



Annual Report 2018

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the Swedish version shall prevail.

Annual Report 2018

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About Paradox Interactive

PUBLISHER AND DEVELOPER

The Paradox group today consists of both publishing and internal development of games and brands. The game portfolio includes more than 100 titles and Paradox owns the most important brands, including Stellaris, Europa Universalis, Hearts of Iron, Crusader Kings, Cities: Skylines, Prison Architect, Magicka, Age of Wonders and the World of Darkness catalogue of brands. From the start 15 years ago, the company has published its games all over the world, initially through physical distribution but since 2006 primarily in digital channels. Paradox games are developed primarily for PC

and console platforms, but the company also releases games on mobile. The largest markets today include the US, UK, China, Germany, France, Russia and Scandinavia. Today, over three million gamers play a Paradox game each month and the number of registered Paradox users exceeds nine million.



Words from the CEO

BEST YEAR EVER FOR PARADOX

2018 was a record year for Paradox Interactive. We delivered the highest sales ever in the history of the company, and passed one billion SEK in revenue. Yet, this is just the beginning of our growth journey. In the coming years, we will invest heavily in developing and releasing more and bigger games than we have previously; in marketing, to reach a wider and more international audience; as well as in our own technical platform, to facilitate further development of games while bringing our fans closer to us.

Our business model is built to continually deliver new games, while we continue to grow and support our existing active titles. This combination lowers risk and guarantees a stable revenue stream over

time. This also allows for patience – we release games when they are ready, and we prioritize good products that will be appreciated by our fans over short-term smooth growth curves.

We released two completely new games in 2018 – Surviving Mars and BATTLETECH. We continue to grow our presence on console platforms with games like Surviving Mars, which was launched simultaneously on PC, Xbox One and Playstation 4; as well as the bestseller Cities: Skylines, which during the year made its debut on Nintendo Switch. In the beginning of 2019, we also launched Stellaris: Console Edition, the first grand strategy game ever on console, for Xbox One and Playstation 4.

As always, our strategy is to work with our games in the long term, updating them with new content – both paid for and free. A large part of our revenue comes from updates to existing games. In 2018, we released a total of 16 expansions for games like Stellaris, Cities: Skylines, Hearts of Iron IV, Europa Universalis IV, Crusader Kings II, Surviving Mars and BATTLETECH.

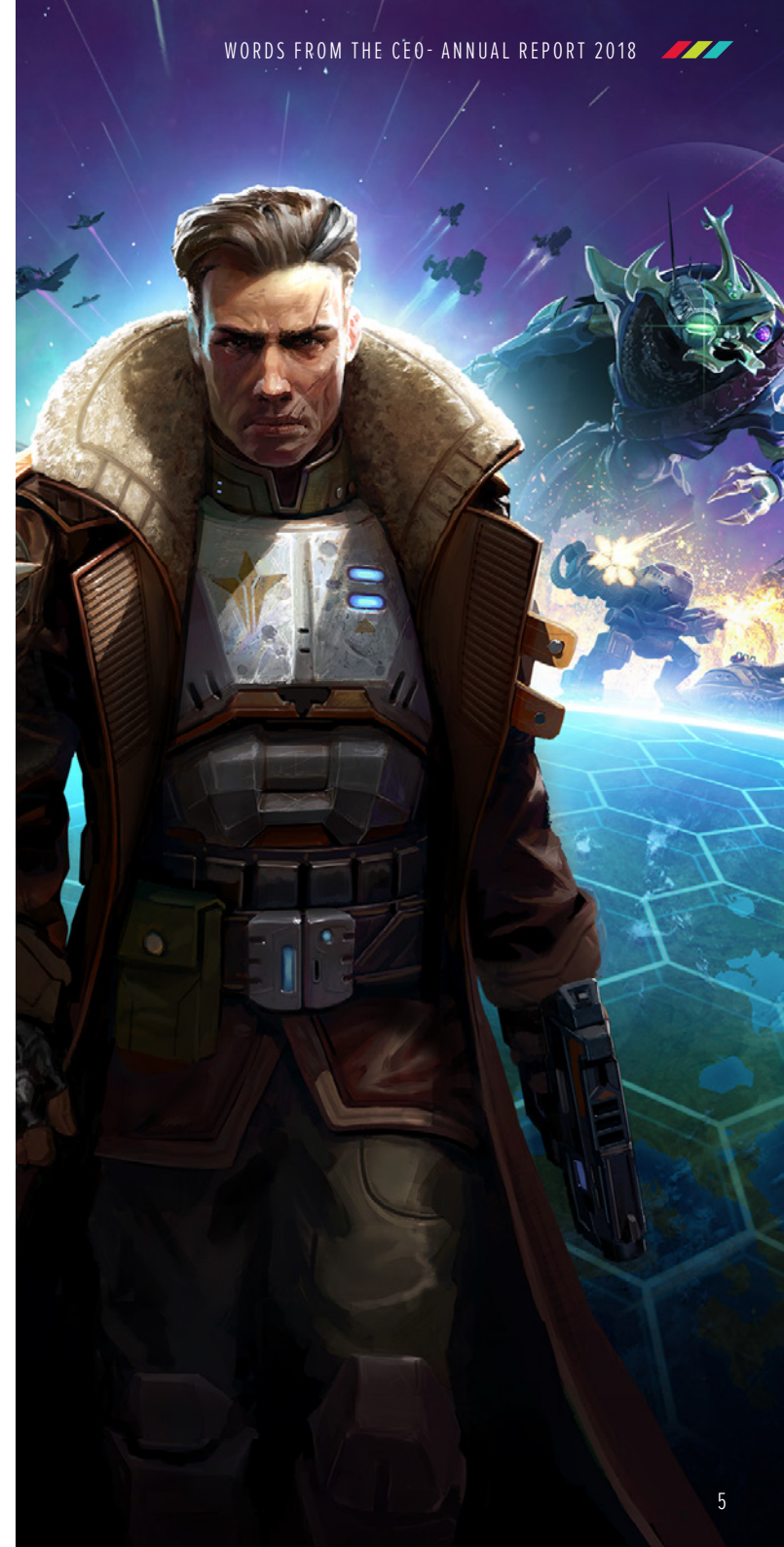
Through the year we also made several acquisitions – all with the goal of building our development capacity, and to equip us for more and larger releases in the future. Through these acquisitions, we strengthen the company's brand portfolio and broaden our skills and know-how around developing different types of gaming experiences.

