations with game developers were arranged, and the company's management arranged an Ask Me Anything (AMA) and provided ongoing communication about the games' development.

The company also continues to offer personal customer support to help players get started or fix problems that have arisen.

#### *Protecting privacy*

The company's privacy policy regulates the protection of players' privacy and personal data. This is supported by the internal IT policy that was further developed in 2021. Furthermore, an IT security expert has been hired.

#### *Providing guidelines for game development*

Furthermore, the company has guidelines for how development teams should engage with sensitive topics in game development. The games often take place during controversial periods in history and can therefore contain topics that are sensitive. Paradox does not allow games to be used as an excuse for behaviour that is unacceptable today "because it happened then" and therefore approaches the topics with great caution.



## SUSTAINABLE OPERATIONS

Paradox's impact on society takes place both through the company itself and through the activities carried out by its suppliers, distributors and other stakeholders. Paradox strives to limit the impact that the operation of its studios and business has on the societies in which it operates by using its influence in the value chain, reducing its climate footprint and impact on the environment and promoting sound business ethics.

The point of departure for all Paradox's activities is the internationally agreed upon human rights and the UN Global Compact's ten principles.

### Influence in the supply chain

As a party to agreements, Paradox is often directly dependent on the actions of its stakeholders, but also indirectly in that the actions of its stakeholders can influence other stakeholders such as society and the media.

Paradox works in various ways to ensure that all suppliers act in line with the internationally agreed human rights, among other things by requiring contractual counterparties to comply with applicable laws and regulations, for example in relation to labour legislation. In addition to this, emphasis is placed on the professional reputation of counterparties, in order to avoid collaboration with parties that do not apply acceptable conditions. In relation to large counterparties, primarily in game development, the company strives to visit the counterparties before signing agreements.

In 2021, the company has developed a global Code of Conduct for all the company's operations, which is expected to be implemented in 2022. In 2022/2023, a Code of Conduct for suppliers will also be developed. The goal is to incorporate the supplier code into contractual relationships.

### Climate footprint

Paradox strives to reduce the company's impact on climate change, which changes the living conditions of all people and all businesses. Even though computer game companies have a relatively limited impact on the climate, as product development and sales are done digitally, purchases are made, employees travel and premises are rented. Furthermore, the companies' products require the player to have access to hardware such as computers or consoles. These require a certain amount of electricity consumption during use.

To map and in 2022 develop a plan to mitigate the company's climate impact, a climate calculation for 2021 has been carried out in accordance with the Greenhouse Gas Protocol (GHG Protocol). Since the calculation was conducted for a pandemic year, travel and hotel nights were affected and are probably lower than in previous years. Paradox currently has no emissions within Scope 1 as the company does not have a company-owned fleet of vehicles. The company has also not been able to include the entirety of Scope 3 in the survey. For example, it is not possible to measure the player's electricity consumption when playing one of Paradox's games on a computer or console.

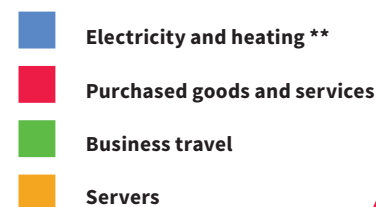
### Paradox Interactive's impact per Scope (location-based reporting)

| Scope   | tCO <sub>2</sub> e |
|---------|--------------------|
| Scope 2 | 193                |
| Scope 3 | 256                |
| Total   | 449                |

### Paradox Interactive's impact per Scope (market-based reporting)

| Scope   | tCO <sub>2</sub> e |
|---------|--------------------|
| Scope 2 | 236                |
| Scope 3 | 261                |
| Total   | 497                |

### Distribution of tCO<sub>2</sub>e by category \*



\*Market-based reporting

\*\*Electricity and heating include the direct emissions from electricity and heat generation within Scope 2 as well as upstream emissions from the use of electricity and heat within Scope 3.



### Scope 2

Within Scope 2, it is mainly the company's premises that affect the climate footprint. Overall, this is the single largest climate-affecting factor in Paradox's operations.

International offices account for the largest climate footprint, while Swedish offices account for a smaller share, partly due to the availability of green electricity. To reduce the impact, Paradox works with property owners who have a distinct focus on sustainability, for example, the headquarters in Stockholm uses green electricity and district heating, which has a major impact on the climate footprint.

### Scope 3

In Scope 3, purchases are the company's single largest climate-affecting factor (120 tCO<sub>2</sub>e), primarily the purchase of IT equipment for the company's operations and employees. Upstream emissions from the use of electricity and heat are the second largest climate-affecting factor (63 tCO<sub>2</sub>e). Business travel accounts for the third largest climate footprint in 2021 (55 tCO<sub>2</sub>e), however, it should be noted that 2021 was a pandemic year, in which the company's employees made fewer business trips than in previous years. Servers affect the climate footprint to the least extent (23 tCO<sub>2</sub>e), which follows from the fact that the company does not have a large multiplayer component in its games.

To reduce emissions created by the company's IT purchases and servers, the company works with well-established suppliers of both hardware and server space that have a strong focus on sustainability and products that are well developed from a climate and environmental perspective. Furthermore, the company has decided to extend the life of all IT equipment to avoid excessive consumption that affects the company's climate footprint.

### Further actions

In 2022, Paradox will, among other things, evaluate more purchasing categories from a sustainability perspective, develop a Sustainability Policy, evaluate the company's travel policy, develop a clearer target and investigate the possibility of including more categories within Scope 3 in the calculations.

### Environmental impact

Paradox works to limit the company's environmental impact by minimising the physical part of its operations and transferring as much of its operations as possible to the digital medium.

To the extent that travels are required, for example to game fairs, Paradox minimises the number of travellers to reduce the environmental impact and external meetings should as far as possible be held via a digital platform instead of having physical meetings. Furthermore, Paradox acts to minimise the use of paper by using e-signing systems for agreements and other digital document management systems to the extent possible.

The environmentally friendly technology that Paradox primarily is involved in spreading and developing is the transition from games in physical distribution, to games in completely digital form that are downloaded from the internet. This transition in part contributes to reducing the environmental impact from the production of the physical products and in part to reducing the environmental

impact from the transport of the physical products and has been widely spread in the gaming market. Paradox sells over 95% of its games in digital form.

### Business ethics

Paradox's long-term growth and success depends on the company's relations with players, employees and other stakeholders being good. Especially when Paradox is in a growth phase, the company is dependent on attracting new players, new staff, new development studios and new partners. The cornerstone of good relationships is acting in a business-ethical way since it is the starting point for all business relationships and transactions that are based on trust.

### Anti-corruption

Part of business ethics is to counter corruption. Although Paradox believes that corruption is not widespread in the gaming industry, the company ensures that no small-scale corruption occurs by having a policy that all gifts that a counterparty gives to an employee at Paradox should be shared with the entire company so that no individual will benefit from such gifts.

All expenses must be approved by the relevant person's manager and by the Finance Department, in order to have control over which payments are made by the employees with Paradox funds and thereby counteract the possibility of bribes or the like. The company also has guidelines in the form of personnel manuals and management manuals as a support for how personnel should act in a business-ethical way. The company also has a whistleblower system to increase the probability to notice and remedy actions that are not business-ethical.

In 2021, no whistleblower reports were received that staff had acted unethically or corruptly.

### Further actions

In 2021, a new Code of Conduct was developed for all employees that will be implemented in 2022, which includes training of all the company's employees.



# ADMINISTRATION REPORT

The Board and the CEO of Paradox Interactive AB (publ), 556667-4759, hereby present the annual report for the financial year 2021.

## INFORMATION ABOUT THE OPERATIONS

Paradox Interactive is one of the premier developers and publishers of strategy and management games on PC and consoles. The group today consists of publishing and nine studios in six countries that develop gaming experiences for the company's over five million monthly active users. The players are located all over the world but some of the biggest markets are North America, Western Europe, Scandinavia and Asia.

Its game portfolio consists of popular franchises such as Stellaris, Europa Universalis, Hearts of Iron, Crusader Kings, Prison Architect, the Surviving games, Age of Wonders and Victoria. Paradox Interactive also owns the World of Darkness brand catalog which is enjoyed by vampire fans all over the world.

The games are, among others, developed by Paradox Development Studio in Stockholm, Paradox Arctic in Umeå, Paradox Thalassic in Malmö, Harebrained Schemes in Seattle, Triumph Studios in Delft, Paradox Tectonic in Berkeley, California, Playrion Game Studio in Paris, Iceflake Studios in Tampere, and Paradox Tinto in Barcelona. Paradox also collaborates with multiple external studios.

Paradox Interactive's headquarters is on Södermalm in Stockholm and is listed on Nasdaq First North Premier Growth Market.

The parent company is based in Stockholm.

## SIGNIFICANT EVENTS DURING THE YEAR

The group has released several expansions and additions to previously released titles during the year. Surviving the Aftermath, developed by Iceflake Studios, left early access and was released in version 1.0. No other realases of new games during the year.

At the Annual General Meeting on May 18, Andras Vajlok was elected as a new board member. Josephine Salenstedt declined re-election.

Fredrik Wester took over as CEO and Håkan Sjunnesson was appointed Chairman of the Board.

The group's employees have largely worked from home to reduce the spread of Covid-19. The company operates in a digital industry where distribution and consumption of the company's products takes place relatively unaffected by physical restrictions. Player activity increased during the beginning of the pandemic, and then returned to more normal levels towards the end of the summer. The work-from-home has meant that some of the ongoing game development projects have been slower than planned and some releases will take place later than originally planned as a result.

## SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

No significant events have taken place after the end of the period.

## SUSTAINABILITY REPORT ACCORDING TO THE ANNUAL ACCOUNTS ACT

In accordance with the Annual Accounts Act, chapter 6 section 11, a sustainability report has been prepared. The statutory Sustainability Report can be found as follows; business model pages 6-8, significant sustainability risks, sustainability management page 27, risk management pages 28-29, and performance indicators pages 30-34.

## EXPECTED FUTURE DEVELOPMENT

In the coming year a continued good profitability is expected. Two announced games with indefinite release dates are waiting to be released; Victoria 3, developed by Paradox Development Studio and Vampire: the Masquerade - Bloodlines 2, developed by Hardsuit Labs and another unannounced studio. Development is underway of a number of as yet unannounced games.

## REVENUES AND PROFIT

Revenues amounted to MSEK 1,447.5 (MSEK 1,793.8), a decrease by 19 % compared to the same period last year. Revenues for the year are mainly attributable to Cities: Skylines, Crusader Kings III, Europa Universalis IV, Hearts of Iron IV and Stellaris.

Cost of goods sold amounted to MSEK 881.0 (MSEK 805.6), primarily attributable to game development, development support, operation and maintenance of games, as well as royalties to third parties. Write-downs within cost of goods sold amounts to MSEK 236.3 (MSEK 56.6). Cost of royalties is lower than the comparison period due to lower sales of royalty generating games. Since the last financial year new games are amortised using a degressive amortisation model where 1/3 of the development cost is amortised the first month after release, 1/3 is amortised month 2-6 after release, and 1/3 is amortised month 7-18 after release.

Selling expenses for the period amounted to MSEK 192.9 (MSEK 215.1).

Administrative expenses for the period amounted to MSEK 102.9 (MSEK 120.4).

Other income amounted to MSEK 40.8 (MSEK 25.6), and other expenses to MSEK 4.1 (MSEK 46.1). The year's other operating income was positively affected by the exchange rate of USD and SEK. Last year, the situation was the opposite. As a result, there is also a positive development of other operating expenses, which has decreased since the previous period.

Operating profit amounted to MSEK 307.5 (MSEK 632.1), a decrease by 51 %.

Profit after financial items amounted to MSEK 303.9 (MSEK 628.0), and profit after tax amounted to MSEK 247.8 (MSEK 490.6).

## FINANCIAL POSITION

Capitalised development amounted to MSEK 1,198.5 (MSEK 920.5) by the end of the period.

Licenses, brands and similar rights amounted to MSEK 232.4 (MSEK 304.6).

Goodwill amounted to MSEK 20.6 (MSEK 20.2) attributable to the acquisition of Iceflake Studios.



By the end of the period property and equipment amounted to MSEK 22.0 (MSEK 26.5).

Right-of-use assets for offices amounted to MSEK 165.2 (MSEK 199.4).

Shares in associates amount to MSEK 31.1 (MSEK 24.7) by the end of the period, relating to 33 % of shares in Seattle-based development studio Hardsuit Labs. The shares are valued at the equity method.

Accounts receivable amounted to MSEK 133.8 (MSEK 177.0) by the end of the period.

Cash and cash equivalents amounted to MSEK 599.7 (MSEK 767.6).

Shareholders' equity amounts to MSEK 1,661.6 (MSEK 1,508.2), of which MSEK 247.8 (MSEK 490.6) consists of accumulated profit for the year.

Long term lease liabilities amounts to MSEK 134.4 (MSEK 167.8) consisting of liabilities for office premises.

Deferred tax liabilities amounts to MSEK 163.6 (MSEK 193.4), mainly relating to untaxed reserves and intangible assets from acquisitions.

Other long term liabilities amounted to MSEK 0.4 (MSEK 0.4) by the end of the period.

Short term lease liabilities amounts to MSEK 34.5 (MSEK 34.1) consisting of short term liabilities for office premises.

Other current liabilities amount to MSEK 28.3 (MSEK 65.4), and mainly consist of short-term commitments for acquisitions.

Accrued expenses and prepaid income amounts to MSEK 396.6 (MSEK 431.3). Accrued costs for variable remuneration to employees have decreased compared with the comparison period as a result of a lower result. Prepaid income is in line with the comparison period.

## CASH FLOW

Cash flow from operating activities amounted to MSEK 736.6 (MSEK 1,126.3), primarily attributable to the operating profit and adjustments for items not included in the cash flow. Cash flow from investing activities amounted to MSEK -766.6 (MSEK -758.3), mainly referring to investments in game development. Cash flow from financing activities amounted to MSEK -139.6 (MSEK -148.5) mainly relating to dividend to shareholders of MSEK -105.6 (MSEK -105.6) as well as amortisation of lease liabilities for office premises.

## RESEARCH AND DEVELOPMENT

The Group conducts research and development in game development for the group's internal as well as externally developed game projects. Internally developed games are developed in the group's subsidiaries Paradox Development Studio, Harebrained Schemes, Triumph Studios, Paradox Tectonic, Iceflake Studios, Playrion Game Studio, and Paradox Tinto. For external game projects, third-party studios are contracted for the development work that takes place. The costs mainly consist of personnel costs and to some extent directly attributable overheads. Since the beginning of 2021, there are two categories of games - proven and unproven. Proven games are activated after the prototype stage, while unproven games are activated after the alpha stage. This means that the research phase for unproven games is longer than for proven games. During the research phase of the game projects, the costs

are taken on an ongoing basis. As soon as the development phase has begun, the costs are capitalized as capitalized expenses for development work. When a game is completed and released to the market, it is depreciated with the depreciation method that best reflects the game's financial benefits.

## PARENT COMPANY

The parent company consists of the publishing branch, and the parent company provides administrative services to subsidiaries. The subsidiaries mainly have intercompany revenue from game development invoiced to the parent company, why the financial development of the parent company to a great extent follows the group's development. Parent company revenues for the period amounted to MSEK 1,446.9 (MSEK 1,781.4). Operating profit amounted to MSEK 318.7 (MSEK 653.8). Profit after financial items amounted to MSEK 362.0 (MSEK 654.3). Profit after tax amounted to MSEK 347.0 (MSEK 391.5).

## SIGNIFICANT RISKS AND UNCERTAINTIES

### Dependence on key personnel and employees

Paradox is highly dependent on its employees' experience and competence. Recruiting and retaining competent staff is a precondition for the Group to continue to perform and act competitively in the market. If the group loses key personnel it could in the short term have negative consequences in terms of delays in the project, dropped connections, and ultimately affect the consolidated financial position and results.

### Dependence on a few distributors

Group sales are largely conducted through a few digital platforms. That the platforms can continue to provide the digital platforms is a precondition for the group to continue to generate revenue from them. If any key platform owner for some reason would be forced to take down its platform it could in the short term lead to loss of income, and a longer interruption could affect the Group's financial position and results. Paradox is also dependent on that the financial information provided by the distributors is complete and Paradox relies largely on that revenues reflects the players' actual purchases.

### Delay of game projects

Delays in planned and ongoing game projects can have a negative effect on cash flows, revenues and operating margins. Delays can occur both for internal projects and projects with external development partners.

### Cancellation of unfinished game projects under development

If it is assessed that an ongoing game project should be cancelled before completion, this may have a negative effect on cash flows, revenues and operating margins. Completion of unfinished game projects can take place both for internal projects and projects where an external partner handles the development.

### Low revenues from new game launches

At the launch of new games, risks are that these are not received positively. This can lead to losses in revenue, lower margins and reduced cash flows. In addition capitalised development costs risk to be impaired.

### Exchange rate fluctuations

The group's revenues are mainly in USD, while the reporting currency is SEK. Although the group has costs in USD as hedging, the exposure of the Group is affected by long-term exchange rate fluctuations. At the end of the year no hedging has been made. For financial risk management, see Note 42 Financial risk management.



## FIVE-YEAR SUMMARY

|  | 2021        | 2020        | 2019        | 2018        | 2017        |
|--|-------------|-------------|-------------|-------------|-------------|
| Revenues, KSEK   | 1,447,456   | 1,793,794   | 1,289,332   | 1,127,715   | 813 785     |
| Operating profit, KSEK                                     | 307,453     | 632,108     | 473,530     | 455,050     | 339 817     |
| Profit after financial items, KSEK                         | 303,926     | 628,030     | 466,849     | 455,183     | 339 583     |
| Profit after tax, KSEK                                     | 247,770     | 490,575     | 374,080     | 353,934     | 264 941     |
| Operating margin   | 21%         | 35%         | 37%         | 40%         | 42%         |
| Profit margin  | 21%         | 35%         | 36%         | 40%         | 42%         |
| Equity/assets ratio  | 66%         | 60%         | 58%         | 71%         | 77%         |
| Cash, KSEK   | 599,724     | 767,561     | 554,227     | 327,044     | 320 100     |
| Equity, KSEK   | 1,661,563   | 1,508,158   | 1,125,176   | 853,777     | 599 917     |
| Total assets, KSEK   | 2,522,693   | 2,518,068   | 1,942,307   | 1,196,948   | 782 270     |
| Number of shares by the end of the period before dilution* | 105,600,000 | 105,600,000 | 105,600,000 | 105,600,000 | 105 600 000 |
| Number of shares by the end of the period after dilution*  | 105,853,350 | 105,889,000 | 105,600,000 | 105,600,000 | 105 600 000 |
| Average number of shares before dilution*                  | 105,600,000 | 105,600,000 | 105,600,000 | 105,600,000 | 105 600 000 |
| Average number of shares after dilution*                   | 105,755,565 | 105,839,159 | 105,600,000 | 105,600,000 | 105 600 000 |
| Equity per share before dilution, SEK*                     | 15.73       | 14.28       | 10.66       | 8.09        | 5,68        |
| Equity per share after dilution, SEK*                      | 15.70       | 14.24       | 10.66       | 8.09        | 5,68        |
| Earnings per share before dilution, SEK*                   | 2.35        | 4.65        | 3.54        | 3.35        | 2,51        |
| Earnings per share after dilution, SEK*                    | 2.34        | 4.64        | 3.54        | 3.35        | 2,51        |
| Dividend per share before dilution, SEK*                   | 1.00        | 1.00        | 1.00        | 1.00        | 1,00        |
| Dividend per share after dilution, SEK*                    | 1.00        | 1.00        | 1.00        | 1.00        | 1,00        |
| Average number of employees                                | 716         | 567         | 453         | 327         | 243         |
| Number of employees at the end of the year                 | 721         | 662         | 479         | 405         | 269         |

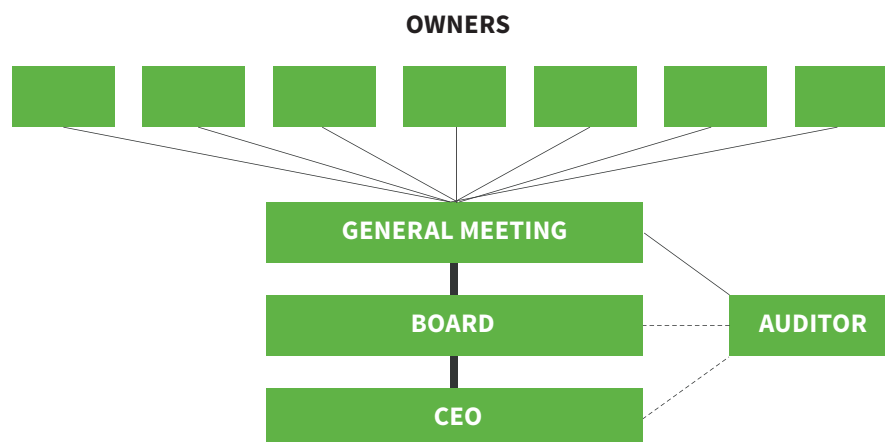
\*For definition of key figures, see note 41.



# CORPORATE GOVERNANCE REPORT

Paradox Interactive AB (publ) is a Swedish public limited liability company and is governed based on Swedish law and internal rules and regulations. Swedish Code of Corporate Governance (the Code) is applicable for Swedish companies with shares listed on a regulated market in Sweden. Nasdaq First North Growth Market where the company is listed is not a regulated market but requires companies to apply the Code. Companies must not comply with all rules in the Code, and has the option to apply alternative solutions believed to better fit their purposes, as long as any discrepancies are reported and the alternative solution is described and reasons behind it explained (the principle of comply or explain) in the corporate governance report. The report is contained in the administration report and has been reviewed by the auditor. The audit is reported in the audit report on page 81.

## CORPORATE GOVERNANCE MODEL



### IMPORTANT EXTERNAL REGULATIONS

- The Companies Act
- Accounting legislation, Bookkeeping Act, Annual Accounts Act
- Nasdaq First North Growth Market – Rule-book
- The Swedish Code of Corporate Governance (the Code)

### IMPORTANT INTERNAL REGULATIONS

- Articles of association
- Rules of procedure for the Board of Directors
- Insider policy
- Communication policy
- IT-policy
- Finance policy
- Other policies, guidelines and manuals

## CORPORATE GOVERNANCE FOUNDATION

Corporate governance at Paradox Interactive is concerned with ensuring that the company is managed sustainably, responsibly and as effectively as possible. This is done by having an efficient organizational structure, good internal control and risk management, as well as a correct and transparent internal and external reporting.

## SHARES AND SHAREHOLDERS

The share capital of Paradox Interactive AB (publ) consists of one and the same share class. Total number of shares amounts to 105,600,000 shares, where one share carries one vote at general meetings. The number of shareholders was 18,588 as of December 31, 2021. The largest shareholders at the end of 2021 were WesterInvest AB (Fredrik Wester) with 33.4 % of the share capital, Investment AB Spiltan with 17.1 %, Tencent Holdings Limited with 9.1 % and Lerit Förvaltning AB with 7.5 %. Shareholders make the decisions about the company's governance by establishing the Articles of Association at the annual general meeting (AGM), which indicate the direction of the business, and appoint the board and the chairman of the board, whose task is to manage Paradox's business on behalf of the shareholders.

## GENERAL MEETING

The general meeting is the highest decision-making body in which shareholders exercise their influence over the company. The general meeting is held annually within six months of the end of the financial year. Time and place of the AGM are published at the latest in connection with the third interim report. Each shareholder also has, independent of number of shares, the right to have a matter addressed at a general meeting on a request to be submitted to the Board of Directors in good time so that the matter can be included in the notice of meeting. Notice to the AGM and Extraordinary General Meeting where a change in the articles of association is to be resolved, must be made no earlier than six weeks and not later than four weeks ahead of the general meeting. Notice to other extraordinary general meetings must be made no earlier than six weeks and not later than two weeks ahead of the general meeting. Notice of a general meeting shall be made by an announcement in the Official Gazette (Sw. Post- och Inrikes Tidningar) and by making the notice available on the company's website. The company shall advertise in Svenska Dagbladet that notice has been made. Shareholders wishing to participate in a general meeting must be entered in a transcript or other publication of the complete share register covering the status five days ahead of the general meetings, and give notice of attendance to the company no later than the day specified in the notice of the general meeting. This day may not be a Sunday, other public holiday, Saturday, Midsummer Eve, Christmas Eve or New Year's Eve and must not be earlier than the fifth weekday prior to the general meeting. Shareholders or proxies may be accompanied by not more than two assistants, but only if the shareholder notifies the company of the number of assistants in the manner stated in the preceding paragraph. The general meeting's decision is made by a simple majority of the votes cast. However, some decisions, such as amendments to the Articles of Association, require qualified majority voting.



#### At the annual general meeting the following matters shall be addressed:

1. Election of a chairman of the meeting.
2. Preparation and approval of the voting list.
3. Approval of the agenda.
4. Election of one or two persons to verify the minutes.
5. Determination whether the meeting has been duly convened.
6. Presentation of the published annual report and audit report, and, if applicable, consolidated annual report and consolidated audit report.
7. Resolutions
  - (a) on adoption of the income statement and balance sheet and, if applicable, the consolidated income statement and the consolidated balance sheet;
  - (b) on the disposition of the company's profit or loss as shown in the adopted balance sheet;
  - (c) on discharge of liability of members of the board and the CEO when applicable.
8. Determination of the fees to be paid to the Board of Directors and the auditors.
9. Election of the Board of Directors and, if applicable, audit company or auditors and possible auditor deputies.
10. Other matters that may be brought before the meeting pursuant to the Swedish Companies Act or the Articles of Association.

#### Annual general meeting 2021

The AGM 2021 was held on May 18 in Stockholm. At the meeting 70 % of the votes and thus the same proportion of shares were presented. Board and management were present at the meeting. The following decisions were taken:

The AGM adopted the balance sheet and the income statement for the parent company and the group. The AGM resolved to pay dividends to the shareholders of SEK 1 per share in accordance with the proposal from the board of directors.

The board and the CEO were discharged from liability for the financial year 2020. The AGM resolved to elect Andras Vajlok (new), and re-elect Fredrik Wester, Håkan Sjunnesson, Mathias Hermansson and Linda Höglund as ordinary board members for the period until the next AGM. Josefine Salenstedt declined to be re-elected. Fredrik Wester was elected Chairman and Håkan Sjunnesson Deputy Chairman. The AGM resolved according to the proposal from the nomination committee that the compensation shall be SEK 520,000/year to the Deputy Chairman of the board and SEK 260,000/year to the ordinary board members. The fee to Fredrik Wester shall, according to his own request, be 1 SEK/year. The fee to the auditor shall be according to the approved fee.

The AGM approved the nomination committee's proposal for principles for the nomination committee.

The AGM resolved to approve the board's proposal regarding remuneration to senior executives.

The AGM resolved to approve the board's proposal to authorize the board to decide on issue of new shares, convertibles and/or warrants. The increase in the share capital may amount to a dilution corresponding to no more than 10% of the share capital.

The AGM resolved to introduce an incentive program for the company's employees – warrant scheme 2021/2025. With full exercise of the warrant scheme, the number of shares in the company increases by 0.65 percent.

#### Annual General Meeting 2022

The AGM 2022 takes place on May 10 in Stockholm. Notice of the AGM will be available on the company's website [www.paradoxinteractive.com](http://www.paradoxinteractive.com) together with all the required documents for the AGM.

#### Attendance on the Annual General Meeting

| Year | % of votes | % of capital |
|------|------------|--------------|
| 2021 | 70         | 70           |
| 2020 | 73         | 73           |
| 2019 | 83         | 83           |
| 2018 | 67         | 67           |
| 2017 | 67         | 67           |

#### THE NOMINATION COMMITTEE

The AGM decides how the nomination committee shall be appointed. The Chairman of the Board of Directors will contact the three largest shareholders in terms of votes on September 30, 2021. The three largest shareholders will elect one representative each to form the nomination committee along with the chairman until the next AGM has taken place, or until a new nominating committee has been appointed. If any of these shareholders wants to waive their right to elect a representative, their right is transferred to the shareholder who, after these shareholders, has the largest share ownership until the nomination committee is complete. The nomination committee is also allowed to appoint an additional member to represent the small shareholders. If a member leaves the nomination committee before its work is completed a new member shall, if considered necessary, be appointed by the same shareholder who appointed the resigning representative, or, if this shareholder is no longer one of the three largest shareholders, by the new shareholder that belongs to this group. The members of the nomination committee appoint its chairman. However, the chairman of the Board of Directors will not chair the nomination committee.

The composition of the nomination committee shall be announced as soon as it is appointed, and no later than six months before the AGM. In case there is a change in the ownership structure after the nomination committee has been composed, such as one or several shareholders that have appointed members to the nomination committee is no longer one of the three largest shareholders, the nomination committee may be changed in accordance therewith if the nomination committee deems that it is necessary. Unless special circumstances require it, no changes should be made to the composition of the nominating committee if only marginal changes to the number of votes have occurred or if changes occur less than three months prior to the AGM. The Committee's task shall be to prepare proposals to the general meeting regarding chairman of the AGM, number of board members, remuneration to the board and the auditor, the composition of the board, the chairman of the board, rules for the nomination committee for the following year, and the election of the auditor.

#### The nomination committee ahead of the annual general meeting 2022

Nomination committee's proposal, the reasoned opinion to the proposed Board of Directors as well as information about the proposed directors are published in connection with the notice to the AGM.



### Members of the nominating committee

Per Håkan Börjesson, chairman (appointed by Investment AB Spiltan)  
Andras Vajlok (appointed by WesterInvest AB)  
James Mitchell (appointed by Tencent Holdings Limited)  
Håkan Sjunnesson (chairman of the board)

### BOARD OF DIRECTORS

The board is the highest decision-making body after the shareholders' meeting and the company's highest executive body.

### Work of the Board of Directors

According to the Swedish Companies Act, the board is responsible for the management and organization of the company, meaning that it among other tasks should decide on targets and strategies, ensure routines and systems for the evaluation of the decided targets, continuously evaluate the financial position and development of Paradox and evaluate the executive management. The board is also responsible to ensure that the annual report, group accounts and the interim reports are produced at the appropriate time. In addition, it appoints the CEO. The board members are elected each year at the AGM until the end of the next AGM.

### Composition of the board

According to the articles of association of Paradox, the board elected at the AGM must comprise at least three and not more than eight members. The Chairman of the board is elected at the AGM and has a responsibility to lead the work of the board and ensure that its activities are well organized and conducted in an efficient way. Since the 2021 AGM, the board has consisted of five ordinary members elected by the AGM. The Board of Directors consists of the following AGM-elected members; Fredrik Wester as chairman. Håkan Sjunnesson, Andras Vajlok, Mathias Hermansson and Linda Höglund as ordinary members of the board. Håkan Sjunnesson replaced Fredrik Wester as chairman of the board during the year. The board composition during the year met the requirements of the Code regarding independent directors. This means that the majority of the elected board members are independent of the company and its management, three of whom are also independent in relation to the company's major shareholders.

### Duties of the Board of Directors

- The board members shall give the board assignment sufficient time and care.
- The board members shall independently assess the matters that the board has to consider and present the opinions and take those standpoints arising thereto. Each board member shall act independently and with integrity and in the interest of both the company and the shareholders.
- The board members shall request any additional information deemed necessary in order for the board to adopt well substantiated resolutions.
- The board members shall obtain such information about the business of Paradox and the group, its organization, the market etc. which is required for the assignment.
- New board members shall attend required introduction and any further training which the chairman and the board members mutually find adequate.

### Chairman of the board

The chairman of the board is appointed by the AGM. The chairman's role is to organize and lead the work so that it is run efficiently and that the board fulfills its obligations. Fredrik Wester was appointed chairman of the board at the AGM 2021 for the period until the next AGM. Håkan Sjunnesson replaced Fredrik Wester as chairman of the board during the year.

### Rules of Procedure and board meetings

The Board's work is further controlled by the written rules of procedure that the board annually reviews and determines at the constituent meeting. The rules of procedure regulate the board's working methods, tasks, decision-making within the company, the Board's meeting agenda, the chairman's duties and an appropriate division of tasks between the board and the CEO. An instruction for financial reporting and instructions to the CEO are also decided at the statutory board meeting. The board shall also ensure that the company's external communication is characterized by transparency and is accurate, relevant and clear. The board is also responsible for establishing the necessary guidelines and other policy documents, such as communications policy and insider policy.

### The board's work in 2021

The board's rules of procedure describe the items to be found on the agenda at each meeting, the statutory board meeting, as well as the items to be found on one or more of the board meetings during the year. In 2021, the board held 15 meetings, including one constituent meeting, and four for the establishment of interim or year-end reports. Ordinary board meetings normally contain information from the CEO, including information related to the operational position and significant events for the group, as well as financial statements for the period. Key points in the board meetings in 2021 have been questions about, but not exclusively, investment strategies, acquisitions, interim and annual reports, dividend proposals.

### Composition of the board and attendance in 2021

| Attendance 2021                    | Board meetings | Audit committee | Remuneration committee |
|------------------------------------|----------------|-----------------|------------------------|
| Fredrik Wester, Chairman until 1/9 | 14 of 15       | -               | -                      |
| Håkan Sjunnesson from 1/9          | 15 of 15       | 2 of 2          | 1 of 1                 |
| Josephine Salenstedt until 18/5    | 3 of 4         | -               | -                      |
| Mathias Hermansson                 | 13 of 15       | 2 of 2          | 1 of 1                 |
| Linda Höglund,                     | 13 of 15       | -               | -                      |
| Andras Vajlok, from 18/5           | 10 of 11       | 2 of 2          | 0 of 1                 |



### Evaluation of the Board of Directors and CEO

The board shall annually evaluate the work by the board with the purpose to develop the board's routines and efficiency. The results of the evaluation shall be presented to the nomination committee. The board shall continuously evaluate the work of the managing director. At least once every year, the board shall handle this matter in particular, whereby no person from the company management shall be present.

### Remuneration to the board

Remuneration to the members of the board and other remuneration to elected members, including the chairman, is resolved by the AGM. At the AGM on May 18, 2021, it was resolved that the remuneration to each of the elected board members shall amount to SEK 260,000 and SEK 520,000 to the vice chairman of the board. The company's board members are not entitled to any benefits after they have resigned as members of the board. The remuneration to the chairman of the board, Fredrik Wester, shall according to his own request be SEK 1 net per financial year.

At the Annual General Meeting, it was also decided that remuneration shall be paid as follows for the committees within the Board. SEK 80,000 to the chairman of the audit committee, SEK 50,000 to the chairman of the remuneration committee, and with 75 percent of each chairman's fee to other members of the committees.

### Board meetings 2021

|             |                     |  |
|-------------|---------------------|--|
| February 22 | Regular meeting     | Reviewing fixed items. Approval of the year-end report. Reviewing of the remuneration committee.   |
| April 8     | Regular meeting     | Approval of the annual report.   |
| April 22    | Regular meeting     | Reviewing fixed items.   |
| May 10      | Regular meeting     | Approval of interim report.  |
| May 18      | Constituent meeting | Adoption of policies, guidelines, and instructions. Confirmation members and chairman of the Audit committee and the Remuneration committee. |
| June 22     | Regular meeting     | Reviewing and approval of warrant scheme.  |
| July 8      | Regular meeting     | Reviewing and allocation of warrants.  |
| August 9    | Regular meeting     | Review audit committee meeting. Approval of the interim report.  |
| August 19   | Regular meeting     | Reviewing fixed items.   |
| September 1 | Regular meeting     | Appointment of Fredrik Wester as CEO, Fredrik Wester steps down as Chairman of the Board, Håkan Sjunnesson appointed as new Chairman.        |
| October 7   | Regular meeting     | Reviewing fixed items.   |
| October 22  | Regular meeting     | Reviewing status report regarding the company's working environment.   |
| October 25  | Regular meeting     | Reviewing action plan regarding the company's working environment.   |
| November 15 | Regular meeting     | Review audit committee meeting. Approval of the interim report   |
| December 2  | Regular meeting     | Reviewing fixed items.   |

### BOARD COMMITTEES

#### Audit committee

In connection with the constituent board meeting the board appointed an audit committee consisting of at least three members. The committee's responsibilities are, among other things, to monitor the company's financial reporting and prepare the board's work on quality assurance of the same, to monitor the company's internal control, internal audit and risk management regarding financial reporting, and to establish guidelines for the procurement of additional services from the company's auditor. In addition, the committee shall assist the nomination committee in the preparation of proposals for election of auditors and auditor fees, and continuously meet the company's auditor. All audit committee meetings are minuted and the protocols are given to the board together with a verbal report in connection with the board's decision-making.

#### Remuneration committee

In connection with the constituent board meeting the board appointed a remuneration committee consisting of at least three members who are not working operationally in the company. The committee's task is to prepare the board's decisions on matters concerning remuneration principles and remuneration and other conditions of employment for senior management. Further, the committee shall monitor and evaluate current and during this year completed programs for variable remuneration to the senior management, and monitor and evaluate the application of the guidelines for remuneration to senior executives which will be adopted by the AGM. All the remuneration committee meetings are minuted and the protocols are given to the Board together with a verbal report in connection with the board's decision-making.

### AUDIT

The auditor shall review the annual report and accounts, and the work conducted by the CEO and board. Following the end of each financial year, the auditor presents a review report and a group audit report to the AGM. According to the articles of association of Paradox, the company shall appoint a maximum of two auditors with or without a maximum of two deputies or a registered audit company. At the AGM 2021 Öhrlings PricewaterhouseCoopers AB was appointed as the auditor of Paradox.

### CEO AND SENIOR MANAGEMENT

The CEO is appointed by the board and is primarily responsible for the company's management and daily operation. The division of labor between the board and CEO is stated in the Rules of Procedure for the board and instructions for the CEO. CEO is also responsible for preparing reports and compile information from management prior to board meetings and presents the material in board meetings. According to the instructions for financial reporting, the CEO is responsible for the financial reporting of the company and must therefore ensure that the board receives sufficient information to enable the board to evaluate the Paradox financial position. The CEO shall keep the board informed of the development of Paradox operations, the volume of sales, the company's results and financial position, liquidity and credit situation, key business events and other circumstances that cannot be assumed to be insignificant to the company's shareholders to the board's knowledge.