In January, we announced the acquisition of 33 percent of the Seattle-based studio Hardsuit Labs. In June, we announced the acquisition of Harebrained Schemes – also from Seattle. Harebrained Schemes was founded in 2011 by gaming veterans Jordan Weisman and Mitch Gitelman. Weisman has created many successful games and brands including Shadowrun, Crimson Skies and BattleTech/MechWarrior. Harebrained Schemes were the developers of BATTLETECH, which was published by Paradox Interactive in 2018. In the beginning of 2019, we also announced Paradox Tectonic – our latest wholly-owned development studio based in Berkeley, California, under the leadership of well-known game designer Rod Humble. Paradox Tectonic is currently working on a new game that will be published by Paradox Interactive.

In the beginning of January 2019, we also announced the acquisition of the game and brand Prison Architect from Introversion Software. Prison Architect is an award-winning management game that has so far sold over two million copies globally. We see great potential in developing the Prison Architect IP, and in creating both new content and sequels to this successful game.

So far, we have announced two new games that are planned for release in 2019: Imperator: Rome and Age of Wonders: Planetfall. They are some of the most ambitious games we have ever released. The reception from press and fans has so far been very positive and we are very much looking forward to seeing how these games are received by fans. Imperator: Rome will be the first completely new grand strategy game released in three years. Age of Wonders: Planetfall is the first game release from Triumph Studios since we acquired the studio in 2017.

For us it's important to avoid overly optimistic projections when we plan for the future. It is very difficult to predict how new game releases will perform. We work with a long-term view and build both the company and our games for stable growth – with ongoing development of existing games and a regular flow of new titles – rather than betting everything on a few large and expensive projects. At the same time, we are well prepared if a game should turn into a surprise hit. We can then quickly kickstart the development of new content, and invest in more marketing to capture the opportunity when it arises.





In the coming year, we will continue to diversify onto different platforms and into new genres. Many of our games in development will help us grow our presence in the management and RPG genres, while others will strengthen our position in our core segment of strategy games. We see an increasing interest for our games on consoles and we will continue to develop both new and existing titles for platforms like Xbox One, Playstation 4 and Nintendo Switch. Additionally, we are translating our games into more languages, and growing our efforts with local marketing on fast-growing markets, for example in Asia.

In March 2019, at the Game Developers Conference in San Francisco, we announced Vampire: the Masquerade - Bloodlines 2, the first Paradox-published game set in the World of Darkness universe, to record media coverage and interest from fans. Vampire: the Masquerade - Bloodlines 2 signals a big step for Paradox Interactive into the RPG genre, on both PC and console, as well as the return of a cult classic video game franchise.

On mobile platforms, we continue to use soft launches in specific markets, and for certain target audiences, to test reactions to games in development. Although we are most well-known for our complex strategy games, it's important for us to experiment on mobile platforms to see what kinds of experiences work best there.

The PC and console markets are currently undergoing rapid changes, where the power balance between platforms and distribution channels is changing. We see that as very positive for us. We are convinced that we as content publishers have

an important role to play in this change, and we constantly work to ensure our games are available where our fans want them to be.

My first year as CEO for Paradox Interactive has been absolutely fantastic. It is genuinely an honor to lead such a unique company into the future. Our employees are some of the most talented and hard-working people I have ever had the opportunity to work with, who contribute to our success every day. We are all extremely proud of the games we have out on the market today, as well as of the upcoming projects we have in our pipeline.

With that said, I want to also thank all our shareholders for being part of this journey. I look forward to sharing more information with you about what the years ahead have in store. This journey has only just begun.

Ebba Ljungerud, CEO

2018 in brief

THE PLAYERS

A close and transparent relationship with our community continues to be a key strategy for Paradox. This is a part of our DNA as a company and something that we believe makes us unique as game publishers.

Through a variety of channels, we interact with our players every day. Together with our employees at Paradox Interactive they all play an active role in shaping our strategy and our products. On social media, our company and our various brands have over two million followers.

On Twitch and YouTube we broadcast daily livestreams where we show our games, celebrate new releases and offer personal meetings and conversations with our game developers, and with our CEO and CFO. Much of the material is edited and shared more widely in other channels as well. Paradox manages five YouTube channels today: Paradox Interactive, Paradox Extra, Paradox Grand Strategy, Paradox XL and Cities: Skyline Official. Together with our Twitch channel, they have at the end of 2018 over 500,000 subscribers and had gathered almost 250 million views in total.

In addition to these channels, we reach our players every day through the ecosystem of services we have built and continually develop inside and around our games. Among these are our own forum, with over 375,000 active users every month;



our Wiki database; our own modding platform and our own online store. Players with a Paradox account spend, on average, more time in our games, and more money on new games and expansions, than those without an account. Today there are over nine million registered Paradox accounts in our ecosystem, an increase from over seven million one year ago.

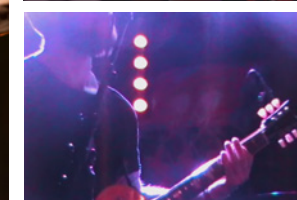
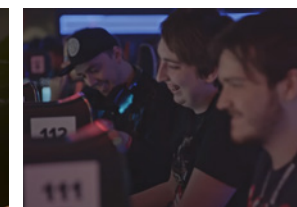
Modding is and continues to be a key factor in how we develop and market our games. That our players have the freedom to customize and improve our games themselves is something we see as an enormous strength, that drives both new sales and increases the time players spend in our games. To encourage this growth, we developed during the year our own modding platform, Paradox Mods – developed in collaboration with Microsoft – with the game *Surviving Mars* as a pilot project. Paradox Mods is a platform-independent solution that makes it possible for console players to download and use the same mods as they do on PC.

It's also a great honor to meet our fans face to face at PDXCon, our annual fan conference. At the 2017 conference – the first that we opened for the public – 750 participants from 22 different countries attended. In 2018, we welcomed over 1,200 participants from 46 countries – strong proof that Paradox's dedicated community is growing with us as a company. PDXCon will return in 2019, bigger and better than ever, this time in Berlin, Germany.

The PC continues to be Paradox's largest platform, both in terms of revenue and player numbers. In 2018, we significantly expanded our presence on the console market through games like *Surviv-*

ing Mars and *Cities: Skylines*, as well as in 2019 through *Stellaris: Console Edition*. We also continue to experiment with limited soft launches on mobile platforms.

The majority of Paradox players are found in the USA or western Europe, but we are also seeing significant growth in the Asian market, particularly in China. To drive this growth, we are translating more and more of our games into simplified Chinese, and we are investing in local marketing activities through external partners such as Tencent, who owns five percent of Paradox Interactive.