#### Important matters addressed by the CEO and senior management in 2021 included:

The CEO and senior management have presented interim reports on a recurring basis, presented proposals for investments in new game projects, presented the status of the ongoing game development, and proposals for approval of gaming project phases.



## REMUNERATION TO CEO AND SENIOR MANAGEMENT

### Guidelines determined by the AGM 2021

The CEO and other senior executives are paid a monthly salary on market terms, a variable bonus of no more than three months' salary which shall be based on the outcome of yearly adopted and determined objectives, as well as customary benefits, shall be payable to the managing director and other senior executives. Further, all senior executives are included in the group-wide profit-sharing program for all permanent employees of the group, which entitles them to up to three months' salary.

For the CEO and other senior executives, pension benefits, including health care insurance, shall be premium based in accordance with the company's collective bargaining agreement ITP1 for the managing director and other senior executives. The general principle is that the fixed salary shall be reviewed annually and shall take the person's qualitative performance into account. The remuneration shall be based on the person's individual engagement and performance as measured against previously adopted objectives, where such objectives may be both individual and group-wide. The remuneration to the managing director and other senior executives shall be on market terms. In order to determine what constitutes a total remuneration on market terms and in order to review prevailing remuneration levels, annual comparisons with relevant industries and markets are carried out. The results of these comparisons is a key factor when deciding on total remuneration for the senior executives as well as other employees.

The variable salary shall be connected to predetermined and measurable criteria, which may be financial or non-financial. The objectives shall be set so that they promote the company's business strategy and long-term interests, including its sustainability agenda, for example by way of being clearly connected to the business strategy. When the period for measuring the fulfillment of the criteria for payment of the variable salary has lapsed, the Board of Directors shall determine the extent of the criteria fulfillment.

The salary and employment terms of the company's employees have been considered in the preparation of the Board of Directors' proposal for these guidelines, including the employees' total remuneration as well as its components, increase and rate of increase over time. Such data has formed part of the remuneration committee and the Board of Directors' decision material in the evaluation of the fairness of the guidelines and the limitations which follow from the guidelines. The AGM 2021 also approved a warrant scheme for all employees.

Both the company and the managing director shall observe a six months' notice period. If a termination of employment has been initiated by the company, the managing director is entitled to a severance pay corresponding to six months' fixed salary. Regarding other senior executives, the company shall observe a notice period in accordance with the employment protection act and the employee shall observe a notice period of six months. Such other senior executives are not entitled to any remuneration in connection with the termination of their employment, and they are subject to customary terms of employment.

The Board of Directors is entitled to temporarily deviate from the guidelines, fully or partially, if there are specific reasons for doing so in a particular instance and such deviation is required for accommodating the company's long-term interests, including in relation to sustainability, or in order to secure the company's financial capacity. As stated above, the committee's tasks include preparation of the Board of Directors' decisions on questions relating to remuneration, which includes decisions to deviate from the guidelines.

### Guidelines determined by the board and proposed to the AGM 2022

For the Annual General Meeting 2022, the board has proposed changes to the guidelines for remuneration to senior executives. Foremost that both Paradox Interactive and the CEO must observe nine, instead of six, months' notice.



## BOARD OF DIRECTORS

### HÅKAN SJUNNESSON

**Position:** Vice chairman of the board, elected as board member in 2010.

**Born:** 1956

**Education:** M.Sc. in Business and Economics from Stockholm School of Economics.

**Previous assignments:** Investment Manager Investment AB Spiltan, Managing Partner Nordic Countries Monitor Group, Vice President & Country Manager Gemini Consulting.

**Other current assignments:** Chairman of the board in Coolstuff AB, Qvalia Group AB, Emerse Sverige AB and Aktivbo AB. Member of the board in Dalex in, NuvoAir AB and Resitu Medical

**Shareholding in the company:** 3,091,437 shares - through company.

**Independence:** Independent in relation to the company and senior management. Not independent in relation to major shareholders, employee of Investment AB Spiltan.

### FREDRIK WESTER

**Position:** Chairman of the board, elected as board member in 2010. Assigned as chairman of the board as of August 1, 2018.

**Born:** 1974

**Education:** International Civil Economics Program, Business School of Gothenburg 1993-1998, International Business Studies at Hokkaido Tokai Daigaku, Sapporo, Japan 1997-98.

**Other current assignments:** Chairman of the board of Sahara Silversmycken AB, Kichi Invest AB, LQKO Invest AB. Chairman and CEO of WesterInvest AB, Pewterschmidt Industries AB, Earthland Realms AB, Nishi Investment AB. Board member of Asedo, QCG Sweden AB, Wooz AB.

**Shareholding in the company:** 35,235,937 shares - through company.

**Independence:** Not independent in relation to the company and senior management. Not independent in relation to major shareholders.

### LINDA HÖGLUND

**Position:** Board member. Elected in 2020.

**Born:** 1973

**Education:** Master of Science in Business and Economics, Stockholm School of Economics.

**Previous assignments:** CFO/General Partner Luminar Ventures AB, CFO Grab, CFO Klarna AB, CFO Electronic Arts Games Europe, CFO Digital Illusions AB, CFO/Co-founder BlueFactory AB, Goldman Sachs.

**Other current assignments:** COO Klarna Bank AB, Non-executive IC member Luminar Ventures AB.

**Shareholding in the company:** -

**Independence:** Independent in relation to the company and senior management. Independent in relation to major shareholders.

### MATHIAS HERMANSSON

**Position:** Board member. Elected in 2019.

**Born:** 1972

**Education:** Business Administration, Gothenburg School of Economics and University of Edinburgh.

**Previous assignments:** CFO Veoneer Inc and Modern Times Group MTG AB. Executive Chairman at MTGx AB. Board member at CTC Media Inc, Turtle Entertainment GmbH, and MTG eSports Holding AB. Chairman of Viaplay AB, MTG Sport AB, MTG TV AB, Nice Entertainment AB and MTG Radio AB.

**Other current assignments:** CEO at NC Management AB, CFO Voi Technology AB.

**Shareholding in the company:** 1,000 shares - direct ownership.

**Independence:** Independent in relation to the company and senior management. Independent in relation to major shareholders.

### ANDRAS VAJLOK

**Position:** Board member. Elected in 2021.

**Born:** 1971

**Education:** Bachelor of Science in Economics and Business Administration at the School of Business, Economics and Law at the University of Gothenburg.

**Other current assignments:** Board member of Aldeon Invest, MAG Interactive, Unibap, Pepins, Besedo, The Gifted Company, Neon Giant and Silfverlok Invest.

**Previous assignments:** CFO of Paradox Interactive (2011-2018) and Head of Post Trade Solutions Equities of Nasdaq (2007-2011).

**Shareholding in the company:** 100,000 - through company.

**Independence:** Independent in relation to the company and senior management. Independent in relation to major shareholders.

## SENIOR MANAGEMENT

### FREDRIK WESTER

**Position:** CEO, see above.

### ALEXANDER BRICCA

**Position:** Chief Financial Officer (CFO)

**Born:** 1976

**Education:** Business Law Master's Degree and Business Administration Bachelor's degree, Linköping University, 2000.

**Previous assignments:** CFO Viaplay AB, CFO Voddler Group AB, Investment Manager Deseven Capital AB, Business lawyer Bricca Affärsjuridik AB, Corporate legal counsel ECI Net AB.

**Other current assignments:** Board member Alyssa AB.

**Shareholding in the company:** 2,000 stocks direct ownership. 72,500 warrants – direct ownership.

### CHARLOTTA NILSSON

**Position:** Chief Operations Officer (COO)

**Born:** 1970

**Education:** MSc Physics, Umeå University and EMBA, Stockholm School of Economics.

**Previous assignments:** Extensive experience of scaling new business. Vice President Tieto Oy P&L growing business, (blockchain, Analytics etc). Before that, CEO at SIS, EVP at Vizrt (publ) & MD at Ardeno AB, Deputy MD at Epsilon Hightech Innovation.

**Other current assignments:** Board member Industrifonden, Nordnet AB and Dataspelsbranschen. Expert for Vinnova.

**Shareholding in the company:** 27,500 warrants – direct ownership.

### JOHAN BOLIN

**Position:** Chief Marketing Officer (CMO)

**Born:** 1983

**Education:** BSc in Service Management - Retail, Lund University

**Previous assignments:** VP Marketing and Sales and VP Sales at Paradox Interactive. Sales and Partner Manager at Sello.io, Strategic Acquisition and Partner Manager at Tradera/eBay and Sales consultant at Hewlett-Packard

**Other current assignments:** Board member North Group Sweden Invest AB and NorthGroup Sthlm AB

**Shareholding in the company:** 2,055 share direct ownership, 43,550 warrants – direct ownership.

**MARINA HEDMAN**

**Position:** Chief Human Resources Officer (CHRO)

**Born:** 1976

**Education:** Degree of Bachelor of Social Science.

**Previous assignments:** VP Human Resources, Net Insight AB. Extensive experience within HR from IT, tech and media since 2001.

**Other current assignments:** -

**Shareholding in the company:** 35,000 warrants – direct ownership.

**MATTIAS LILJA**

**Position:** Chief of Staff (COS)

**Born:** 1972

**Education:** BSc in Physiotherapy, Uppsala University and History of Science and Ideas, Umeå University.

**Previous assignments:** Partner Free League Publishing, Chief Operating Officer, Chief Production Officer, EVP of Studios and other studio and game development roles at Paradox Interactive.

**Other current assignments:** Chairman of the Board, Free League Publishing

**Shareholding in the company:** 2,272 shares, 24,800 warrants – direct ownership.

**INTERNAL CONTROL**

The company has not established a special function for internal audit. Instead, the board undertakes the task. The internal control includes control of the Paradox organization, procedures and activities. The aim is to ensure a reliable and accurate financial reporting, that the company and group's financial statements are prepared in accordance with the law and applicable accounting standards, and that other requirements are followed. The internal control system also aims to monitor the compliance with the company's policies, principles and instructions. In addition, the protection of the company's assets is monitored, and that the company's resources are used in a cost efficient and timely manner. Furthermore, internal control is conducted through evaluation of implemented information and business systems, and through risk analysis.

**INFORMATION AND COMMUNICATION**

The company follows a formulated policy regarding internal and external communications. Policies and guidelines are considered essential to ensure accurate accounting, reporting and disclosure. Financial communication takes place through; the annual report, interim reports, press releases and on the company's website [www.paradoxinteractive.com](http://www.paradoxinteractive.com).



## THE SHARE, OWNERSHIP, DIVIDEND POLICY AND ALLOCATION OF PROFITS

### The Share

According to the Articles of Association, the share capital shall be not less than SEK 500,000 and no more than SEK 2,000,000 at a minimum of 100,000,000 shares and at the most 400,000,000 shares. At the end of the year, the share capital amounts to SEK 528,000 by a total of 105,600,000 shares. Each share has a par value of SEK 0.005. The shares are of the same class and are issued in accordance with Swedish law and are denominated in Swedish kronor (SEK). Each share entitles the holder to one vote at the general meeting and each shareholder has the right to vote for all shares owned by the shareholder in the company.

### Ownership

At the end of 2021 Paradox Interactive AB's largest shareholders are Westerinvest AB 33.4% (Fredrik Wester), Investment AB Spiltan 17.1 %, Tencent Holdings Limited 9.1 % and Lerit Förvaltning AB 7.5 %.

### Dividend policy

Paradox's dividend policy is based on the principle that the total dividend should be adjusted to trends in profitability and liquidity, taking into account the Group's development, investments, acquisitions and financial position. As long as the Group is in a growth phase, this means that the profits are mainly reinvested in the business.

The board therefore considers that the proposed dividend is justifiable considering the requirements that the business' nature, scope and risks place on the size of the parent company and group equity, consolidation- and investment needs, liquidity and financial position.

Regarding the group's and parent company's results and financial position, refer to the following income statements, balance sheets and supplementary information.

### Allocation of profits

The following is at the disposal of the AGM

|                       |                    |
|-----------------------|--------------------|
| Share premium reserve | 27,994,400         |
| Retained earnings     | -262,324,693       |
| Profit for the year   | 347,039,135        |
|                       | <b>112,708,842</b> |

The board of directors proposes

|   |                    |
|---|--------------------|
| Distribution to shareholders SEK 1.00 per share | 105,600,000        |
| Retained earnings be carried forward            | 7,108,842          |
|   | <b>112,708,842</b> |



# INCOME STATEMENT, GROUP (KSEK)

|  | Note            | 2021-01-01<br>2021-12-31 | 2020-01-01<br>2020-12-31 |
|--|-----------------|--------------------------|--------------------------|
| Revenues   | 5               | 1,447,456                | 1,793,794                |
| Cost of goods sold   | 7, 8, 9, 10     | -880,971                 | -805,644                 |
| <b>Gross profit</b>  |                 | <b>566,485</b>           | <b>988,149</b>           |
| Selling expenses   | 7, 8, 9, 10     | -192,867                 | -215,138                 |
| Administrative expenses  | 7, 8, 9, 10, 11 | -102,899                 | -120,422                 |
| Other income   | 12              | 40,841                   | 25,612                   |
| Other expenses   | 13              | -4,107                   | -46,094                  |
| <b>Operating profit</b>  |                 | <b>307,453</b>           | <b>632,108</b>           |
| Financial income   | 15              | 545                      | 698                      |
| Financial expense  | 16              | -4,072                   | -4,775                   |
| <b>Profit after financial items</b>  |                 | <b>303,926</b>           | <b>628,030</b>           |
| Income tax expense   | 18              | -56,157                  | -137,455                 |
| <b>Profit for the year</b>   |                 | <b>247,770</b>           | <b>490,575</b>           |
| Profit for the period is attributable to the shareholders of the parent company. |                 |                          |                          |
| Earnings per share attributable to parent company shareholders (SEK):            |                 |                          |                          |
| - before dilution  | 44              | 2.35                     | 4.65                     |
| - after dilution   | 44              | 2.34                     | 4.64                     |



## OTHER COMPREHENSIVE INCOME, GROUP (KSEK)

|   | Note | 2021-01-01<br>2021-12-31 | 2020-01-01<br>2020-12-31 |
|---|------|--------------------------|--------------------------|
| Profit for the year                                     |      | 247,770                  | 490,575                  |
| <b>OTHER COMPREHENSIVE INCOME</b>                       |      |                          |                          |
| <i>Items that may be reclassified to profit or loss</i> |      |                          |                          |
| Translation differences                                 |      | 9,185                    | -13,896                  |
| <b>Total comprehensive income for the year</b>          |      | <b>256,955</b>           | <b>476,679</b>           |

Profit for the year is attributable to the shareholders of the parent company.



# BALANCE SHEET, GROUP (KSEK)

|                                       | Note      | 2021-12-31       | 2020-12-31       |
|---------------------------------------|-----------|------------------|------------------|
| <b>ASSETS</b>                         |           |                  |                  |
| <b>Fixed assets</b>                   |           |                  |                  |
| <b>Intangible fixed assets</b>        |           |                  |                  |
| Capitalised development               | 19        | 1,198,502        | 920,467          |
| Licenses, brands and similar rights   | 20        | 232,480          | 304,587          |
| Goodwill                              | 21        | 20,600           | 20,218           |
| <b>Total intangible fixed assets</b>  |           | <b>1,451,582</b> | <b>1,245,273</b> |
| <b>Tangible fixed assets</b>          |           |                  |                  |
| Property and equipment                | 22        | 22,021           | 26,529           |
| Right-of-use assets                   | 23, 24    | 165,272          | 199,440          |
| <b>Total tangible fixed assets</b>    |           | <b>187,294</b>   | <b>225,969</b>   |
| <b>Financial assets</b>               |           |                  |                  |
| Investments in associates             | 27        | 31,082           | 24,669           |
| Other long term assets                | 28        | 18,589           | 1,234            |
| <b>Total financial assets</b>         |           | <b>49,671</b>    | <b>25,904</b>    |
| <b>Total fixed assets</b>             |           | <b>1,688,546</b> | <b>1,497,146</b> |
| <b>Working capital</b>                |           |                  |                  |
| <b>Current assets</b>                 |           |                  |                  |
| Accounts receivable                   | 29        | 133,780          | 176,979          |
| Tax assets                            |           | 19,821           | –                |
| Other receivables                     |           | 24,534           | 23,777           |
| Prepaid expenses and accrued revenues | 30        | 56,287           | 52,606           |
| <b>Total current assets</b>           |           | <b>234,422</b>   | <b>253,361</b>   |
| <b>Cash and cash equivalents</b>      | <b>30</b> | <b>599,724</b>   | <b>767,561</b>   |
| <b>Total working capital</b>          |           | <b>834,147</b>   | <b>1,020,923</b> |
| <b>TOTAL ASSETS</b>                   |           | <b>2,522,693</b> | <b>2,518,068</b> |



# BALANCE SHEET, GROUP (KSEK)

|   | Note | 2021-12-31       | 2020-12-31       |
|---|------|------------------|------------------|
| <b>EQUITY AND LIABILITIES</b>             |      |                  |                  |
| <b>Equity</b>                             | 32   |                  |                  |
| Share capital                             |      | 528              | 528              |
| Reserves                                  |      | 4,397            | -4,788           |
| Share premium reserve                     |      | 27,994           | 27,994           |
| Retained earnings inc profit for the year |      | 1,628,644        | 1,484,423        |
| <b>Total equity</b>                       |      | <b>1,661,563</b> | <b>1,508,158</b> |
| <b>Long term liabilities</b>              |      |                  |                  |
| Lease liabilities                         | 24   | 134,438          | 167,775          |
| Deferred tax liabilities                  | 33   | 163,606          | 193,396          |
| Other liabilities                         | 35   | 422              | 422              |
| <b>Total long term liabilities</b>        |      | <b>298,466</b>   | <b>361,594</b>   |
| <b>Current liabilities</b>                |      |                  |                  |
| Accounts payable                          |      | 97,016           | 66,667           |
| Current tax liabilities                   |      | 6,278            | 50,819           |
| Lease liabilities                         | 24   | 34,536           | 34,129           |
| Other liabilities                         | 35   | 28,283           | 65,446           |
| Accrued expenses and prepaid revenues     | 36   | 396,550          | 431,257          |
| <b>Total current liabilities</b>          |      | <b>562,663</b>   | <b>648,317</b>   |
| <b>Total liabilities</b>                  |      | <b>861,129</b>   | <b>1,009,911</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>       |      | <b>2,522,693</b> | <b>2,518,068</b> |



## CHANGE IN GROUP EQUITY (KSEK)

|  | Note      | Share capital | Other capital contributed | Reserves       | Retained earnings | Total equity     |
|--|-----------|---------------|---------------------------|----------------|-------------------|------------------|
| <b>At the beginning of the period 2020-01-01</b> |           | <b>528</b>    | <b>27,994</b>             | <b>9,107</b>   | <b>1,087,547</b>  | <b>1,125,176</b> |
| Profit for the year                              |           | –             | –                         | –              | 490,575           | 490,575          |
| <b>Other comprehensive income</b>                |           |               |                           |                |                   |                  |
| Exchange differences                             |           | –             | –                         | -13,896        | –                 | -13,896          |
| <b>Other comprehensive income</b>                |           | <b>–</b>      | <b>–</b>                  | <b>-13,896</b> | <b>–</b>          | <b>-13,896</b>   |
| <b>Total comprehensive income</b>                |           | <b>–</b>      | <b>–</b>                  | <b>-13,896</b> | <b>490,575</b>    | <b>476,679</b>   |
| <b>Transactions with owners</b>                  |           |               |                           |                |                   |                  |
| Share-based payments staff                       |           | –             | –                         | –              | 12,144            | 12,144           |
| Re-purchase of warrants                          |           | –             | –                         | –              | -242              | -242             |
| Dividend   |           | –             | –                         | –              | -105,600          | -105,600         |
| <b>Total transactions with owners</b>            |           | <b>–</b>      | <b>–</b>                  | <b>–</b>       | <b>-93,698</b>    | <b>-93,698</b>   |
| <b>AT THE END OF THE PERIOD 2020-12-31</b>       | <b>32</b> | <b>528</b>    | <b>27,994</b>             | <b>-4,788</b>  | <b>1,484,423</b>  | <b>1,508,158</b> |
| <b>At the beginning of the period 2021-01-01</b> |           | <b>528</b>    | <b>27,994</b>             | <b>-4,788</b>  | <b>1,484,423</b>  | <b>1,508,158</b> |
| Profit for the year                              |           | –             | –                         | –              | 247,770           | 247,770          |
| <b>Other comprehensive income</b>                |           |               |                           |                |                   |                  |
| Exchange differences                             |           | –             | –                         | 9,185          | –                 | 9,185            |
| <b>Other comprehensive income</b>                |           | <b>–</b>      | <b>–</b>                  | <b>9,185</b>   | <b>–</b>          | <b>9,185</b>     |
| <b>Total comprehensive income</b>                |           | <b>–</b>      | <b>–</b>                  | <b>9,185</b>   | <b>247,770</b>    | <b>256,955</b>   |
| <b>Transactions with owners</b>                  |           |               |                           |                |                   |                  |
| Share-based payments staff                       |           | –             | –                         | –              | 2,051             | 2,051            |
| Dividend   |           | –             | –                         | –              | -105,600          | -105,600         |
| <b>Total transactions with owners</b>            |           | <b>–</b>      | <b>–</b>                  | <b>–</b>       | <b>-103,549</b>   | <b>-103,549</b>  |
| <b>AT THE END OF THE PERIOD 2021-12-31</b>       | <b>32</b> | <b>528</b>    | <b>27,994</b>             | <b>4,397</b>   | <b>1,628,644</b>  | <b>1,661,563</b> |

There is no minority interest in the group. All equity is therefore attributable to parent company shareholders.