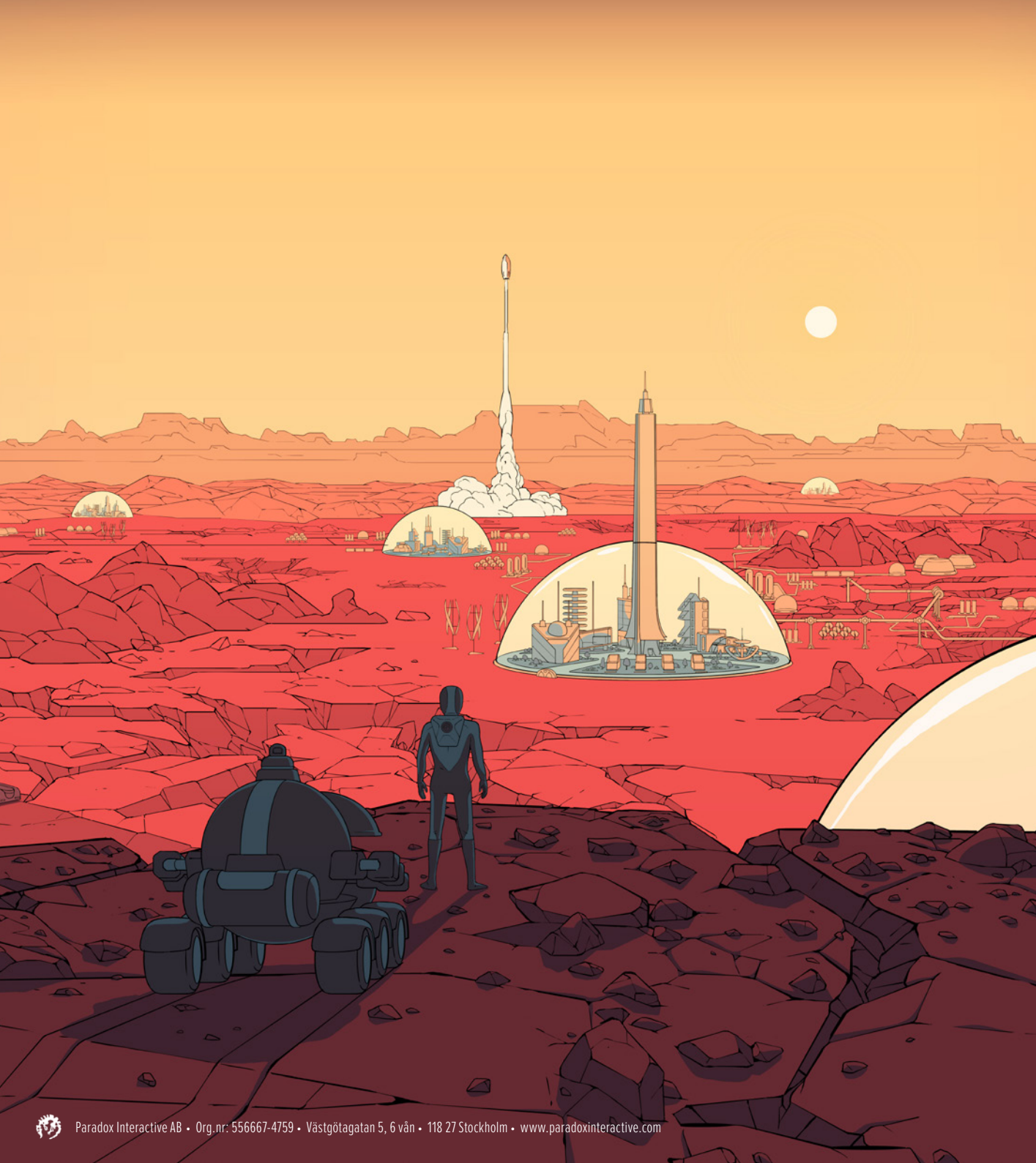
2018 in brief

THE GAMES

In 2018 we released two completely new games: *Surviving Mars*, developed by Haemimont Games, and *BATTLETECH*, developed by Harebrained Schemes. Both lived up to expectations with high ratings from fans and critics. We also made our debut on Nintendo Switch with our best-selling game *Cities: Skylines*.

Our existing portfolio of active games – *Stellaris*, *Hearts of Iron IV*, *Crusader Kings II*, *Europa Universalis IV* and *Cities: Skylines* – continues to perform very well. The latest expansion for *Crusader Kings II*, *Holy Fury*, reached record sales in the year, even though the original *Crusader Kings II* was released over seven years ago. The same can be said for the *Dharma* expansion for *Europa Universalis IV*, *Apocalypse* for *Stellaris*, and *Parklife* for *Cities: Skylines*, which were all released during 2018 and delivered record sales for their respective brands.

That our games are well received both by fans and critics is very important for us. We are very proud that in 2018, for the second year in a row, we placed second among mid-sized publishers in Metacritic's annual game publisher rankings. The rankings are based on average scores from prominent critics, on releases from the past year.



Another acknowledgement is that seven of Paradox's games qualified for Steam's global list of 100 best-selling games in 2018. Both of our new releases for the year were featured on the list – Surviving Mars and BATTLETECH – as were Crusader Kings II, Europa Universalis IV, Hearts of Iron IV, Stellaris and Cities: Skylines.

To greater increase our capacity to develop and release more and larger games, we made several acquisitions throughout the year. 2018 began with the announcement that Paradox bought 33 percent of the Seattle-based studio Hardsuit Labs. In June we announced the acquisition of another Seattle-based studio, Harebrained Schemes. Harebrained Schemes has developed BATTLETECH which was published by Paradox Interactive in 2018. In the beginning of 2019, we also announced Paradox Tectonic – a brand new internal development studio based in Berkeley, California. Paradox Tectonic is working on a new not yet announced game, which will be published by Paradox Interactive.

In early January 2019 we announced the acquisition of all rights to the game and brand Prison Architect, created by Introversion Software. Prison Architect is an award-winning management game that has sold over two million copies worldwide. We will, just like with all our other games, continue to develop the game with both free updates and paid expansions. We are also exploring the possibility of developing new titles under the wider Architect brand, as part of our ambition to grow Paradox's portfolio of management games.



2018 in brief

THE PEOPLE

At Paradox, every employee is a leader: you always lead your own work, some lead their own teams, others the whole organization. We have a leadership program for all our employees and managers – one for self-leadership, one for leadership between people and one for leading a team.