# CASH FLOW STATEMENT, GROUP (KSEK)

|   | Note      | 2021-01-01<br>2021-12-31 | 2020-01-01<br>2020-12-31 |
|---|-----------|--------------------------|--------------------------|
| Operating profit  |           | 307,453                  | 632,108                  |
| Adjustment for items not included in cash flow                      | 40        | 585,620                  | 419,810                  |
| Interest received   |           | 545                      | 698                      |
| Interest paid   | 24        | -4,072                   | -4,775                   |
| Tax paid  |           | -150,200                 | -113,560                 |
| Cash flow from current operations before changes in working capital |           | 739,346                  | 934,281                  |
| <b>Changes in working capital</b>                                   |           |                          |                          |
| Change in current receivables                                       |           | 42,441                   | 73,781                   |
| Change in current liabilities                                       |           | -45,202                  | 118,243                  |
| <b>Cash flow from current operations</b>                            |           | <b>736,586</b>           | <b>1,126,305</b>         |
| <b>Investing activities</b>   |           |                          |                          |
| Investments in capitalised development                              |           | -744,313                 | -613,948                 |
| Investments in licenses, brands and similar rights                  |           | -3,235                   | -22,970                  |
| Investments in subsidiaries, net of cash acquired                   |           | -                        | -119,999                 |
| Investments in equipment  |           | -1,694                   | -4,639                   |
| Investments in other financial assets                               |           | -17,333                  | 3,186                    |
| <b>Cash flow from investing activities</b>                          |           | <b>-766,574</b>          | <b>-758,370</b>          |
| <b>Financing activities</b>   |           |                          |                          |
| Received deposits   |           | -                        | 422                      |
| Amortisation of lease liability                                     | 24        | -33,994                  | -43,062                  |
| Paid dividend   |           | -105,600                 | -105,600                 |
| Repurchase warrants   |           | -                        | -242                     |
| <b>Cash flow from financing activities</b>                          |           | <b>-139,594</b>          | <b>-148,482</b>          |
| <b>Cash flow for the year</b>                                       |           | <b>-169,582</b>          | <b>219,452</b>           |
| Cash and cash equivalents at the beginning of the year              |           | 767,561                  | 554,227                  |
| Exchange rate effect  |           | 1,746                    | -6,119                   |
| <b>Cash and cash equivalents at the end of the year</b>             | <b>31</b> | <b>599,724</b>           | <b>767,561</b>           |



# INCOME STATEMENT, PARENT COMPANY (KSEK)

|  | Note            | 2021-01-01<br>2021-12-31 | 2020-01-01<br>2020-12-31 |
|--|-----------------|--------------------------|--------------------------|
| Revenues   | 5               | 1,446,878                | 1,781,416                |
| Cost of goods sold                                       | 7, 8, 9, 10     | -873,604                 | -774,299                 |
| <b>Gross profit</b>                                      |                 | <b>573,274</b>           | <b>1,007,116</b>         |
| Selling expenses   | 7, 8, 9, 10     | -180,473                 | -211,417                 |
| Administrative expenses                                  | 7, 8, 9, 10, 11 | -104,349                 | -116,757                 |
| Other income   | 12              | 34,487                   | 17,824                   |
| Other expenses   | 13              | -4,262                   | -43,004                  |
| <b>Operating profit</b>                                  |                 | <b>318,678</b>           | <b>653,762</b>           |
| Profit from shares in subsidiaries                       | 14              | 43,143                   | –                        |
| Financial income   | 15              | 341                      | 730                      |
| Financial expense  | 16              | -157                     | -225                     |
| <b>Profit after financial items</b>                      |                 | <b>362,004</b>           | <b>654,267</b>           |
| Appropriations   | 17              | 68,100                   | -150,225                 |
| Income tax expense                                       | 18              | -83,065                  | -112,532                 |
| <b>Profit for the year</b>                               |                 | <b>347,039</b>           | <b>391,510</b>           |
| <b>OTHER COMPREHENSIVE INCOME, PARENT COMPANY (TSEK)</b> |                 |                          |                          |
| Comprehensive income                                     |                 | –                        | –                        |
| <b>Total comprehensive income for the year</b>           |                 | <b>347,039</b>           | <b>391,510</b>           |



# BALANCE SHEET, PARENT COMPANY (KSEK)

|                                       | Note      | 2021-12-31       | 2020-12-31       |
|---------------------------------------|-----------|------------------|------------------|
| <b>ASSETS</b>                         |           |                  |                  |
| <b>Fixed assets</b>                   |           |                  |                  |
| <b>Intangible fixed assets</b>        |           |                  |                  |
| Capitalised development               | 18        | 1,185,934        | 913,222          |
| Licenses, brands and similar rights   | 19        | 63,625           | 86,090           |
| <b>Total intangible fixed assets</b>  |           | <b>1,249,559</b> | <b>999,312</b>   |
| <b>Tangible fixed assets</b>          |           |                  |                  |
| Property and equipment                | 21        | 14,242           | 19,406           |
| <b>Total tangible fixed assets</b>    |           | <b>14,242</b>    | <b>19,406</b>    |
| <b>Financial assets</b>               |           |                  |                  |
| Shares in subsidiaries                | 25        | 305,812          | 305,812          |
| Investments in associates             | 26        | 16,766           | 16,766           |
| Other long term assets                | 27        | 17,393           | 60               |
| <b>Total financial assets</b>         |           | <b>339,971</b>   | <b>322,638</b>   |
| <b>Total fixed assets</b>             |           | <b>1,603,772</b> | <b>1,341,356</b> |
| <b>Working capital</b>                |           |                  |                  |
| <b>Current assets</b>                 |           |                  |                  |
| Accounts receivable                   | 29        | 130,840          | 174,229          |
| Receivables from group companies      |           | 35,176           | 3,845            |
| Tax assets                            |           | 19,821           | –                |
| Other receivables                     |           | 18,668           | 16,536           |
| Prepaid expenses and accrued revenues | 30        | 55,335           | 52,245           |
| <b>Total current assets</b>           |           | <b>259,840</b>   | <b>246,855</b>   |
| <b>Cash and cash equivalents</b>      | <b>30</b> | <b>469,881</b>   | <b>688,427</b>   |
| <b>Total working capital</b>          |           | <b>729,720</b>   | <b>935,281</b>   |
| <b>TOTAL ASSETS</b>                   |           | <b>2,333,492</b> | <b>2,276,637</b> |



# BALANCE SHEET, PARENT COMPANY (KSEK)

|                                       | Note | 2021-12-31       | 2020-12-31       |
|---------------------------------------|------|------------------|------------------|
| <b>EQUITY AND LIABILITIES</b>         |      |                  |                  |
| <b>Equity</b>                         | 31   |                  |                  |
| <i>Restricted equity</i>              |      |                  |                  |
| Share capital                         |      | 528              | 528              |
| Capitalised development reserve       |      | 1,185,934        | 913,222          |
| <i>Non-restricted equity</i>          |      |                  |                  |
| Share premium reserve                 |      | 27,994           | 27,994           |
| Retained earnings                     |      | -262,325         | -277,573         |
| Profit for the year                   |      | 347,039          | 391,510          |
| <b>Total equity</b>                   |      | <b>1,299,171</b> | <b>1,055,681</b> |
| <b>Untaxed reserves</b>               | 33   | <b>555,000</b>   | <b>623,100</b>   |
| <b>Long term liabilities</b>          |      |                  |                  |
| Other liabilities                     |      | 422              | 422              |
| <b>Total long term liabilities</b>    |      | <b>422</b>       | <b>422</b>       |
| <b>Current liabilities</b>            |      |                  |                  |
| Accounts payable                      |      | 87,113           | 63,904           |
| Liabilities to group companies        | 37   | 21,409           | 57,373           |
| Current tax liabilities               |      | –                | 46,228           |
| Other liabilities                     | 35   | 13,740           | 50,115           |
| Accrued expenses and prepaid revenues | 36   | 356,637          | 379,815          |
| <b>Total current liabilities</b>      |      | <b>478,899</b>   | <b>597,434</b>   |
| <b>Total liabilities</b>              |      | <b>479,321</b>   | <b>597,856</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>   |      | <b>2,333,492</b> | <b>2,276,637</b> |



## CHANGES IN EQUITY, PARENT COMPANY (KSEK)

|  | Note      | Share capital | Capitalised development reserve | Share premium reserve | Retained earnings | Total equity     |
|--|-----------|---------------|---------------------------------|-----------------------|-------------------|------------------|
| <b>At the beginning of the period 2020-01-01</b> |           | <b>528</b>    | <b>566,006</b>                  | <b>27,994</b>         | <b>163,340</b>    | <b>757,869</b>   |
| Profit for the year                              |           | -             | -                               | -                     | 391,510           | 391,510          |
| Other comprehensive income                       |           | -             | -                               | -                     | -                 | -                |
| <b>Total comprehensive income</b>                |           | <b>-</b>      | <b>-</b>                        | <b>-</b>              | <b>391,510</b>    | <b>391,510</b>   |
| Transfer to capitalised development reserve      |           | -             | 347,216                         | -                     | -347,216          | -                |
| <b>Transactions with owners</b>                  |           |               |                                 |                       |                   |                  |
| Dividend   |           | -             | -                               | -                     | -105,600          | -105,600         |
| Sharebased payments to employees                 |           | -             | -                               | -                     | 12,144            | 12,144           |
| Re-purchase of warrants                          |           | -             | -                               | -                     | -242              | -242             |
| <b>Total transactions with owners</b>            |           | <b>-</b>      | <b>-</b>                        | <b>-</b>              | <b>-93,698</b>    | <b>-93,698</b>   |
| <b>AT THE END OF THE PERIOD 2020-12-31</b>       | <b>32</b> | <b>528</b>    | <b>913,222</b>                  | <b>27,994</b>         | <b>113,937</b>    | <b>1,055,681</b> |
| <b>At the beginning of the period 2021-01-01</b> |           | <b>528</b>    | <b>913,222</b>                  | <b>27,994</b>         | <b>113,937</b>    | <b>1,055,681</b> |
| Profit for the year                              |           | -             | -                               | -                     | 347,039           | 347,039          |
| Other comprehensive income                       |           | -             | -                               | -                     | -                 | -                |
| <b>Total comprehensive income</b>                |           | <b>-</b>      | <b>-</b>                        | <b>-</b>              | <b>347,039</b>    | <b>347,039</b>   |
| Transfer to capitalised development reserve      |           | -             | 272,713                         | -                     | -272,713          | -                |
| <b>Transactions with owners</b>                  |           |               |                                 |                       |                   |                  |
| Dividend   |           | -             | -                               | -                     | -105,600          | -105,600         |
| Sharebased payments to employees                 |           | -             | -                               | -                     | 2,051             | 2,051            |
| <b>Total transactions with owners</b>            |           | <b>-</b>      | <b>-</b>                        | <b>-</b>              | <b>-103,549</b>   | <b>-103,549</b>  |
| <b>AT THE END OF THE PERIOD 2021-12-31</b>       | <b>32</b> | <b>528</b>    | <b>1,185,934</b>                | <b>27,994</b>         | <b>84,714</b>     | <b>1,299,171</b> |



# CASH FLOW STATEMENT, PARENT COMPANY (KSEK)

|   | Note      | 2021-01-01<br>2021-12-31 | 2020-01-01<br>2020-12-31 |
|---|-----------|--------------------------|--------------------------|
| Operating profit  |           | 318,678                  | 653,762                  |
| Adjustment for items not included in cash flow                      | 40        | 498,416                  | 319,664                  |
| Interest received   |           | 341                      | 730                      |
| Interest paid   |           | -157                     | -225                     |
| Tax paid  |           | -149,115                 | -105,334                 |
| Cash flow from current operations before changes in working capital |           | 668,163                  | 868,598                  |
| <b>Changes in working capital</b>                                   |           |                          |                          |
| Change in current receivables                                       |           | 41,256                   | 75,194                   |
| Change in current liabilities                                       |           | -106,727                 | 124,920                  |
| <b>Cash flow from current operations</b>                            |           | <b>602,693</b>           | <b>1,068,712</b>         |
| <b>Investing activities</b>   |           |                          |                          |
| Investments in subsidiaries   |           | –                        | -160,117                 |
| Acquisition of intangible assets                                    |           | -738,215                 | -611,585                 |
| Proceeds from intangible assets                                     |           | -3,235                   | -22,970                  |
| Acquisition of tangible assets                                      | 41        | –                        | -2,928                   |
| Investments in other financial assets                               |           | -17,333                  | 3,402                    |
| Dividends from subsidiaries   |           | 43,143                   | –                        |
| <b>Cash flow from investing activities</b>                          |           | <b>-715,639</b>          | <b>-794,198</b>          |
| <b>Financing activities</b>   |           |                          |                          |
| Received deposits   |           | –                        | 422                      |
| Paid dividend   |           | -105,600                 | -105,600                 |
| Repurchase warrants   |           | –                        | -242                     |
| <b>Cash flow from financing activities</b>                          |           | <b>-105,600</b>          | <b>-105,420</b>          |
| <b>Cash flow for the year</b>                                       |           | <b>-218,546</b>          | <b>169,093</b>           |
| Cash and cash equivalents at the beginning of the year              |           | 688,427                  | 519,333                  |
| Exchange rate effect  |           | –                        | –                        |
| <b>Cash and cash equivalents at the end of the year</b>             | <b>31</b> | <b>469,881</b>           | <b>688,427</b>           |



# NOTES

## NOTE 1 GENERAL INFORMATION

Paradox is a global developer and publisher of computer games.

The parent company Paradox Interactive AB (publ) with corporate identity number 556667-4759 is a public limited company registered in Sweden, based in Stockholm. The address to the Head office is Magnus Ladulåsgatan 4, 118 66, Stockholm.

The annual report for the year that ended December 31, 2021 (including comparative figures) was approved for publication by the Board of Directors on April 5, 2022 (see note 45).

## NOTE 2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements were prepared in accordance with the Annual Accounts Act, RFR 1 - Supplementary Accounting Rules for Groups and International Financial Reporting Standards (IFRS), as adopted by the European Commission for application within the EU.

The preparation of financial statements in conformity with IFRS requires the use of some important estimates for audit purposes. Furthermore, it requires management to make certain judgments in applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

### New and amended standards adopted by the group

Some accounting pronouncements which have become effective from 1 January 2021 and have therefore been adopted do not have a significant impact on the group's financial results or position.

### Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the group

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### Basis of preparation

The group's financial statements have been prepared on an accruals basis and under the historical cost convention. Monetary amounts are expressed in Swedish currency (SEK) and are rounded to the nearest thousands, unless stated otherwise.

### Principles of consolidation

The consolidated financial statements include the parent company and subsidiaries' operations until December 31, 2021. All subsidiaries have a closing date on December 31.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

All intercompany transactions and balances are eliminated upon consolidation, including unrealised gains and losses on transactions between group companies. In cases where unrealised losses on intra-group sales of assets are reversed upon consolidation, the impairment needs of the underlying asset are also assessed from a group perspective. Amounts recognised in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the group's accounting policies.

Earnings and other comprehensive income for subsidiaries acquired during the year are reported from the date the acquisition or divestment takes effect, as applicable.

### Business combinations

The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Contingent considerations are classified either as equity or financial liabilities. Amounts classified as financial liabilities are revalued at fair value each period. Any revaluation gains and losses are reported in the income statement. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are measured at their acquisition-date fair values.

### Investments in associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method. The carrying amount of the investment in associates is increased or decreased to recognise the group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the group. Unrealised gains and losses on transactions between the group and its associates are eliminated to the extent of the group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The operation is assessed in its entirety, as a segment. The chief operating decision maker is the company's CEO, and is responsible for allocating resources and assessing performance of the operating segments.



### Foreign currency translation

The consolidated financial statements are presented in currency SEK, which is also the parent company's functional currency.

Transactions in foreign currencies are translated to the functional currency, SEK, based on the prevailing exchange rates at the transaction date (spot rate). Profits and losses in foreign currency resulting from settlement of such transactions and due to the revaluation of monetary items using the closing rate are recognised as other operating income and other operating expenses.

Non-monetary items are translated not on the closing day but are valued at historic cost (restated at the transaction date).

In the group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the SEK are translated into SEK upon consolidation. The functional currencies of entities within the group have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into SEK at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into SEK at the closing rate. Income and expenses have been translated into SEK at the average rate over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

### Revenue

Revenue primarily relates to revenue from the provision of interactive content through agreements with platform operators such as Valve, Sony and Microsoft.

Interactive content consists of software revenue from computer games played either offline or online, or a combination of offline and online. Software revenue is also obtained for downloadable content for computer games sold.

In assessing whether an income should be reported, the group follows a 5-step process:

- Identify the agreement with the customer
- Identify performance obligations
- Determination of the transaction price
- Distribute the transaction price on the performance commitments
- Report the income at the time of the performance commitment.

Revenue from the sale of software for computer games and online services is recognised when the group fulfils the performance commitments by transferring control of the computer games and services to the customer. The transaction price of an agreement does not include amounts received on behalf of third parties (e.g. sales taxes such as sales tax, VAT and similar taxes).

Revenue from the sale of software for computer games is made through the provision of a license to an intangible asset to be able to play the game offline, i.e. no internet connection is required to access the game or its content. The revenue related to the provision of the license is recognised as revenue at the time the control of the games is transferred to the customer.

Some software that can be played offline may also include gaming-related services that are provided over time and are dependent on an Internet connection. Game-related services can, for example, refer to multiplayer functionality, chat functions, etc. The Group makes ongoing assessments for games that can be played offline with regard to any significant performance commitment that is made up of the online services for the game. If the group's provision of the online services constitutes a significant performance commitment in addition to the provision of the offline game, the transaction price is allocated to several performance commitments. To the performance commitment relating to the offline game, revenue is recorded when the customer receives control of the license, and to the performance commitment relating to the online service, the revenue is accrued over an estimated period of time for the use of the service.

Currently, the group has not classified any revenue attributable to performance commitments for the provision of gaming-related services.

Revenue from computer games that can be played offline is mainly obtained from digital downloading. Revenue is usually recorded when the game can be downloaded by the end-user on a digital platform. Revenue from pre-orders and season passes is recorded based on when download of the game or content to the game can be made by the end user.

In some cases, the group enters into agreements with customers that include guaranteed revenue amounts and sales-based royalties in addition to the guarantee amounts in exchange for the provision of a gaming license in certain markets and / or certain platforms. These arrangements may include several performance commitments, including the provision of the license, rights to additional game releases and downloadable content, updates and royalty payments from sales to the end user. Establishing performance commitments and transaction prices for guaranteed revenue amounts requires significant estimates and assessments by group management.

The group recognises a contractual debt when it has received compensation for unfulfilled performance commitments and recognises these amounts as a prepaid income in the statement of financial position. Similarly, if the group fulfils a performance commitment before the consideration is received, the group reports either a contract asset or accrued income in the statement of financial position, depending on whether anything other than the time aspect is decisive for when compensation is due.

### Cost of goods sold

Cost of goods sold refers to the cost of game development, operation and maintenance of games, as well as royalties to external game developers and other rights holders.

### Selling expenses

Selling expenses refer to costs in sales, marketing and PR.



### **Administrative expenses**

Administrative expenses refer to costs for central support functions.

### **Other operating income and other operating expenses**

Other operating income and other operating expenses are reported as income and expenses that are outside ordinary activities. The item mainly includes exchange rate gains and losses in operations as well as revaluation of contingent considerations reported in the income statement.

### **Income taxes**

The tax expense reported in the income statement consists of the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Calculation of current tax is based on tax rates enacted or substantively enacted at the reporting date. Deferred income tax is calculated using the liability method, on temporary differences.

### **Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### **Goodwill**

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses.

### **Other intangible fixed assets**

#### ***Initial recognition of intangible assets***

#### *Capitalised development expenditure*

Expenditure on the research phase of a project to develop computer games are expensed in the period in which they arise.

Expenses directly attributable to a project's development phase are recognised as intangible assets provided they meet the following requirements:

- The development expenditure can be measured reliably
- That the project is technically and commercially feasible
- That the group has the intention and sufficient resources to complete the project
- The group have the ability to use or sell the software
- That the software will generate probable future economic benefits

Development expenditures that do not meet the criteria for capitalisation are expensed as incurred.

Directly attributable expenses include personnel costs incurred in the process of software development along with an appropriate portion of relevant overheads and external development costs invoiced.

#### *Licenses, brands and similar rights*

Brands that meet the conditions to be reported separately in a business combination are accounted for as intangible assets and are initially measured at fair value.

#### ***Reporting in subsequent periods***

All finite-lived intangible assets, including capitalised internally developed software, are accounted for using the cost model whereby capitalised costs are amortised on a straight-line or degressive basis over their estimated useful lives. The choice of depreciation method is made for each game based on how the financial benefits of the games are expected to be consumed. Current games that apply a degressive method are depreciated by 1/3 during the first month of the period, 1/3 during month 2-6, and 1/3 during month 7-18. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing.

The following useful lives are applied:

- Brands 5-10 years
- Capitalised development 1.5 years

Internally developed software that has not yet been completed, and that has been activated, are not amortised but assessed for impairment.

Depreciation and write-downs of licenses, brands and similar rights, and capitalised development expenditure are included in cost of goods sold.

Subsequent expenditure on the maintenance of software and brands are expensed as incurred.

### **Property and equipment**

IT equipment in the form of servers and other fixtures is initially recognised at cost. Thereafter, valuation at cost is reduced by accumulated depreciation and write-downs.

Depreciation of tangible fixed assets is linear of cost. The following useful lives are applied:

- Servers 5 years
- Other fixed assets 5 years

Significant estimates of useful life are updated as necessary, but at least once per year.

### **Right-of use assets**

The group makes the use of leasing arrangements principally for the provision of office space. The rental contracts for offices are typically negotiated for terms of between 1 and 7 years and some of these have extension terms. The group assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.



At lease commencement date, the group recognises a right-of-use asset and a lease liability in its consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability.

The group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate.

Subsequent to initial measurement, the liability will be reduced by lease payments that are allocated between repayments of principal and finance costs. The finance cost is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

Changes in lease payments arising from a change in the lease term or a change in the assessment of an option to purchase a leased asset. The amount of the remeasurement of the lease liability is reflected as an adjustment to the carrying amount of the right-of-use asset. The exception being when the carrying amount of the right-of-use asset has been reduced to zero then any excess is recognised in profit or loss.

Payments under leases can also change when future payments change through an index or a rate used to determine those payments, including changes in market rental rates following a market rent review. The lease liability is remeasured only when the adjustment to lease payments takes effect and the revised contractual payments for the remainder of the lease term are discounted using an unchanged discount rate.

The group has elected to account for short-term leases and leases of low-value assets using the practical expedients. These leases relate to items of office equipment such as desks, chairs, and certain IT equipment. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

#### **Impairment testing of goodwill, other intangible assets and tangible assets**

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units, CGU:s). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of a related business combination and represent the lowest level within the group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the group's latest approved forecast. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors. Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

#### **Financial instruments**

##### ***Recognition and Measurement at initial recognition***

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

##### ***Classification and initial measurement of financial assets***

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

The classification is determined by both:

- amortised cost
- fair value through profit or loss
- fair value through other comprehensive income

In the periods presented the corporation does not have any financial assets categorised as fair value through profit or loss or fair value through other comprehensive income.

The classification is determined by both:

- the entity's business model for managing the financial asset, and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are classified as financial expenses or financial income, except for impairment of trade receivables classified within selling expenses.



### **Subsequent measurement of financial assets**

#### *Financial assets at amortised cost*

Financial assets are measured at amortised cost if the assets meet the following conditions, and are not designated as fair value through profit or loss:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

The group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

#### **Impairment of financial assets**

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and accrued revenue. To measure the expected credit losses, trade receivables and accrued revenue have been grouped based on shared credit risk characteristics and the days past due. The accrued revenue relate to unbilled work and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for accrued revenue.

#### **Classification and subsequent measurement of financial liabilities**

The group's financial liabilities include trade and other payables and other long-term liabilities.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the group designated a financial liability at fair value through profit or loss.

Financial liabilities are measured at amortised cost using the effective interest method except for financial liabilities designated at fair value through profit or loss, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value recognised in the income statement are included in financial income or financial expense, alternatively other income or other expenses.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of demand deposits at banks and similar institutions, together with other short-term highly liquid investments maturing within 90 days from the date of acquisition and that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **Equity**

Share capital represents the par value of the shares issued.

Translation reserve comprises foreign currency translation differences arising from the translation of financial statements of the group's foreign entities into SEK.

Share premium includes any premiums received on the issue of new share capital. Any transaction costs associated with the issue of new shares are deducted from the premium, taking into account any income tax effects.

Retained earnings include all retained earnings and share-based compensation for the current and prior periods.

All transactions with the parent company owners are presented separately in equity.

### **Post-employment benefits and short-term employee benefits**

#### **Post-employment benefits**

The group has only defined contribution pension plans. The group has no legal or constructive obligations to pay further fees in addition to the payment of the fixed amount recognised as an expense in the period in which the related personnel services are received.

#### **Short-term benefits**

Short-term employee benefits, including vacation pay liabilities are included in the items other liabilities and accrued expenses, valued at the undiscounted amount that the group expects to pay as a result of the unused entitlement. Short-term benefits are expensed in the period in which they are members and staff services were obtained.

#### **Share-based employee remuneration**

The group operates equity-settled share-based remuneration plans for its employees. All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to retained earnings. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as share premium.

Social security contributions attributable to share-based employee remuneration for purchased services are expensed over the periods during which the services are performed. The provision that arises shall be revalued at each reporting date based on a calculation of the contributions that may be paid when the instruments are exercised.



### Provisions and contingent liabilities

Provisions for product warranties, legal disputes, loss of contract or other claims are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be needed and the amount can be estimated reliably. The timing or amount of the outflow may still be uncertain.

Restructuring provisions are recognised only if a detailed formal plan for the restructuring exists and management has either communicated the plan's main features to those affected or started implementation. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated amount required to settle the present obligation, based on the most reliable information available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is significant.

No liability is recognised in the event that the outflow of financial resources due to existing obligations is unlikely. Such situations are reported as contingent liabilities unless the probability of an outflow of resources is remote.

### Cash Flow Analysis

The cash flow statement is prepared using the indirect method. The reported cash flow includes only transactions involving cash payments.

## NOTE 3

### PARENT COMPANY ACCOUNTING PRINCIPLES

The Annual Report for the Parent Company has been prepared in accordance with the Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendation RFR 2. RFR 2 states that the parent company in its annual accounts must apply International Financial Reporting Standards (IFRS) as adopted by the EU, to the extent possible within the framework of the Annual Accounts Act and taking into account the relationship between accounting and taxation. The recommendation specifies the exceptions and additions required in relation to IFRS.

The Parent Company applies the principles presented in the consolidated financial statements Note 2, with the exceptions specified as follows. The principles have been applied to all periods indicated in the parent company's annual report.

### Shares in subsidiaries

Shares in subsidiaries are recognised in the parent company using the cost method, less any impairment losses. Cost includes acquisition-related costs and any additional contingent liabilities.

### Income tax

In the parent company, due to the relationship between accounting and taxation, the deferred tax liability on untaxed reserves are recognised as part of the untaxed reserves.

### Fund for development expenses

Capitalised development expenditure is allocated to a fund for development expenditure. The fund is restricted equity and dissolve at the same rate as the company does depreciation or amortisation of capitalised development work.

### Classification and presentation

Parent Company income statement and balance sheet are presented in the form prescribed in the Swedish Annual Accounts Act. The main difference to IAS 1 concerns the presentation of equity and the occurrence of provisions as a separate heading in the balance sheet.

## NOTE 4

### KEY ESTIMATES AND ASSUMPTIONS

When preparing financial reports, the board of directors and the managing director must, in accordance with applied accounting and valuation principles, make certain estimates, assessments and assumptions that affect the accounting and valuation of assets, provisions, liabilities, revenues and expenses. The areas where such estimates and judgments can be of great importance to the group, and which may thus affect the income statement and balance sheets in the future, are described below.

### Significant estimates

The following are the significant judgments company management make when applying the group's accounting policies that have the most significant effect on the financial statements.

### Revenue recognition

Since the sale of games to the end user is done through platform holders such as Valve, Sony and Microsoft, assessments are made as to whether the group acts as the principal in the sale to the end user or whether the platform holder is considered the principal towards the end user and the platform holder is the group's customer. If the group acts as the principal, the revenue is reported based on the revenue from the end user with an outgoing cost item for the platform holder's fee, unlike if the platform holder is the principal and the revenue is reported net after deduction of the platform holder's fee. A company is considered to be the principal if you control the product or service before it is transferred to the customer. Indications used to evaluate who controls the goods or services before being transferred to the customer include, but are not limited to the following;

- The agreed terms between the parties involved providing the goods or services
- Who has the main responsibility for fulfilling the promise to provide the goods or services
- Who can, in their own opinion, determine the price of the game against customers

Several of the indicators are mixed and may vary by platform operator. Based on an evaluation of the specified factors for each platform holder, the group has currently made the assessment that it is not the principal in transactions with the end users, which results in revenue being reported based on what the Group receives in compensation from the platform holder.

See note 5 for additional information.



### ***Capitalised development costs for game development***

The division between research and development phases of new development of software and determining whether the requirements for capitalisation of development costs are met requires assessments. The group categorises new activations into two categories; proven and unproven. It is the group's assessment that proven games reach the development phase and can be activated after the prototype phase is completed, while unproven games reach the development phase and can only be activated after the alpha phase. After activation the group management monitors whether the reporting requirements for development costs continue to be fulfilled and if there are indications that the capitalised expenses may be subject to impairment. See note 19 for additional information.

### **Uncertainties in the estimates**

Below is information on estimates and assumptions which have the most significant effect on recognition and measurement of assets, liabilities, income and expenses. The outcome of these can differ significantly.

### ***Contingent consideration Harebrained Holdings Inc.***

The contingent consideration as part of the acquisition of Harebrained Schemes has been valued based on the studios projected revenues and costs over five years up to and including 2022. If revenue and costs deviates from the forecasted, the liability may need to be revalued with the effect taken over the income statement. See note 43 for additional information.

### ***Contingent consideration Triumph Holding BV***

The contingent consideration as part of the acquisition of the Triumph Holding BV has is based on projected revenues up to and including 2025. The earn-out is conditional on the sellers' continued employment with the company and is recognised as a cost under direct costs when it arises.

### ***Impairment of non-financial assets and goodwill***

To assess impairment management calculates recoverable value of each asset or cash-generating unit based on expected future cash flows using an appropriate interest rate to discount the cash flow. Uncertainties lies in assumptions about future operating results and determination of an appropriate discount rate. See note 19-21 for additional information on testing performed.

### ***The useful lives of depreciable assets***

Group management makes a review each closing day of its estimates of useful lives of depreciable assets, based on how long the group expects to use the assets. The uncertainty of these estimates depend on how well the launch of the game is received by the market, and may affect the useful life. See note 19-20 for amortisation of intangible assets.

**NOTE 5 REVENUES AND SEGMENT REPORTING**

Group management has established operating segments based on the information that is processed by the CEO and which forms the basis for making strategic decisions. The business consists of a single segment. The revenue breakdown is illustrated below;

The group's and the parent company's revenues from customers based on where the platform partner is based are divided into the following geographical areas;

|                   | <b>GROUP</b>     |                  | <b>PARENT COMPANY</b> |                  |
|-------------------|------------------|------------------|-----------------------|------------------|
|                   | <b>2021</b>      | <b>2020</b>      | <b>2021</b>           | <b>2020</b>      |
| USA               | 1,219,196        | 1,526,282        | 1,224,151             | 1,521,804        |
| Sweden            | 16,846           | 50,055           | 41,742                | 50,055           |
| Rest of Europe    | 176,402          | 189,231          | 151,592               | 181,330          |
| Rest of the World | 35,012           | 28,227           | 29,393                | 28,227           |
| <b>Total</b>      | <b>1,447,456</b> | <b>1,793,794</b> | <b>1,446,878</b>      | <b>1,781,416</b> |

During the year KSEK 952,875 (KSEK 1,170,538), or 66 % (64 %) of revenue came from a single customer.

An analysis of the group's revenue divided into major product categories is as follows:

|              | <b>GROUP</b>     |                  | <b>PARENT COMPANY</b> |                  |
|--------------|------------------|------------------|-----------------------|------------------|
|              | <b>2021</b>      | <b>2020</b>      | <b>2021</b>           | <b>2020</b>      |
| PC           | 1,187,470        | 1,544,096        | 1,187,470             | 1,543,865        |
| Console      | 189,593          | 212,413          | 189,593               | 212,413          |
| Mobile       | 53,681           | 26,244           | 21,778                | 10,442           |
| Others       | 16,712           | 11,040           | 48,037                | 14,695           |
| <b>Total</b> | <b>1,447,456</b> | <b>1,793,794</b> | <b>1,446,878</b>      | <b>1,781,416</b> |

Prepaid revenue amounted to KSEK 291,828 (KSEK 281,801) at the end of the year. Of these, KSEK 221,055 is expected to be reported as revenue in 2022 and KSEK 61,140 in 2023. The remaining amounts are expected to be reported mainly in 2024.

Revenue for the period includes KSEK 101,576 (KSEK 147,066) that was included in pre-paid revenue at the beginning of the period.

Accrued revenue relating to performance obligations where invoicing has not yet taken place amounted to KSEK 31,381 (KSEK 28,624) at the end of the year.

**NOTE 6 AVERAGE NUMBER OF EMPLOYEES, ETC.****Average number of employees**

|                            | <b>2021</b> |             | <b>2020</b> |             |
|----------------------------|-------------|-------------|-------------|-------------|
|                            | Number      | Of whom men | Number      | Of whom men |
| <b>Parent company</b>      |             |             |             |             |
| Sweden                     | 242         | 159         | 214         | 152         |
| <b>Subsidiaries</b>        |             |             |             |             |
| Sweden                     | 269         | 217         | 217         | 176         |
| Netherlands                | 37          | 32          | 34          | 31          |
| USA                        | 95          | 66          | 78          | 60          |
| Finland                    | 26          | 18          | 11          | 6           |
| France                     | 26          | 21          | 11          | 9           |
| Spain                      | 21          | 19          | 2           | 2           |
| <b>Total for the group</b> | <b>716</b>  | <b>532</b>  | <b>567</b>  | <b>436</b>  |

**Directors and senior executives**

|                                 | <b>2021</b> |             | <b>2020</b> |             |
|---------------------------------|-------------|-------------|-------------|-------------|
|                                 | Number      | Of whom men | Number      | Of whom men |
| Board of Directors              | 5           | 4           | 5           | 3           |
| CEO and other senior executives | 6           | 4           | 9           | 5           |

**NOTE 7 SALARIES AND EMPLOYEE BENEFITS**

Expenses recognised for employee compensation:

|   | <b>GROUP</b>   |                | <b>PARENT COMPANY</b> |                |
|---|----------------|----------------|-----------------------|----------------|
|   | <b>2021</b>    | <b>2020</b>    | <b>2021</b>           | <b>2020</b>    |
| Salaries - board of directors and senior management | 17,860         | 21,781         | 17,860                | 21,781         |
| Salaries - other employees                          | 390,574        | 385,937        | 120,927               | 135,847        |
| Pensions - board of directors and senior management | 3,244          | 2,786          | 3,244                 | 2,786          |
| Pensions - other employees                          | 32,077         | 14,872         | 15,536                | 7,526          |
| Other social costs                                  | 101,531        | 101,393        | 47,676                | 50,541         |
| <b>Total</b>  | <b>545,286</b> | <b>526,769</b> | <b>205,243</b>        | <b>218,481</b> |

The group only has defined contribution pension plans.