Paradox managers are involved as much as possible in company decisions, in order for them to develop a good understanding of Paradox's development and goals. Our human resources department works continuously with supporting and coaching our managers so that they can lead their teams in the best way possible.

During the year, Paradox has grown with over 100 new employees – and we continue to recruit for a number of teams and positions. In addition to the publishing business in Stockholm, we now manage five internal development studios – Paradox Development Studio in Stockholm and Paradox Arctic in Umeå, Sweden; Triumph Studios in Delft, the Netherlands; Harebrained Schemes in Seattle and Paradox Tectonic in Berkeley, USA – plus a mobile development team based in Malmö, Sweden. In 2018, we created a talent acquisition team, where we employ recruiters to secure the right skills for every part of the organization. We continually train our managers within recruitment to ensure that every new employee is the right fit for Paradox.

We have also implemented pulse surveys throughout the organization in order to capture positive

and negative signals quickly, and act on them. These are important tools for managers who, through ongoing and concrete feedback, gain insights into the organization's needs and opportunities to grow their leadership skills. Paradox also invests in building culture through staff conferences, PDXCon and other social activities.

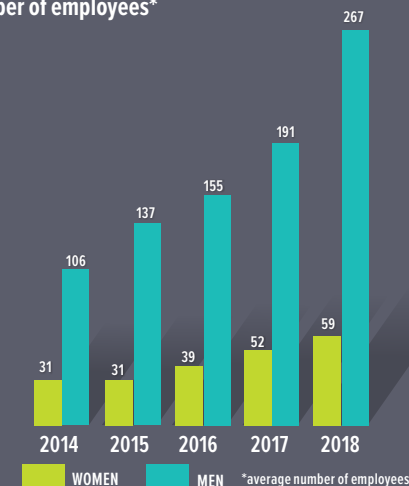
Work is ongoing to integrate our new game studios in the USA and the Netherlands with the rest of the business, and we constantly assess the organization's way of working in order to manage growth as effectively as possible.

By participating in initiatives like Girls Code (Tjejer Kodar) and exhibiting at various trade fairs, we ensure that our brand is widely seen by prospective recruits. We aim to be transparent about what it's like to work at Paradox, for example through our Instagram account 'life_at_paradox' and via our other social media channels.

We regularly evaluate our Compensation & Benefits program to ensure that it offers competitive and attractive opportunities for the right talent, and we work hard to ensure there are new opportunities internally for employees who want to develop and grow.



Number of employees*



2018 in brief**WHY WE WORK AT PARADOX INTERACTIVE****Lennart Sas**

Co-founder, Triumph Studios:

"The people here have a special spark"

What's the best thing about your job?

Developing exciting new projects together with creative people, and getting to see both individuals, teams and results grow. The Swedish fika tradition is a strong second!

What's your personal highlight from the past year?

When we officially released our new game Age of Wonders: Planetfall to fans at PDXCon in Stockholm.

What would you say to someone who wants to work with Paradox?

Even though we are growing fast, we keep our focus on the gaming world. Everyone who works here still has that special spark when they speak about their job.

**Ashkan Namousi, Segment Lead Producer in the Strategy Segment:**

"We have a lot of exciting projects under way!"

What is the best thing about your job?

Getting to work with the fantastic team Harebrained Schemes every day. We have built a deep relationship based on mutual respect and trust, and we're proud and happy to work together.

What makes Paradox unique?

That we take advantage of the best elements of Swedish working culture, such as humility and freedom under responsibility. It makes us a great partner and a great employer.

What is your favourite game?

Stellaris. Thanks to continuous updates and new additions to the game, it's become the best strategy game on the market.

**Sandra Neudinger**

Segment Owner, Management Games:

"People can grow through responsibility here"

What is the best thing about your job?

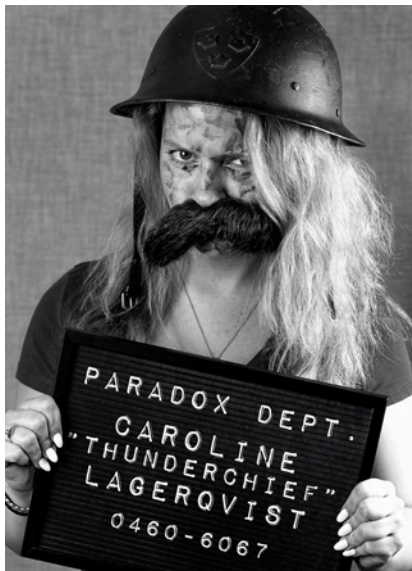
- I love being at the core of our business. My colleagues are wise, the discussions are interesting and you need to stay prepared for challenges. No day is like the next, and I am constantly evolving.

What makes Paradox unique?

- That you can get ideas through, no matter what role or function you have in the company. We are passionate about what we do and like to dig into all possible areas, which creates a working environment with mutual respect for each other and for our differences.

What's your personal highlight from the past year?

- When I could work remotely and travel the world at the same time! Few companies would give you the opportunity to fulfil your private and professional dreams at the same time. On the Transmongolian railway, a border guard noticed my Paradox hoodie and we got stuck in a long conversation about Europa Universalis IV and Hearts of Iron. It was great to see his passion for our games!



Caroline Lagerqvist

HR Business Partner:

"Every day brings new opportunities"

What is the best thing about your job?

- The variation! Getting to be part of something new and exciting every day, and be a part of Paradox's fantastic journey.

Why is it fun to go to work?

- The best thing is to see what we can achieve as the organization grows. It brings both challenges and major opportunities, and gives us who work here a chance to grow and develop together with the company.

What would you say to someone who wants to work with Paradox?

- It's incredibly fun here, and at the same time we get to work with some of the smartest, most talented people in the industry. It's a place where you can definitely learn a lot at work!



Mitch Gitelman

Studio manager på Harebrained Schemes, game director för BATTLETECH:

"Creative energy makes it fun to go to work"

What makes Paradox unique?

- The ability to understand our position in the market and to be able to expand in a smart way. We find talented teams and let them explore their strength in peace and quiet. We are good at internal collaborations between departments to get the best possible business results. We have huge respect for our players.

What's the best thing about your job?

- Getting to work with talented people to create cool worlds, games and experiences together.

What is your favourite game?

- Stellaris. I'm looking forward to playing it on Xbox!



Carmille Gidfors Netzler

Embedded QA och Associate Producer, EU IV:

"The working culture is open and accepting"

What makes Paradox unique?

- The people! They are interesting and passionate in so many different ways, which fosters an open and accepting working culture. I like how we can be ourselves at work and really 'geek out' when we discuss our interests.