**NOTE 8 SENIOR EXECUTIVE REMUNERATION**

Costs and liabilities related to pensions and similar to the board of directors, CEO:

| <b>2021<br/>Board and senior executives</b>              | <b>Salaries</b> | <b>Variable compensation</b> | <b>Other benefits</b> | <b>Pensions</b> | <b>Share-based payments</b> | <b>Total</b>  |
|--|-----------------|------------------------------|-----------------------|-----------------|-----------------------------|---------------|
| Chairman of the board (from 2021-09-01) Håkan Sjunnesson | 650             | -                            | -                     | -               | -                           | 650           |
| Board member, CEO (from 2021-09-01) Fredrik Wester       | 2               | -                            | 6                     | -               | -                           | 8             |
| Board member Mathias Hermansson                          | 358             | -                            | -                     | -               | -                           | 358           |
| Board member Linda Höglund                               | 260             | -                            | -                     | -               | -                           | 260           |
| Board member Andras Vajlok                               | 358             | -                            | -                     | -               | -                           | 358           |
| CEO (until 2021-09-01) Ebba Ljungerud                    | 5,284           | -95                          | 10                    | 1,426           | -                           | 6,625         |
| Other senior executives (10)                             | 10,593          | -184                         | 55                    | 1,818           | 564                         | 12,846        |
| <b>Total</b>   | <b>17,504</b>   | <b>-279</b>                  | <b>71</b>             | <b>3,244</b>    | <b>564</b>                  | <b>21,104</b> |

**2020****Board and senior executives**

|                                      | <b>Salaries</b> | <b>Variable compensation</b> | <b>Other benefits</b> | <b>Pensions</b> | <b>Share-based payments</b> | <b>Total</b>  |
|--------------------------------------|-----------------|------------------------------|-----------------------|-----------------|-----------------------------|---------------|
| Chairman of the Board Fredrik Wester | 0               | -                            | -                     | -               | -                           | 0             |
| Board member Håkan Sjunnesson        | 520             | -                            | -                     | -               | -                           | 520           |
| Board member Matthias Hermansson     | 260             | -                            | -                     | -               | -                           | 260           |
| Board member Peter Ingman            | 260             | -                            | -                     | -               | -                           | 260           |
| Board member Josephine Salenstedt    | 260             | -                            | -                     | -               | -                           | 260           |
| CEO Ebba Ljungerud                   | 3,025           | 1,173                        | -                     | 777             | 783                         | 5,758         |
| Other senior executives (8)          | 10,174          | 3,838                        | -                     | 2,009           | 1,488                       | 17,509        |
| <b>Total</b>                         | <b>14,499</b>   | <b>5,011</b>                 | <b>-</b>              | <b>2,786</b>    | <b>2,271</b>                | <b>24,567</b> |

The chairman of the board receives KSEK 520 in board fees and other board members receive KSEK 260. Chairman of the audit committee Håkan Sjunnesson receives KSEK 80 and the audit committee members Andras Vajlok and Mattias Hermansson receive KSEK 60. Chairman of the remuneration committee Håkan Sjunnesson receives KSEK 50 and the members of the remuneration committee Andras Vajlok and Mattias Hermansson receive KSEK 38.

Negative variable compensation refers to reversed reserves for variable compensation from the previous year that have not been paid due to termination of employment for several senior executives.

Outstanding pensions liabilities to the Board and CEO amounts to KSEK 0 (KSEK 0). The CEO has a six-month agreed notice period. In the event of termination by the company, the CEO is entitled to a severance pay of six months' salary. Other senior executives have a mutual period of notice of 3-6 months.

The amount for salary includes costs as a result of an agreement on severance pay with former CEO Ebba Ljungerud with 6 ordinary monthly salaries during the notice period and 6 months' severance pay. The amount for pension costs includes pensions according to ITP 1 calculated on the 6 ordinary monthly salaries.

**NOTE 9****SHARE-BASED EMPLOYEE REMUNERATION****Employee Stock Option Program 2021/2025**

The Annual General Meeting on May 18, 2021, decided to introduce an employee stock options program aimed at employees of the group. The number of outstanding employee stock options amounts to 422,700 with the right to subscribe for the same number of shares in Paradox Interactive AB (publ). Allotted employee stock options were issued free of charge at a market value of SEK 30.08 according to a valuation based on the Black & Scholes model. The exercise price for the options was set at SEK 214.82 and subscription for shares can take place August 2, 2024 to June 3, 2025. The exercise price equals 120 % of the average market value between May 11 to May 17, 2021. Personnel-related costs excluding social security contributions for the program amount to KSEK 2,051 (KSEK 0) during the year. In the event of full subscription of these options, the parent company's equity will be increased by KSEK 90,804.

**Warrant Scheme 2020/2023**

The Annual General Meeting on May 15, 2020, decided to introduce a warrant scheme aimed at employees of the group. The number of outstanding warrants amounts to 291,500 with the right to subscribe for the same number of shares in Paradox Interactive AB (publ). Allotted warrants were issued free of charge at a market price of SEK 15.66 according to a valuation based on Black & Scholes. The exercise price for the warrants was set at SEK 264.26 and subscription for shares can take place June 15, 2023 to June 30, 2023. There are no vesting conditions for the options. Personnel-related costs excluding social security contributions for the program amount to KSEK 0 (KSEK 3,649) during the year. In the event of full subscription of these warrants, the parent company's equity will be increased by KSEK 76,371.

**Warrant Scheme 2019/2022**

The Annual General Meeting on May 17, 2019 decided to introduce a warrant scheme aimed at employees of the group. The number of outstanding warrants amounts to 253,350 with the right to subscribe for the same number of shares in Paradox Interactive AB (publ). Allotted warrants were issued free of charge in two rounds at a market price of SEK 16.97 and SEK 21.07, respectively, according to a valuation based on Black & Scholes. The exercise price for the warrants was set at SEK 175.01 and subscription of shares can take place from June 15, 2022 to June 30, 2022. There are no vesting conditions for the options. Personnel-related costs excluding social security contributions for the program amount to KSEK 0 (KSEK 4,497) during the year. In the event of full subscription of these warrants, the parent company's equity will be increased by KSEK 44,339.

**Warrant Scheme 2018/2021**

The Annual General Meeting on May 18, 2018, decided to introduce a warrant scheme aimed at employees of the group. The number of outstanding warrants amounts to 0 with the right to subscribe for the same number of shares in Paradox Interactive AB (publ). Allotted warrants were issued free of charge at a market price of SEK 17.42 according to valuation based on Black & Scholes. The exercise price for the warrants was set at SEK 241.72, and shares can be subscribed for during the period June 15, 2021 to June 30, 2021. There are no vesting conditions for the options. Personnel-related costs, excluding social security contributions for the program, amount to KSEK 0 (KSEK 5,254) during the year. No shares could be subscribed for during the subscription period.

Set out below are summaries of warrants granted:

|                                       | 2021           | 2020           |
|---------------------------------------|----------------|----------------|
| As at January 1                       | 753,350        | 489,350        |
| Granted during the year               | 499,850        | 289,000        |
| Exercised during the year             | –              | –              |
| Forfeited during the year             | -285,650       | –              |
| Re-purchased during the year          | –              | -18,500        |
| <b>As at December 31</b>              | <b>967,550</b> | <b>753,350</b> |
| Vested and exercisable at December 31 | 253,350        | 289,000        |

**NOTE 10****DEPRECIATION, AMORTISATION AND WRITE-DOWNS DIVIDED BY FUNCTION**

|                         | GROUP           |                 | PARENT COMPANY  |                 |
|-------------------------|-----------------|-----------------|-----------------|-----------------|
|                         | 2021            | 2020            | 2021            | 2020            |
| Cost of goods sold      | -577,219        | -385,750        | -492,045        | -301,163        |
| Selling expenses        | -4,779          | -5,295          | -120            | -111            |
| Administrative expenses | -7,857          | -21,629         | -4,200          | -6,856          |
| <b>Total</b>            | <b>-589,855</b> | <b>-412,674</b> | <b>-496,365</b> | <b>-308,130</b> |



| NOTE 11 | REMUNERATION TO THE AUDITOR           | GROUP        |              | PARENT COMPANY |              |
|---------|---------------------------------------|--------------|--------------|----------------|--------------|
|         |                                       | 2021         | 2020         | 2021           | 2020         |
|         | The expensed compensation amounts to: |              |              |                |              |
|         | PwC                                   |              |              |                |              |
|         | -audit                                | 1,062        | –            | 1,062          | –            |
|         | -audit related assignments            | –            | –            | –              | –            |
|         | -tax advise                           | –            | –            | –              | –            |
|         | -other services                       | 1,645        | –            | 1,645          | –            |
|         | <b>Total</b>                          | <b>2,707</b> | <b>–</b>     | <b>2,707</b>   | <b>–</b>     |
|         | Grant Thornton Sweden AB              |              |              |                |              |
|         | -audit                                | –            | 947          | –              | 947          |
|         | -audit related assignments            | –            | 157          | –              | 157          |
|         | -tax advise                           | –            | –            | –              | –            |
|         | -other services                       | –            | –            | –              | –            |
|         | <b>Total</b>                          | <b>–</b>     | <b>1,104</b> | <b>–</b>       | <b>1,104</b> |

| NOTE 12 | OTHER INCOME                        | GROUP         |               | PARENT COMPANY |               |
|---------|-------------------------------------|---------------|---------------|----------------|---------------|
|         |                                     | 2021          | 2020          | 2021           | 2020          |
|         | Exchange gains                      | 24,434        | 16,024        | 24,166         | 16,024        |
|         | Profit on sale of intangible assets | 4,268         | –             | 4,268          | –             |
|         | Other income                        | 12,139        | 9,588         | 6,053          | 1,800         |
|         | <b>Total</b>                        | <b>40,841</b> | <b>25,612</b> | <b>34,487</b>  | <b>17,824</b> |

| NOTE 13 | OTHER EXPENSES | GROUP         |                | PARENT COMPANY |                |
|---------|----------------|---------------|----------------|----------------|----------------|
|         |                | 2021          | 2020           | 2021           | 2020           |
|         | Exchange loss  | -3,943        | -43,004        | -4,262         | -43,004        |
|         | Other expenses | -164          | -3,090         | –              | –              |
|         | <b>Total</b>   | <b>-4,107</b> | <b>-46,094</b> | <b>-4,262</b>  | <b>-43,004</b> |

| NOTE 14 | PROFIT FROM SHARES IN SUBSIDIARIES | GROUP    |          | PARENT COMPANY |          |
|---------|------------------------------------|----------|----------|----------------|----------|
|         |                                    | 2021     | 2020     | 2021           | 2020     |
|         | Dividend from subsidiaries         | –        | –        | 43,143         | –        |
|         | <b>Total</b>                       | <b>–</b> | <b>–</b> | <b>43,143</b>  | <b>–</b> |

| NOTE 15 | FINANCIAL INCOME                         | GROUP      |            | PARENT COMPANY |            |
|---------|--|------------|------------|----------------|------------|
|         |  | 2021       | 2020       | 2021           | 2020       |
|         | Interest income                          | 545        | 249        | 341            | 281        |
|         | Gain from sale of short term investments | –          | 449        | –              | 449        |
|         | <b>Total</b>                             | <b>545</b> | <b>698</b> | <b>341</b>     | <b>730</b> |

Of which interest income from group companies 205 139

| NOTE 16 | FINANCIAL COST                     | GROUP         |               | PARENT COMPANY |             |
|---------|------------------------------------|---------------|---------------|----------------|-------------|
|         |                                    | 2021          | 2020          | 2021           | 2020        |
|         | Interest expense lease liabilities | -3,553        | -4,435        | –              | –           |
|         | Other interest expense             | -519          | -340          | -157           | -225        |
|         | <b>Total</b>                       | <b>-4,072</b> | <b>-4,775</b> | <b>-157</b>    | <b>-225</b> |

Of which interest expense to group companies – –

**NOTE 17 APPROPRIATIONS**

|                            | <b>PARENT COMPANY</b> |                 |
|----------------------------|-----------------------|-----------------|
|                            | <b>2021</b>           | <b>2020</b>     |
| Reversal of tax allocation | 193,100               | 9,775           |
| Transfer to tax allocation | -125,000              | -160,000        |
| <b>Total</b>               | <b>68,100</b>         | <b>-150,225</b> |

**NOTE 18 INCOME TAX**

The major components of tax expense for the year and the relationship between the expected tax expense based on the Swedish effective tax rate of 20.6% (21.4%) and the reported tax expense in the income statement is as follows:

|  | <b>GROUP</b>   |                 | <b>PARENT COMPANY</b> |                 |
|--|----------------|-----------------|-----------------------|-----------------|
|  | <b>2021</b>    | <b>2020</b>     | <b>2021</b>           | <b>2020</b>     |
| Profit before tax  | 303,926        | 628,030         | 430,104               | 504,042         |
| Tax according to applicable tax rate, 20.6% (21.4 %)         | -62,609        | -134,398        | -88,602               | -107,865        |
| Tax attributable to prior years                              | 2,693          | –               | -45                   | –               |
| Adjustment for tax rate differences in foreign jurisdictions | -4,119         | 386             | –                     | –               |
| Other non-taxable income                                     | –              | 1,178           | 8,887                 | –               |
| Other non-deductible items                                   | -360           | -4,621          | -3,306                | -4,667          |
| <b>Recognised tax expense</b>                                | <b>-56,157</b> | <b>-137,455</b> | <b>-83,065</b>        | <b>-112,532</b> |

Specification of recognised tax expense:

Current tax

|                              |         |          |         |          |
|------------------------------|---------|----------|---------|----------|
| On net profit                | -44,270 | -117,961 | -83,020 | -112,532 |
| Adjustment on prior year tax | 2,693   | –        | -45     | –        |

Deferred tax expense

|                            |         |         |   |   |
|----------------------------|---------|---------|---|---|
| Change in untaxed reserves | -14,580 | -19,494 | – | – |
|----------------------------|---------|---------|---|---|

|   |                |                 |                |                 |
|---|----------------|-----------------|----------------|-----------------|
| <b>Tax reported in the income statement</b> | <b>-56,157</b> | <b>-137,455</b> | <b>-83,065</b> | <b>-112,532</b> |
|---|----------------|-----------------|----------------|-----------------|

**NOTE 19****CAPITALISED DEVELOPMENT**

Changes in the carrying values of capitalised development:

|  | <b>GROUP</b>      |                   | <b>PARENT COMPANY</b> |                   |
|--|-------------------|-------------------|-----------------------|-------------------|
|  | <b>2021-12-31</b> | <b>2020-12-31</b> | <b>2021-12-31</b>     | <b>2020-12-31</b> |
| Opening accumulated cost                 | 1,839,082         | 1,227,365         | 1,776,137             | 1,164,552         |
| Acquisition through business combination | –                 | 4,036             | –                     | –                 |
| Activated development cost               | 744,313           | 613,948           | 738,215               | 611,585           |
| Exchange rate differences                | 4,699             | -6,267            | –                     | –                 |
| <b>Closing accumulated cost</b>          | <b>2,588,094</b>  | <b>1,839,082</b>  | <b>2,514,352</b>      | <b>1,776,137</b>  |
| Opening depreciation                     | -717,045          | -500,377          | -670,680              | -462,917          |
| Exchange rate differences                | -3,618            | 4,967             | –                     | –                 |
| Depreciation for the year                | -230,054          | -221,635          | -229,200              | -207,763          |
| <b>Closing accumulated depreciation</b>  | <b>-950,745</b>   | <b>-717,045</b>   | <b>-899,880</b>       | <b>-670,680</b>   |
| Opening accumulated write-downs          | -201,570          | -146,251          | -192,235              | -135,629          |
| Exchange rate differences                | -975              | 1,287             | –                     | –                 |
| Write-downs for the year                 | -236,303          | -56,606           | -236,303              | -56,606           |
| <b>Closing accumulated write-downs</b>   | <b>-438,848</b>   | <b>-201,570</b>   | <b>-428,538</b>       | <b>-192,235</b>   |
| <b>Closing residual value</b>            | <b>1,198,502</b>  | <b>920,467</b>    | <b>1,185,934</b>      | <b>913,222</b>    |

Impairment testing of capitalised development is made per game for the entire portfolio of games. The recoverable amount of each game was determined based on value-in-use calculations, covering a detailed three-year forecast, followed by an extrapolation of expected cash flows for the remaining useful lives using a declining growth rate. The present value of the expected cash flows of each game is determined by applying a suitable discount rate reflecting current market assessments of the time value of money and risks specific to the games. All discount rates amounted to 15% (10-15%) during the year. A write-off amounting to KSEK 236,303 (KSEK 56,606) has been recorded during the year for unannounced games where development has been cancelled.

**NOTE 20 LICENSES, BRANDS AND SIMILAR RIGHTS**

Changes in the carrying value of concessions, patents, licenses, trademarks and similar rights are:

|   | GROUP           |                 | PARENT COMPANY  |                |
|---|-----------------|-----------------|-----------------|----------------|
|   | 2021-12-31      | 2020-12-31      | 2021-12-31      | 2020-12-31     |
| Opening accumulated cost                  | 463,222         | 289,958         | 173,430         | 162,852        |
| Acquisition through business combination  | –               | 175,241         | –               | –              |
| Addition                                  | 3,235           | 9,925           | 3,235           | 10,578         |
| Exchange rate differences                 | 12,497          | -11,902         | –               | –              |
| <b>Closing accumulated cost</b>           | <b>478,954</b>  | <b>463,222</b>  | <b>176,665</b>  | <b>173,430</b> |
| Opening accumulated depreciations         | -158,634        | -89,397         | -77,415         | -51,388        |
| Exchange rate differences                 | 3,695           | -3,319          | –               | –              |
| Depreciation for the year                 | -81,611         | -65,919         | -25,700         | -26,027        |
| <b>Outgoing accumulated depreciations</b> | <b>-236,549</b> | <b>-158,634</b> | <b>-103,115</b> | <b>-77,415</b> |
| Opening accumulated write-downs           | -9,925          | –               | -9,925          | –              |
| Write-downs for the year                  | –               | -9,925          | –               | -9,925         |
| <b>Closing accumulated write-downs</b>    | <b>-9,925</b>   | <b>-9,925</b>   | <b>-9,925</b>   | <b>-9,925</b>  |
| <b>Closing residual value</b>             | <b>232,480</b>  | <b>294,662</b>  | <b>63,625</b>   | <b>86,090</b>  |

Impairment testing of licenses, brands and similar rights is made per game based on which game the asset is related to. The recoverable amount of each game was determined based on value-in-use calculations, covering a detailed three-year forecast, followed by an extrapolation of expected cash flows for the remaining useful lives using a declining growth rate. The present value of the expected cash flows of each game is determined by applying a suitable discount rate reflecting current market assessments of the time value of money and risks specific to the games. All discount rates amounted to 15% (10-15%) during the year. The year's write-downs within the item amount to KSEK 0 (KSEK 9,925).