Why is it fun to go to work?

- When I describe to others how it is to work here, I often say that it feels like I'm going to a second home, not to work. Here, work doesn't always feel like just a 'job'. Of course, there is often a lot to do and the days can be hectic, but at the same time, it feels really natural and rewarding.

What is the best thing about your job?

- I love being able to give my all to support both my project and our players.



Malin Castegren

Product Marketing Manager, Strategy Games:

"The proximity to our products makes us unique"

What is the best thing about your job?

- When someone says 'hey, maybe this is a crazy idea, but what if...!' And then we all get excited and work together to turn the original idea into an asset.

What makes Paradox special?

The proximity to our products and our developers makes us unique in the market. There's a lot of personal responsibility and a genuine passion for gaming.

What's your personal highlight from the past year?

When we launched BATTLETECH. My marketing team was very excited to get the product out on the market, and every day we improvised a new theme tune for the game that we sang on!



Jamieson Wood

Producer for Stellaris:

"We acknowledge our differences"

What is the best thing about your job?

- Creating games together with my friends and getting paid for it! I love being able to turn a thought into a fully-fledged release.

What makes Paradox unique?

- That we have the most geeky, 'quirky' work culture I have ever come across! But instead of seeing our individual differences as something weird, we affirm and celebrate our differences. That's what makes our games so varied and special.

What would you say to someone who wants to work with Paradox?

- This is a place with an unrivalled attitude to creative freedom, diversity, tolerance and trust. With us you are allowed to be yourself, and get great freedom in how you practice your craft.



Financial development

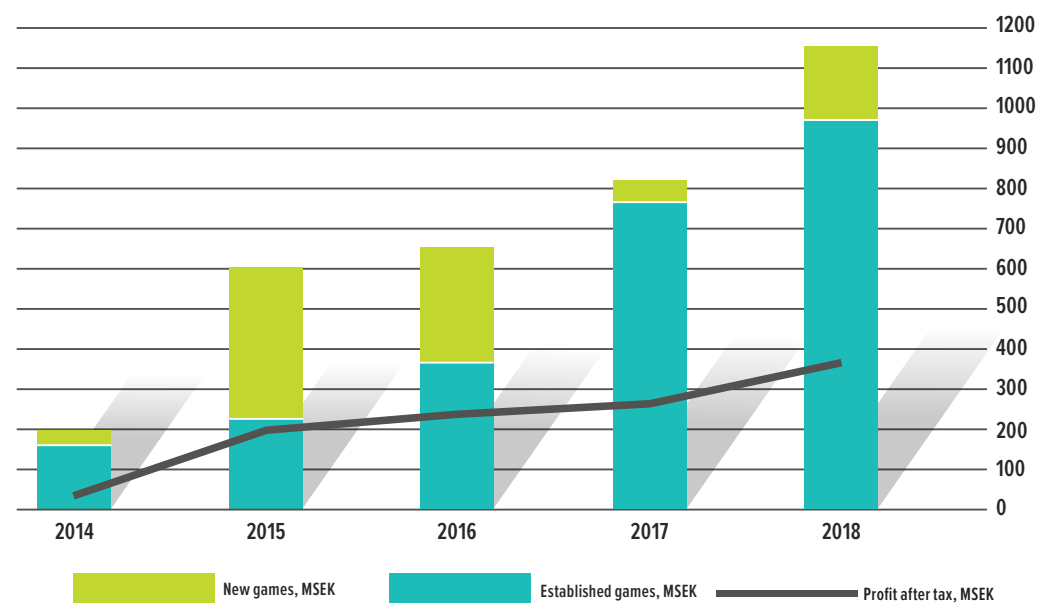
Increased revenue from established games

Revenue for the year amounted to SEK 1,127.7 (813.8) million, an increase of 39 percent compared with the same period the previous year. During the year, two new games were released: Surviving Mars, developed by Haemimont Games; and BATTLETECH, developed by Harebrained Schemes. In addition, 16 expansions were released for existing games, and Cities: Skylines was released on the Nintendo Switch. Revenue for the year is mainly attributed to Cities: Skylines, Stellaris, Hearts of Iron IV, Europa Universalis IV and Crusader Kings II.

The revenue split between new and established games is illustrated in the chart – where new games are defined as games released during the year 2018; and established games as base games, ports and expansions to base games released in previous years. A growing base of revenue attributed from established games means reduced risks for significant fluctuations in revenue and profit over time, and it also reduces our dependency on new game releases. The percentage of the year's revenue that can be attributed to already established games was 86 percent (96 percent).

Operating profit amounted to SEK 455.1 (339.8) million, an increase of 34 percent. Profit before tax amounted to SEK 455.2 (339.6) million and profit after tax amounted to SEK 353.9 (264.9) million.