**NOTE 21****GOODWILL**

Changes in the carrying value of goodwill are:

|  | GROUP         |               | PARENT COMPANY |            |
|--|---------------|---------------|----------------|------------|
|  | 2021-12-31    | 2020-12-31    | 2021-12-31     | 2020-12-31 |
| Opening accumulated cost                 | 20,218        | –             | –              | –          |
| Acquisition through business combination | –             | 20,821        | –              | –          |
| Exchange rate differences                | 381           | -603          | –              | –          |
| <b>Closing accumulated cost</b>          | <b>20,600</b> | <b>20,218</b> | <b>–</b>       | <b>–</b>   |
| <b>Closing residual value</b>            | <b>20,600</b> | <b>20,218</b> | <b>–</b>       | <b>–</b>   |

For the purpose of annual impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the business combinations in which the goodwill arises. The goodwill is entirely attributable to current and future games developed by Iceflake Studios.

The recoverable amount of each game was determined based on value-in-use calculations, covering a detailed three-year forecast, followed by an extrapolation of expected cash flows for the remaining useful lives using a declining growth rate. The present value of the expected cash flows of each game is determined by applying a suitable discount rate reflecting current market assessments of the time value of money and risks specific to the games. All discount rates amounted to 15% (15%) during the year.

**NOTE 22 PROPERTY, PLANT AND EQUIPMENT**

Changes in the carrying value of property, plant and equipment are:

|   | GROUP          |                | PARENT COMPANY |                |
|---|----------------|----------------|----------------|----------------|
|   | 2021-12-31     | 2020-12-31     | 2021-12-31     | 2020-12-31     |
| Opening accumulated cost                  | 64,159         | 57,061         | 47,682         | 44,754         |
| Acquisition through business combination  | –              | 2,192          | –              | –              |
| Addition                                  | 1,694          | 4,639          | –              | 2,928          |
| Sales and disposals                       | -2,528         | –              | -2,528         | –              |
| Exchange rate differences                 | 688            | 267            | –              | –              |
| <b>Outgoing accumulated cost</b>          | <b>64,013</b>  | <b>64,159</b>  | <b>45,154</b>  | <b>47,682</b>  |
| Opening accumulated depreciations         | -37,630        | -24,478        | -28,276        | -20,467        |
| Disposals                                 | 2,528          | –              | 2,528          | –              |
| Exchange rate differences                 | -423           | 483            | –              | –              |
| Depreciations for the year                | -6,428         | -13,635        | -5,164         | -7,809         |
| <b>Outgoing accumulated depreciations</b> | <b>-41,992</b> | <b>-37,630</b> | <b>-30,912</b> | <b>-28,276</b> |
| <b>Closing residual value</b>             | <b>22,022</b>  | <b>26,529</b>  | <b>14,242</b>  | <b>19,406</b>  |

**NOTE 23****RIGHT-OF-USE ASSETS**

Changes in the carrying value of rights-of-use assets for offices are:

|   | GROUP          |                | PARENT COMPANY |            |
|---|----------------|----------------|----------------|------------|
|   | 2021-12-31     | 2020-12-31     | 2021-12-31     | 2020-12-31 |
| Opening accumulated cost                  | 244,154        | 259,881        | –              | –          |
| Acquisition                               | –              | 10,742         | –              | –          |
| Divestment                                | –              | -24,034        | –              | –          |
| Exchange differences                      | 1,863          | -2,434         | –              | –          |
| <b>Outgoing accumulated cost</b>          | <b>246,017</b> | <b>244,154</b> | <b>–</b>       | <b>–</b>   |
| Opening accumulated depreciations         | -44,714        | -24,360        | –              | –          |
| Depreciations                             | -35,460        | -44,954        | –              | –          |
| Divestment                                | –              | 24,034         | –              | –          |
| Exchange differences                      | -571           | 566            | –              | –          |
| <b>Outgoing accumulated depreciations</b> | <b>-80,744</b> | <b>-44,714</b> | <b>–</b>       | <b>–</b>   |
| <b>Closing residual value</b>             | <b>165,273</b> | <b>199,440</b> | <b>–</b>       | <b>–</b>   |

**NOTE 24 LEASES**

Lease liabilities presented in the statement of financial position are as follows:

|            | <b>GROUP</b>      |                   |
|------------|-------------------|-------------------|
|            | <b>2021-12-31</b> | <b>2020-12-31</b> |
| Short term | 34,536            | 34,129            |
| Long term  | 134,438           | 167,775           |

Changes in lease liabilities are presented below;

|   | <b>GROUP</b>      |                   |
|---|-------------------|-------------------|
|   | <b>2021-12-31</b> | <b>2020-12-31</b> |
| Opening balance   | 201,904           | 236,281           |
| Amortisation as part of the financing activities in the cash flow | -33,994           | -43,062           |
| New agreements  | –                 | 7,546             |
| Translation difference  | 1,064             | 1,139             |
| <b>Closing balance</b>  | <b>168,974</b>    | <b>201,904</b>    |

The group's cash flow includes interest on leasing liabilities in operating activities amounting to KSEK 3,553 (KSEK 4,296).

The group leases offices for publishing operations and development studios. With the exception of short-term lease agreements and leases for which the underlying asset has a low value, a right-of-use asset and a lease liability is reported in the statement of financial position. Variable leasing fees that do not depend on an index or price (e.g. leasing fees based on the group's turnover) are excluded in the initial calculation of leasing debt and assets. The group classifies its rights of use in the category of rights of use as part of property, plant and equipment, see note 23.

In general, the lease agreements are limited, unless there is a contractual right for the group to lease the asset to another party, so that only the group can use the asset. The leasing agreements are either non-terminable or can only be terminated against a material termination fee. The group may not sell or pledge the underlying asset as collateral. The group must keep the leased premises for offices in good condition and restore to its original condition at the end of the lease period. Furthermore, the group must insure the leased assets and pay maintenance costs for them in accordance with the leases.

At the end of the year, the group has seven office premises classified as rights of use. The remaining term is 0-5 years, with an average remaining term of 2 years. All agreements are signed with an extension option, five of the agreements have variable fees related to the index. One agreement has the possibility of termination during the contract period.

The lease liability is guaranteed by the underlying asset being pledged as collateral for the debt. Future minimum lease fees amount to the following:

| <b>Minimum lease fees<br/>2021-12-31</b> | <b>Within<br/>1 year</b> | <b>2-3 years</b> | <b>4-5 years</b> | <b>After<br/>5 years</b> | <b>Total</b>   |
|--|--------------------------|------------------|------------------|--------------------------|----------------|
| Lease fees                               | 37,593                   | 72,982           | 63,200           | 3,747                    | 177,523        |
| Financial expenses                       | -3,076                   | -4,082           | -1,288           | -102                     | -8,549         |
| <b>Present value</b>                     | <b>34,518</b>            | <b>68,900</b>    | <b>61,912</b>    | <b>3,645</b>             | <b>168,975</b> |

| <b>Minimum lease fees<br/>2020-12-31</b> | <b>Within<br/>1 year</b> | <b>2-3 years</b> | <b>4-5 years</b> | <b>After<br/>5 years</b> | <b>Total</b>   |
|--|--------------------------|------------------|------------------|--------------------------|----------------|
| Lease fees                               | 37,865                   | 73,550           | 72,440           | 30,263                   | 214,119        |
| Financial expenses                       | -3,736                   | -5,415           | -2,678           | -386                     | -12,215        |
| <b>Present value</b>                     | <b>34,129</b>            | <b>68,136</b>    | <b>69,762</b>    | <b>29,877</b>            | <b>201,904</b> |

**Leasing agreements that are not recognised as a liability**

The group has chosen not to report a lease liability for short-term lease agreements (leases with an expected lease term of 12 months or less) and for leases for which the underlying asset has a low value. Payments in respect of such leases are expensed on a straight-line basis. In addition, some variable leasing fees are not allowed to be recognised as leasing liabilities, which is why they are also expensed on an ongoing basis. The cost of leasing fees that are not included in the calculation of the lease debt is as follows:

|  | <b>GROUP</b>      |                   |
|--|-------------------|-------------------|
|  | <b>2021-12-31</b> | <b>2020-12-31</b> |
| Short-term leases                                      | 1,892             | 119               |
| Leasing agreements with underlying assets of low value | 944               | 366               |
| Variable lease payments                                | 6,122             | 4,315             |
| <b>Total</b>   | <b>8,958</b>      | <b>4,800</b>      |

**NOTE 25 FINANCIAL ASSETS AND LIABILITIES**

See the accounting principles for a description of each category of financial assets and liabilities and the related accounting policies. The carrying values of financial assets and liabilities are as follows:

| <b>2021-12-31</b>                    | <b>Amortised cost</b> | <b>Fair value through profit or loss</b> | <b>Non-financial items</b> | <b>Total</b>     |
|--------------------------------------|-----------------------|--|----------------------------|------------------|
| Capitalised development              | –                     | –  | 1,198,502                  | 1,198,502        |
| Licenses, brands                     | –                     | –  | 232,480                    | 232,480          |
| Goodwill                             | –                     | –  | 20,600                     | 20,600           |
| Property, plant and equipment        | –                     | –  | 22,021                     | 22,021           |
| Right-of-use assets                  | –                     | –  | 165,272                    | 165,272          |
| Investments in associates            | –                     | –  | 31,082                     | 31,082           |
| Other long term receivables          | 18,589                | –  | –                          | 18,589           |
| Accounts receivables                 | 133,780               | –  | –                          | 133,780          |
| Tax assets                           | –                     | –  | 19,821                     | 19,821           |
| Other current assets                 | 24,534                | –  | –                          | 24,534           |
| Prepaid expenses                     | –                     | –  | 56,287                     | 56,287           |
| Cash and cash equivalents            | 599,724               | –  | –                          | 599,724          |
| <b>Total assets</b>                  | <b>776,628</b>        | <b>–</b>                                 | <b>1,746,065</b>           | <b>2,522,693</b> |
| Lease liabilities long term          | –                     | –  | 134,438                    | 134,438          |
| Deferred tax liabilities             | –                     | –  | 163,606                    | 163,606          |
| Other long term liabilities          | 422                   | –  | –                          | 422              |
| Accounts payable                     | 97,016                | –  | –                          | 97,016           |
| Current tax liabilities              | –                     | –  | 6,278                      | 6,278            |
| Lease liabilities short term         | –                     | –  | 34,536                     | 34,536           |
| Other liabilities                    | 28,283                | –  | –                          | 28,283           |
| Accrued expenses and prepaid revenue | –                     | –  | 396,550                    | 396,550          |
| <b>Total liabilities</b>             | <b>125,721</b>        | <b>–</b>                                 | <b>735,408</b>             | <b>861,129</b>   |

A description of the group's risks related to financial instrument is found in note 42.

Used methods for valuing financial assets and liabilities at fair value through the income statement are presented in Note 43.

The carrying value of other financial assets and liabilities have been considered a reasonable estimate of fair value.

| <b>2020-12-31</b>                    | <b>Amortised cost</b> | <b>Fair value through profit or loss</b> | <b>Non-financial items</b> | <b>Total</b>     |
|--------------------------------------|-----------------------|--|----------------------------|------------------|
| Capitalised development              | –                     | –  | 920,467                    | 920,467          |
| Licenses, brands                     | –                     | –  | 304,587                    | 304,587          |
| Goodwill                             | –                     | –  | 20,218                     | 20,218           |
| Property, plant and equipment        | –                     | –  | 26,529                     | 26,529           |
| Right-of-use assets                  | –                     | –  | 199,440                    | 199,440          |
| Investments in associates            | –                     | –  | 24,669                     | 24,669           |
| Other long term receivables          | 1,234                 | –  | –                          | 1,234            |
| Accounts receivables                 | 176,979               | –  | –                          | 176,979          |
| Tax assets                           | –                     | –  | –                          | –                |
| Other current assets                 | 23,777                | –  | –                          | 23,777           |
| Prepaid expenses                     | –                     | –  | 52,606                     | 52,606           |
| Cash and cash equivalents            | 767,561               | –  | –                          | 767,561          |
| <b>Total assets</b>                  | <b>969,551</b>        | <b>–</b>                                 | <b>1,548,517</b>           | <b>2,518,068</b> |
| Lease liabilities long term          | –                     | –  | 167 775                    | 167 775          |
| Deferred tax liabilities             | –                     | –  | 193 396                    | 193 396          |
| Other long term liabilities          | 422                   | –  | –                          | 422              |
| Accounts payable                     | 66 667                | –  | –                          | 66 667           |
| Current tax liabilities              | –                     | –  | 50 819                     | 50 819           |
| Lease liabilities short term         | –                     | –  | 34 129                     | 34 129           |
| Other liabilities                    | 65 446                | –  | –                          | 65 446           |
| Accrued expenses and prepaid revenue | –                     | –  | 431 257                    | 431 257          |
| <b>Total liabilities</b>             | <b>132 535</b>        | <b>–</b>                                 | <b>877 376</b>             | <b>1 009 911</b> |

**NOTE 26 SHARES IN SUBSIDIARIES**

The Group includes the following direct holdings in subsidiaries:

| Name                          | Base                 | Operations  | Number of shares | Share | Book value     |
|-------------------------------|----------------------|-------------|------------------|-------|----------------|
| Triumph Holding BV            | Delft, Nederlanderna | Development | 18,000           | 100%  | 40,900         |
| Paradox Development Studio AB | Stockholm, Sverige   | Development | 100,000          | 100%  | 90             |
| Harebrained Holdings Inc      | Seattle, USA         | Development | 10,000,000       | 100%  | 66,572         |
| Paradox Interactive Inc       | Delaware, USA        | Development | 1,000,000        | 100%  | 0              |
| Playrion Game Studio SAS      | Paris, Frankrike     | Development | –                | 100%  | 169,791        |
| Iceflake Studios OY           | Tampere, Finland     | Development | 417              | 100%  | 28,427         |
| Paradox Tinto SL              | Barcelona, Spain     | Development | 3,000            | 100%  | 31             |
| World of Darkness LLC         | Delaware, USA        | Licensing   | –                | 100%  | –              |
|                               |                      |             |                  |       | <b>305,812</b> |

Changes during the year:

|                                      | PARENT COMPANY |                |
|--------------------------------------|----------------|----------------|
|                                      | 2021-12-31     | 2020-12-31     |
| Opening accumulated cost             | 305,812        | 106,454        |
| Acquisition Iceflake Studios OY      | –              | 28,427         |
| Acquisition Playrion Game Studio SAS | –              | 169,791        |
| Formation Paradox Tinto SL           | –              | 31             |
| Formation Paradox Interactive Inc    | –              | 0              |
| Revaluation Harebrained Holdings Inc | –              | 1,108          |
| <b>Outgoing accumulated cost</b>     | <b>305,812</b> | <b>305,812</b> |

**NOTE 27****INVESTMENTS IN ASSOCIATES**

The group's holdings in individually non-significant associated companies:

|                         | GROUP         |               | PARENT COMPANY |               |
|-------------------------|---------------|---------------|----------------|---------------|
|                         | 2021-12-31    | 2020-12-31    | 2021-12-31     | 2020-12-31    |
| Opening balance         | 24,669        | 18,835        | 16,766         | 16,766        |
| Share of equity         | 6,412         | 5,834         | –              | –             |
| <b>Outgoing balance</b> | <b>31,081</b> | <b>24,669</b> | <b>16,766</b>  | <b>16,766</b> |

| 2021              | Holding | Equity share |
|-------------------|---------|--------------|
| Hardsuit Labs Inc | 33%     | 6,412        |
| 2020              | Holding | Equity share |
| Hardsuit Labs Inc | 33%     | 5,834        |

**NOTE 28****OTHER LONG TERM ASSETS**

|                                  | GROUP         |              | PARENT COMPANY |            |
|----------------------------------|---------------|--------------|----------------|------------|
|                                  | 2021-12-31    | 2020-12-31   | 2021-12-31     | 2020-12-31 |
| Opening accumulated cost         | 1,234         | 3,462        | 60             | 3,462      |
| Deposits                         | 17,333        | 1,174        | 17,333         | –          |
| Returned deposits                | –             | -3,402       | –              | -3,402     |
| Translation differences          | 22            | –            | –              | –          |
| <b>Outgoing accumulated cost</b> | <b>18,590</b> | <b>1,234</b> | <b>17,393</b>  | <b>60</b>  |

**NOTE 29 ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following:

|                                    | GROUP          |                | PARENT COMPANY |                |
|------------------------------------|----------------|----------------|----------------|----------------|
|                                    | 2021-12-31     | 2020-12-31     | 2021-12-31     | 2020-12-31     |
| Accounts receivables gross         | 133,780        | 176,979        | 130,840        | 174,229        |
| Provision for expected credit loss | –              | –              | –              | –              |
| <b>Total</b>                       | <b>133,780</b> | <b>176,979</b> | <b>130,840</b> | <b>174,229</b> |

All figures are current. Net book value of accounts receivable is considered a reasonable approximation of fair value.

All the group's accounts receivables and other receivables have been reviewed for indications of impairment. No significant receivables had to be written down, as in previous year. For an age analysis of the group's accounts receivable, see credit risk note 42.

**NOTE 30 PREPAID EXPENSES AND ACCRUED REVENUES**

|                      | GROUP         |               | PARENT COMPANY |               |
|----------------------|---------------|---------------|----------------|---------------|
|                      | 2021-12-31    | 2020-12-31    | 2021-12-31     | 2020-12-31    |
| Prepaid rental costs | 10,431        | 10,255        | 10,220         | 9,912         |
| Other prepaid costs  | 14,475        | 13,727        | 13,734         | 13,709        |
| Accrued revenue      | 31,381        | 28,624        | 31,381         | 28,624        |
| <b>Total</b>         | <b>56,287</b> | <b>52,606</b> | <b>55,335</b>  | <b>52,245</b> |

**NOTE 31 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

|                     | GROUP          |                | PARENT COMPANY |                |
|---------------------|----------------|----------------|----------------|----------------|
|                     | 2021-12-31     | 2020-12-31     | 2021-12-31     | 2020-12-31     |
| Balances with banks | 599,724        | 767,561        | 469,881        | 688,427        |
| <b>Total</b>        | <b>599,724</b> | <b>767,561</b> | <b>469,881</b> | <b>688,427</b> |

**NOTE 32****EQUITY****Share capital**

The share capital of the Parent Company consists only of fully paid ordinary shares with a nominal value of SEK 0,005. All shares have the same rights to dividends and the repayment of invested capital, and to one vote at the parent company's General Meeting.

|                                     | PARENT COMPANY     |                    |
|-------------------------------------|--------------------|--------------------|
|                                     | 2021-12-31         | 2020-12-31         |
| Subscribed and paid shares:         |                    |                    |
| At the beginning of the year        | 105,600,000        | 105,600,000        |
| <b>Total at the end of the year</b> | <b>105,600,000</b> | <b>105,600,000</b> |

**Share premium reserve**

Amount received for shares issued in excess of par value (share premium) is included in share premium reserve, after the deduction of registration and other charges and net of related tax benefits. Costs of new shares are recognised directly in equity amounted to KSEK 0 (KSEK 0).

**Reserves**

Exchange differences on translating foreign operations.

**NOTE 33****UNTAXED RESERVES**

|                   | PARENT COMPANY |                |
|-------------------|----------------|----------------|
|                   | 2021-12-31     | 2020-12-31     |
| Untaxed reserves: |                |                |
| fiscal year 2015  | –              | 60,600         |
| fiscal year 2016  | –              | 77,500         |
| fiscal year 2017  | 30,000         | 85,000         |
| fiscal year 2018  | 120,000        | 120,000        |
| fiscal year 2019  | 120,000        | 120,000        |
| fiscal year 2020  | 160,000        | 160,000        |
| fiscal year 2021  | 125,000        | –              |
| <b>Total</b>      | <b>555,000</b> | <b>623,100</b> |

**NOTE 34 DEFERRED TAX LIABILITIES**

Reported amounts refer to temporary differences attributable to:

|                                     | GROUP          |                | PARENT COMPANY |            |
|-------------------------------------|----------------|----------------|----------------|------------|
|                                     | 2021-12-31     | 2020-12-31     | 2021-12-31     | 2020-12-31 |
| Untaxed reserves                    | 118,670        | 135,402        | –              | –          |
| Intangible assets from acquisitions | 44,936         | 57,994         | –              | –          |
| <b>Closing balance</b>              | <b>163,606</b> | <b>193,396</b> | <b>–</b>       | <b>–</b>   |

All changes in deferred tax has been recognised in the income statement. Deferred tax is from untaxed reserves in the parent company, as well as deferred tax on intangible assets from acquisitions. Changes in deferred tax have been reported in the income statement.

**NOTE 35 OTHER LIABILITIES**

Other current liabilities consist of the following:

|  | GROUP         |               | PARENT COMPANY |               |
|--|---------------|---------------|----------------|---------------|
|  | 2021-12-31    | 2020-12-31    | 2021-12-31     | 2020-12-31    |
| Purchase price, Playrion Game Studio   | –             | 25,567        | –              | 25,567        |
| Purchase price, Iceflake Studios       | 10,609        | 13,049        | 10,609         | 13,049        |
| Purchase price, Prison Architect       | –             | 8,189         | –              | 8,189         |
| Other liabilities                      | 17,674        | 18,641        | 3,131          | 3,310         |
| <b>Total other current liabilities</b> | <b>28,283</b> | <b>65,446</b> | <b>13,740</b>  | <b>50,115</b> |

Purchase prices Playrion Game Studio, Iceflake Studios and Prison Architect refer to delayed purchase prices reported at accrued cost. Decrease compared to the previous year refers to full or partial payment of outstanding balances with cash and cash equivalents. Contingent consideration for acquisitions Harebrained Schemes valued at fair value in level 3 are stated at KSEK 0 (KSEK 0), see Note 43.

**NOTE 36 ACCRUED EXPENSES AND PREPAID REVENUES**

|                         | GROUP          |                | PARENT COMPANY |                |
|-------------------------|----------------|----------------|----------------|----------------|
|                         | 2021-12-31     | 2020-12-31     | 2021-12-31     | 2020-12-31     |
| Accrued personnel costs | 71,628         | 101,868        | 32,902         | 50,431         |
| Accrued royalty costs   | 17,960         | 31,703         | 17,960         | 31,703         |
| Prepaid revenues        | 291,828        | 281,801        | 291,828        | 281,801        |
| Other accrued costs     | 15,134         | 15,885         | 13,947         | 15,880         |
| <b>Total</b>            | <b>396,550</b> | <b>431,257</b> | <b>356,637</b> | <b>379,815</b> |

All the reported amounts of deferred income are considered as current as the maturity is less than one year.

**NOTE 37 ASSETS PLEDGED AND CONTINGENT LIABILITIES**

|                               | GROUP         |               | PARENT COMPANY |               |
|-------------------------------|---------------|---------------|----------------|---------------|
|                               | 2021-12-31    | 2020-12-31    | 2021-12-31     | 2020-12-31    |
| <b>Assets pledged</b>         |               |               |                |               |
| Business mortgage             | 19,600        | 28,600        | 19,600         | 28,600        |
| Pledged bank funds            | 17,393        | 17,393        | 17,393         | 17,393        |
|                               | <b>36,993</b> | <b>45,993</b> | <b>36,993</b>  | <b>45,993</b> |
| <b>Contingent liabilities</b> | None          | None          | None           | None          |

**NOTE 38 TRANSACTIONS WITH RELATED PARTIES**

The group's related parties include all companies within the group, the Board, CEO and other senior executives. At the end of the year, the parent company had receivables from subsidiaries KSEK 35,176 (KSEK 3,845), and liabilities to subsidiaries KSEK 21,409 (KSEK 57,373). Receivables and liabilities between group companies are eliminated on consolidation. Parent company sales to subsidiaries during the year amounted to KSEK 31,523 (KSEK 3,645) and purchases to KSEK 468,100 (KSEK 335,343). The parent company's purchases from associated companies during the year amounted to KSEK 14,739 (KSEK 143,580). Sales and purchases between group companies is mainly related to the game development activities in the subsidiaries. Sales and purchases between group companies have been eliminated in the consolidated accounts. Receivables and liabilities between group companies are valued at market conditions. Outstanding balances are usually regulated with cash.

Remuneration to senior executives is provided in Note 9 Remuneration to senior executives.

No other transactions with related parties have taken place during the reported periods.

**NOTE 39 EVENTS AFTER THE END OF THE PERIOD**

No significant events have taken place after the end of the period.

**NOTE 40 ADJUSTMENTS FOR ITEMS NOT INCLUDED IN CASH FLOW**

The following non-cash adjustments and adjustments have been made in profit before tax to arrive at cash flow from operating activities:

|   | GROUP          |                | PARENT COMPANY |                |
|---|----------------|----------------|----------------|----------------|
|   | 2021-12-31     | 2020-12-31     | 2021-12-31     | 2020-12-31     |
| Depreciation of non-financial items               | 353,553        | 346,143        | 260,064        | 241,599        |
| Write-downs of non financial items                | 236,302        | 66,531         | 236,302        | 66,531         |
| Investments accounted for using the equity method | -6,286         | -5,507         | -              | -              |
| Adjustment contingent considerations              | -              | 1,108          | -              | -              |
| Other adjustments                                 | 2,051          | 11,535         | 2,050          | 11,534         |
| <b>Total adjustments</b>                          | <b>585,620</b> | <b>419,810</b> | <b>498,416</b> | <b>319,664</b> |

**NOTE 41 DEFINITIONS**

The company presents certain key performance measures that are not defined by IFRS. The company believes that these measures provide valuable supplementary information for the company's stakeholders as they enable evaluation of the company's development and financial position.

**Gross profit**

|                     | GROUP          |                |
|---------------------|----------------|----------------|
|                     | 2021           | 2020           |
| Revenues            | 1,447,456      | 1,793,794      |
| Cost of goods sold  | -880,971       | -805,644       |
| <b>Gross profit</b> | <b>566,485</b> | <b>988,149</b> |

Definition: Revenues less cost of goods sold

**Operating profit**

|                         | GROUP          |                |
|-------------------------|----------------|----------------|
|                         | 2021           | 2020           |
| Revenues                | 1,447,456      | 1,793,794      |
| Cost of goods sold      | -880,971       | -805,644       |
| Selling expenses        | -192,867       | -215,138       |
| Administrative expenses | -102,899       | -120,422       |
| Other income            | 40,841         | 25,612         |
| Other expenses          | -4,107         | -46,094        |
| <b>Operating profit</b> | <b>307,453</b> | <b>632,108</b> |

Definition: Revenues less all costs within operations

**Operating margin**

|                         | GROUP      |            |
|-------------------------|------------|------------|
|                         | 2021       | 2020       |
| Revenues                | 1,447,456  | 1,793,794  |
| Operating profit        | 307,453    | 632,108    |
| <b>Operating margin</b> | <b>21%</b> | <b>35%</b> |

Definition: Operating profit in relation to revenues

**Profit margin**

|                              | GROUP      |            |
|------------------------------|------------|------------|
|                              | 2021       | 2020       |
| Revenues                     | 1,447,456  | 1,793,794  |
| Profit after financial items | 303,926    | 628,030    |
| <b>Profit margin</b>         | <b>21%</b> | <b>35%</b> |

Definition: Profit after financial items in relation to revenues

**Equity/assets ratio**

|                            | GROUP      |            |
|----------------------------|------------|------------|
|                            | 2021-12-31 | 2020-12-31 |
| Equity                     | 1,661,563  | 1,508,158  |
| Total assets               | 2,522,693  | 2,518,068  |
| <b>Equity/assets ratio</b> | <b>66%</b> | <b>60%</b> |

Definition: Equity as a percentage of total assets

**Equity per share**

|                            | GROUP        |              |
|----------------------------|--------------|--------------|
|                            | 2021-12-31   | 2020-12-31   |
| Equity                     | 1 661 563    | 1 508 158    |
| Number of shares, thousand | 105 600      | 105 600      |
| <b>Equity per share</b>    | <b>15,73</b> | <b>14,28</b> |

Definition: Equity in relation to the number of outstanding shares at the end of the period

**NOTE 42****FINANCIAL RISKS****Risk management objectives and policies**

The group is exposed to various risks in relation to financial instruments. For summary information on the group's financial assets and financial liabilities divided into categories, see note 25.

The group's risk management is coordinated in close cooperation with the board and focuses on actively securing the group's short to medium-term cash flows by minimizing the exposure to the volatile financial markets.

The group does not engage in active trading of financial assets for speculative purposes and only issue a limited amount of warrants to staff. The most significant financial risks to which the group is exposed to are described below.

**Currency exposure**

Exposures to changes in exchange rates arise from the group's sales to and purchases from other countries. These sales and purchases are mainly made in US dollars (USD), British pounds (GBP) and euros (EUR). The result is also affected by the translation of balance sheet items to Swedish kronor and the translation of foreign subsidiaries' results, and their balance sheet items to the group's accounting currency SEK. As a rule, the risk exposure to exchange rate changes for future cash flows is not hedged with financial instruments. However, the group's policy enables hedging after the board's approval. No currency hedging was done during the year or the previous year.

Of the group's total revenues, 3% (3%) are in Swedish kronor. Of the group's total costs, 47% (44%) are in Swedish kronor. Taking this exposure into account, a sensitivity analysis of income and expenses in the income statement has been carried out. If the Swedish krona had strengthened against all other currencies by 10%, the result for the year would have been KSEK 69,959 (KSEK 76,163) lower.

The group's currency risk in financial instruments is mainly related to accounts receivable and accounts payable and other liabilities in Sweden. As of the balance sheet date, outstanding net balances in USD amount to KSEK 111,235 (KSEK 139,637), net in EUR amounts to KSEK -18,480 (KSEK -36,806). In a sensitivity analysis where the Swedish krona strengthens against the USD by 10%, the profit for the year after tax is affected by KSEK -8,832 (KSEK -10,976) and in a sensitivity analysis where the Swedish krona weakens against the EUR by 10%, the profit for the year after tax is affected by KSEK -1,467 (KSEK -2,893).

**Interest risk**

At the end of the year, the group had no interest-bearing liabilities. Changes in the interest rate situation affect the return the group receives on cash and cash equivalents. The risk of a lower interest rate is not deemed to be significant.

**Analysis of credit risk**

Credit risk is the risk that a counterparty will not fulfil an obligation to the group. The group is exposed to this risk for various financial instruments, such as cash and cash equivalents in banks, accounts receivable and other receivables.



The group continuously monitors cancellations from customers and other counterparties. The group works with a few different major customers who provide the group's games on different platforms. The credit terms with these usually vary between 0 and 30 days. The ongoing credit risk is managed through a regular review of the age analysis.

December 31, the group has certain receivables that are not regulated at the agreed due date but are not considered to be unsafe. The amounts at December 31, after the specified time after the due date are:

|   | 2021-12-31   | 2020-12-31    |
|---|--------------|---------------|
| Overdue:  |              |               |
| Less than three months                              | 2,125        | 5,583         |
| More than three months but not more than six months | 61           | 6,039         |
| More than six months but not more than nine months  | –            | –             |
| More than a year                                    | –            | –             |
| <b>Total</b>  | <b>2,186</b> | <b>11,622</b> |

The group has also analysed the effects of historical credit losses over the past three years in order to apply these to forward-looking expected loan losses. As there are no loan losses, the forward-looking credit loss amounts to KSEK 0 at the beginning and end of the year.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are well-known institutions with high credit ratings from external assessors.

#### Liquidity risk analysis

The liquidity risk is the risk that the group will not be able to meet its payment obligations due to lack of liquidity. The group manages liquidity needs by monitoring forecasted inflows and outflows in the business. Long-term liquidity needs for a period of 36 months are identified quarterly. The net cash requirements are compared with available cash and cash equivalents to determine that there is a safety margin. The group's goal is to have cash and cash equivalents amounting to at least KSEK 200,000. This target was achieved during the reporting periods. At the end of the year, interest-bearing liabilities amounted to KSEK 0 (KSEK 0). Financial liabilities mainly consist of accounts payables and other liabilities, all within a term of 12 months. In addition to this, the group also has leasing liabilities for which the outflow of leasing fees is presented in Note 24.

#### Capital management

At the end of the year, the group had no (0) external liabilities for financing the operations. The capital consists of equity.

#### NOTE 43

#### FAIR VALUE MEASUREMENT

##### Fair value measurement of financial instruments

Financial assets and liabilities measured at fair value in the statement of financial position is divided into three levels of a hierarchy for fair value. The three levels are defined based on the observability of significant inputs used for valuation is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability
- Level 3: unobservable inputs for the asset or liability

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis:

| 2021-12-31                                    | Level 1        | Level 2        | Level 3        |
|---|----------------|----------------|----------------|
| <b>Financial liabilities</b>                  |                |                |                |
| Contingent consideration, Harebrained Schemes | –              | –              | –              |
| <b>Total</b>                                  | <b>–</b>       | <b>–</b>       | <b>–</b>       |
| <b>2020-12-31</b>                             | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Financial liabilities</b>                  |                |                |                |
| Contingent consideration, Harebrained Schemes | –              | –              | –              |
| <b>Total</b>                                  | <b>–</b>       | <b>–</b>       | <b>–</b>       |

##### Measurement of fair value of financial instruments

The group's finance department carries out the valuation of financial items for financial reporting, including fair value for Level 3. The valuation techniques are chosen based on the characteristics of each instrument, but with the overall goal of using market-based information as far as possible.

The valuation techniques used for instruments classified in Level 3 are described below:

##### Contingent consideration (Level 3)

The fair value of the contingent consideration from the acquisition of Harebrained Holdings Inc has been calculated using a present value technique. The fair value of KSEK 0 (KSEK 0) has been calculated through a probability assessment of future cash flows based on the acquired studio's earnings up to and including 2022, adjusted for a discount rate of 15%. No upper limit regarding the contingent purchase price is regulated in the agreement. The probability-assessed outflow of financial resources before the discount amounts to KSEK 0 (KSEK 0) and has been calculated based on the company's best assessment of the outcome. The effect on the fair value of risk and uncertainty in future cash flows has been taken into account by adjusting the estimated cash flow rather than by adjusting the discount rate.

**NOTE 44 EARNINGS PER SHARE AND DIVIDEND****Earnings per share**

Both earnings per share before and after dilution has been calculated using the profit attributable to shareholders of the parent company as the numerator, i.e. no adjustments of the result needed to be made during the period.

Reconciliation of weighted average number of shares used to calculate earnings per share after dilution can be reconciled to the weighted average number of ordinary shares used in the calculation of earnings per share as follows:

| Number of shares   | 2021        | 2020        |
|--|-------------|-------------|
| Weighted average number of shares used to calculate earnings per share before dilution | 105,600,000 | 105,600,000 |
| Weighted average number of shares used to calculate earnings per share after dilution  | 105,755,565 | 105,839,159 |

**Dividend**

In 2021, Paradox Interactive paid out dividends of KSEK 105,600 (KSEK 105,600) to its shareholders. This corresponds to a dividend of SEK 1.00 per share (1.00 per share).

In 2022, the Board proposes a dividend of KSEK 105,600, corresponding to SEK 1.00 per share. As the parent company dividends must be approved by the General Meeting no liability has been made for the dividend in the consolidated financial statements for 2021. The income tax is not expected to be affected at the company level in the parent company as a result of this transaction.

**NOTE 45      APPROVAL OF THE FINANCIAL STATEMENTS**

Consolidated financial statements for the reporting period ended 31 December 2021 (including comparatives) were approved by the board on April 5, 2022.

The board of directors and the CEO certify that the financial statements have been prepared in accordance with GAAP, the consolidated financial statements have been prepared under the international accounting standards referred to in European Parliament and Council Regulation (EC) No 1606/2002 of 19 July 2002 on the application of international accounting standards and give a true and fair view of the company's and the Group's position and earnings and that the management report gives a fair review of the development of the company's and group's operations, position and results and describes significant risks and uncertainties that the company and the companies included in the group face.

Stockholm April 5, 2022

Håkan Sjunnesson  
Chairman of the Board

Fredrik Wester  
CEO

Andras Vajlok

Mathias Hermansson

Linda Höglund

Our audit report was submitted on the date stated in  
our electronic signature  
Öhrlings PricewaterhouseCoopers AB

Aleksander Lyckow  
Authorised Public Accountant



# AUDITOR'S REPORT (Unofficial translation)

To the general meeting of the shareholders of Paradox Interactive AB (publ.), corporate identity number 556667-4759

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Paradox Interactive AB (publ.) for the year 2021, except for the corporate governance report on pages 38 - 44. The annual accounts and consolidated accounts of the company are included on pages 35-80 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company and the group as of 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2021 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 38-44. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and consolidated income statement and consolidated statement of financial position the group.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Other matter

The audit of the annual accounts and consolidated accounts for

2020 was performed by another auditor who submitted an auditor's report dated 14 April 2021, with unmodified opinions in the Report on the annual accounts.

### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1 - 34. The Board of Directors and the Managing Director are responsible for this other information. Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF THE BOARD OF DIRECTOR'S AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the

company, to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### OPINIONS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Director's and the Managing Director of Paradox Interactive AB (publ.) for the year 2021 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Director's and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### **Responsibilities of the Board of Director's and the Managing Director**

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### **Auditor's responsibility**

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

### **The auditor's examination of the corporate governance statement**

The Board of Directors is responsible for that the corporate governance statement on pages 38 – 44 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevR 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm

On the date stated in our electronic signature

Öhrlings PricewaterhouseCoopers AB

Aleksander Lyckow  
Authorized Public Accountant



# AUDITOR'S REPORT ON THE STATUTORY SUSTAINABILITY REPORT

To the general meeting of the shareholders Paradox Interactive AB  
(publ.), org.nr 556667-4759

## **Engagement and responsibility**

It is the board of directors who is responsible for the statutory sustainability report for the year 2021 on pages 26-34 and that it has been prepared in accordance with the Annual Accounts Act.

## **The scope of the audit**

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

## **Opinion**

A statutory sustainability report has been prepared.

Öhrlings PricewaterhouseCoopers AB

Stockholm

On the date stated in our electronic signature

Aleksander Lyckow

Authorised Public Accountant