FIVE YEAR SUMMARY

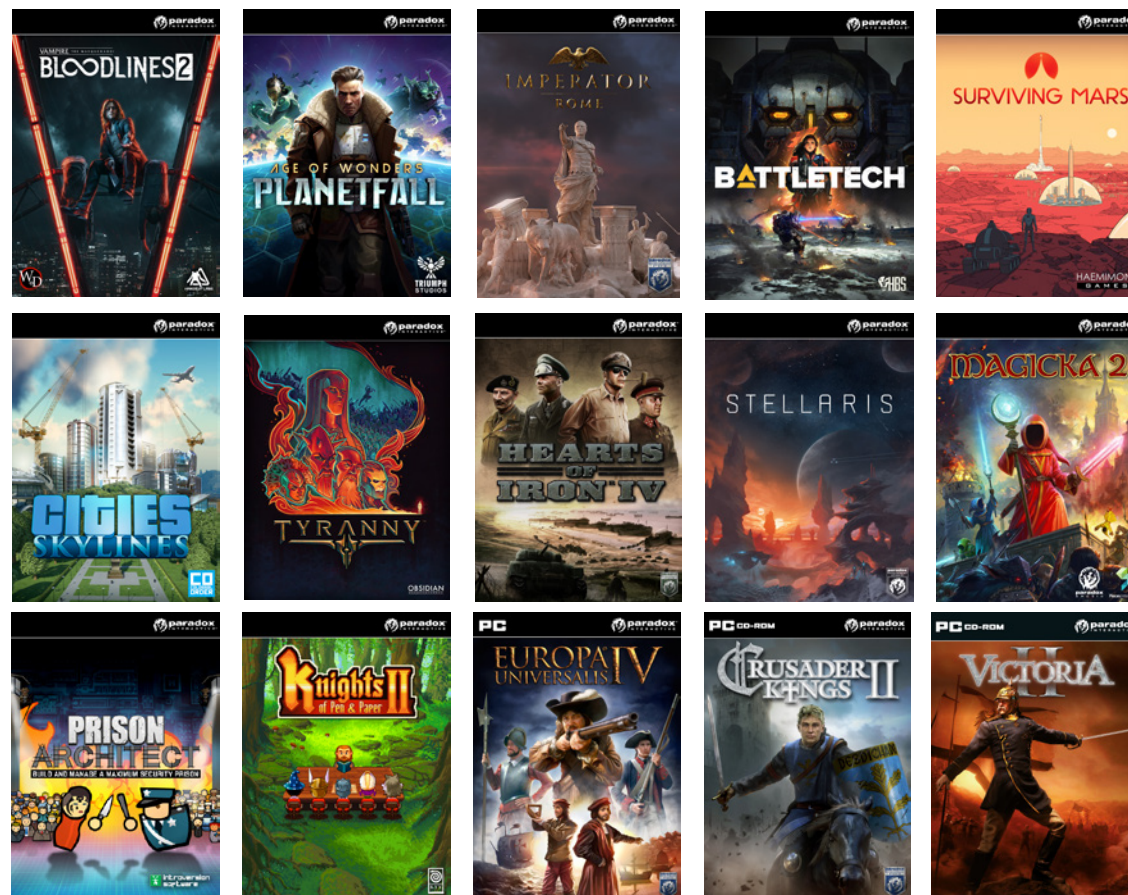


Game Portfolio

A SELECTION OF BRANDS

Paradox has a wide range of brands in its portfolio. We are constantly developing and updating our games, in close dialogue with our fans, with both paid and free new content. This means that risk is diversified across a large number of projects, which allows us to take a long-term view on developing new games.

- **AGE OF WONDERS: PLANETFALL**
- **BATTLETECH**
- **CITIES: SKYLINES**
- **CRUSADER KINGS**
- **EUROPA UNIVERSALIS**
- **HEARTS OF IRON**
- **IMPERATOR: ROME**
- **KNIGHTS OF PEN & PAPER**
- **MAGICKA**
- **PRISON ARCHITECT**
- **STELLARIS**
- **SURVIVING MARS**
- **TYRANNY**
- **VAMPIRE: THE MASQUERADE - BLOODLINES 2**
- **VICTORIA**



Releases during 2018

DEVELOPER

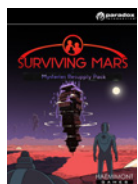
HAEMIMONT
GAMES

76 6.5

Metacritic score

70

Steam user reviews



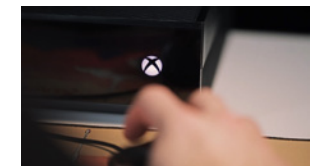
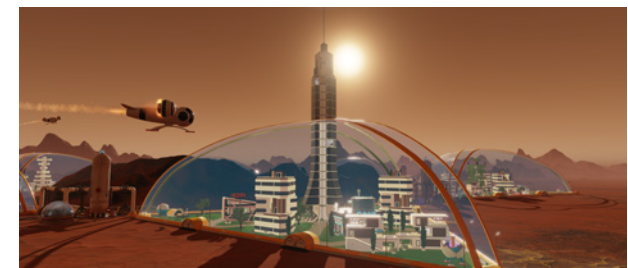
Surviving Mars

COLONIZE MARS AND DISCOVER HER SECRETS

Release date: 15th March 2018

Surviving Mars is a sci-fi city builder all about colonizing Mars and surviving the process. All you need are supplies, oxygen, decades of training, experience with sandstorms, and a can-do attitude to discover the purpose of those weird black cubes that appeared out of nowhere. With a bit of sprucing up, this place is going to be awesome!

Releases in 2018: Surviving Mars (base game), Space Race



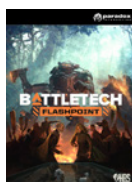


7.8 7.0

Metacritic score

71

Steam user reviews



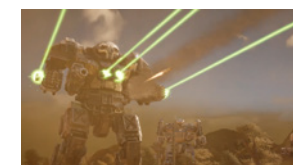
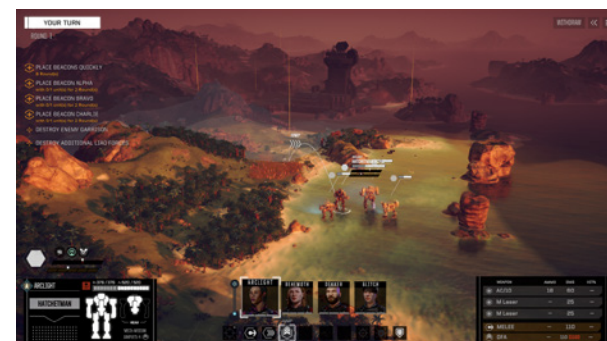
BATTLETECH

A BATTLE OF GIANTS

Release date: 24th April 2018

From original BATTLETECH/MechWarrior creator Jordan Weisman and the developers of the award-winning Shadowrun Returns series comes the next-generation of turn-based tactical Mech combat. Take command of your own mercenary outfit, struggling to stay afloat as you find yourself drawn into a brutal interstellar civil war.

Releases in 2018: BATTLETECH (base game), Flashpoint



NINTENDO SWITCH IS A TRADEMARK OF NINTENDO.

DEVELOPERS



7.8 7.0

Metacritic score

71

Steam user reviews



Cities: Skylines

NINTENDO SWITCH EDITION

Release date: 14th September 2018

More portable than ever, the Nintendo Switch Edition of this best-selling city builder comes complete with a reworked user interface, designed especially for Switch, along with two of Cities: Skylines' most popular expansions - After Dark and Snowfall.





Expansions

CITIES SKYLINES

Release date: 10th March 2015

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

Releases in 2018: Parklife, Industries, Natural Disasters (Xbox/PS4), Mass Transit (Xbox/PS4)

85 8.9

Metacritic score

91

Steam user reviews

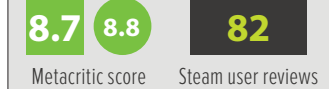
DEVELOPERS





Expansions

EUROPA UNIVERSALIS IV



Release date: 13th August 2013

The building of an empire continues. In the award-winning Europa Universalis IV, you take control of a country and guide it through the ages with the goal of creating a dominant global empire. The game spans over several centuries and the freedom, depth and historical accuracy on offer is unparalleled. Discovery, travel, trade, warfare and diplomacy are given new life in this epic, strategic and tactical game.

Releases in 2018: Rule Britannia, Dharma, Golden Century

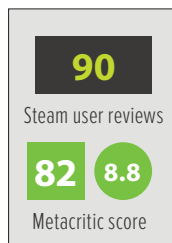
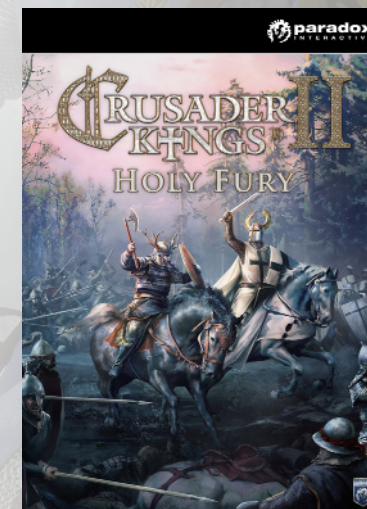
Expansions

CRUSADER KINGS II

Release date: 14th February 2012

Crusader Kings II takes place during one of the most important periods in world history - medieval Europe. Nations are small enclave territories. The emperor grapples with the pope. The Holy Father entices people to journey to free the Holy Land by promising forgiveness of all their sins. Your goal? To establish the most powerful dynasty of the Middle Ages.

Releases in 2018: Holy Fury



Expansions

STELLARIS

Release date: 9th May 2016

Explore a vast galaxy, filled with wonder. Featuring deep strategic gameplay, a rich and enormously diverse selection of alien races and emergent storytelling, Stellaris has engaging and challenging gameplay that rewards interstellar exploration as you traverse, discover, interact with and learn more about the multitude of species you will encounter during your travels.

Releases in 2018: Apocalypse, Distant Stars, Mega-corp.

77

Steam user reviews

78 8.0

Metacritic score



Expansions

HEARTS OF IRON IV

Release date: 6th June 2016

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; the most engaging conflict in world history. From the heart of the battlefield to the command center, you will guide your nation to glory and wage war, negotiate or invade.

Releases in 2018: Waking the Tiger

86

Steam user reviews

83 7.2

Metacritic score



Announced releases



Stellaris: Console Edition

Release date: 26th February 2019 (PS4/Xbox)
Stellaris: Console Edition is the world's first grand strategy game for consoles, putting the complexity of the galaxy at your thumbsticks. Whether you're exploring the unknown, discovering the mysteries of the universe, or conquering it for the glory of your empire, players have more intergalactic strategy awaiting them than ever before.



Imperator: Rome

Release date: 25th April 2019
Imperator: Rome is the newest grand strategy title from Paradox Development Studio. Set in the tumultuous centuries from Alexander's Successor Empires in the East to the foundation of the Roman Empire, Imperator: Rome invites you to relive the pageantry and challenges of empire building in the classical era. Manage your population, keep an eye out for treachery, and keep faith with your gods.



Age of Wonders: Planetfall

Release date: 6th August 2019
Emerge from the cosmic dark age of a fallen galactic empire to build a new future for your people. Age of Wonders: Planetfall is the new strategy game from Triumph Studios, creators of the critically acclaimed Age of Wonders series, bringing all the exciting tactical turn-based combat and in-depth empire building of its predecessors to space in an all-new, sci-fi setting.

Announced releases



Vampire: the Masquerade - Bloodlines 2

A CITY RUN ON BLOOD

Sired in an act of vampire terrorism, your existence ignites the war for Seattle's blood trade. Enter uneasy alliances with the creatures who control the city and uncover the sprawling conspiracy which plunged Seattle into a bloody civil war between powerful vampire factions

Release date: March, 2020



Market

CONTINUED INDUSTRY GROWTH

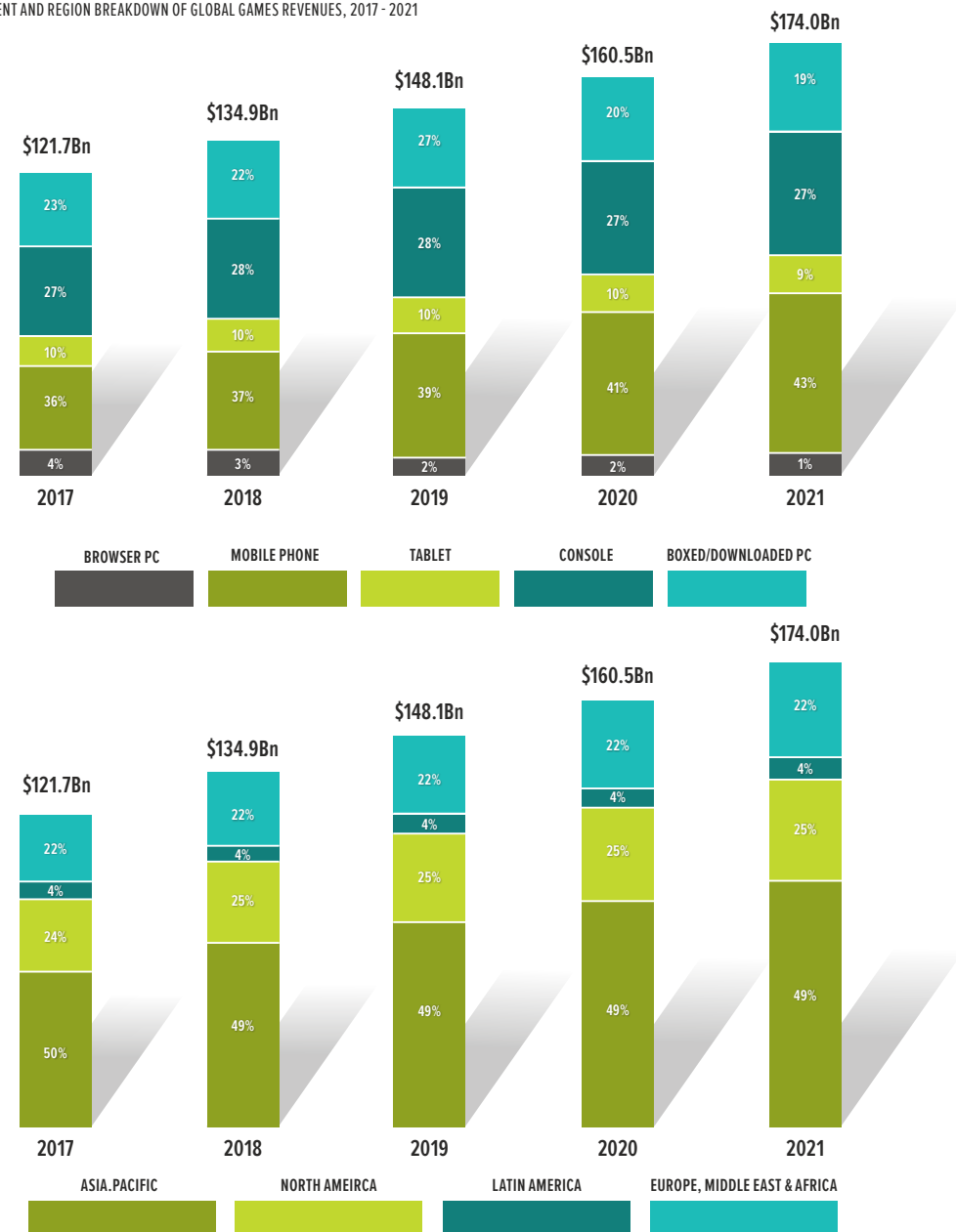
The global gaming market grew to 134.9 billion USD in 2018, 13.2 billion USD more than the previous year, according to market research agency Newzoo. According to Newzoo projections, growth will continue in the years ahead and the gaming market will generate revenues of 174.0 billion USD by 2021. Approximately 52 percent of the total turnover of the gaming market comes from mobile games, meaning a yearly average growth of 9.3 percent between 2017 and 2021.

The growth of mobile gaming has not cannibalized the PC and console market. PC gaming is expected to grow by on average 2.7 percent annually until 2021, with the console market growing 8.8 percent.

The growth in India and China is strong. In India the most popular games have been casual games, but the expectation is that core games will grow in the future, thereby increasing the amount of time and money Indian gamers spend on games. In China, tech giants Tencent and Alibaba are increasingly seeking an international market with their investments.

GaaS (Gaming as a Service) is the new normal. It means that the ability to keep games alive, and occupy gamers for a long time, with ongoing updates and expansions, becomes ever more important. At the same time, e-sports and streaming continue to be strong trends.

SEGMENT AND REGION BREAKDOWN OF GLOBAL GAMES REVENUES, 2017 - 2021



SOURCE: 2018 GLOBAL GAMES MARKET REPORT - JANUARY 2019 QUARTERLY UPDATE

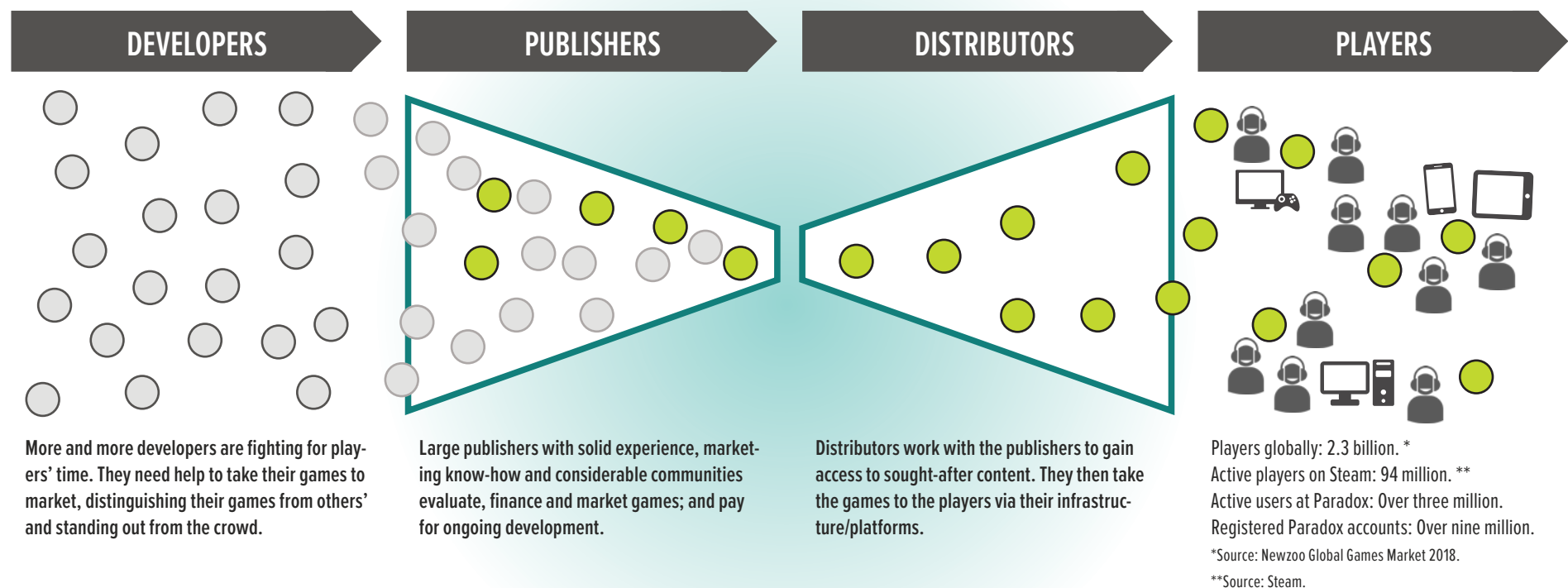
Market

HOW THE VALUE CHAIN WORKS – AND PARADOX’S PLACE IN IT

Paradox is well positioned to take advantage of the gaming industry’s rapid growth. We have a stable foothold across the value chain, a large, loyal and engaged community and a strong portfolio of attractive brands. At the same time, we’re building close partnerships with the most

important distributors on both the console market (Sony, Microsoft) and PC market (Steam, Tencent, GOG). Though the USA and Europe remain our strongest markets, we see good growth in Asia, and especially in China.

Our revenue comes mainly from digital distribution and PC games, but console games are becoming increasingly important, and we continue to experiment within the mobile market.



PARADOX IN THE VALUE CHAIN AND EXAMPELS OF PARTNERS



FINANCIAL STATEMENTS

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ADMINISTRATION REPORT

The Board and the CEO of Paradox Interactive AB (publ), 556667-4759, hereby present the annual report for the financial year 2018.

INFORMATION ABOUT THE OPERATIONS

The Paradox group today consists of both publishing and internal development of games and brands. The game portfolio includes more than 100 titles and Paradox owns the most important brands, including Stellaris, Europa Universalis, Hearts of Iron, Crusader Kings, Cities: Skylines, Prison Architect, Magicka, Age of Wonders and the World of Darkness catalogue of brands.

From the start 15 years ago, the company has published its games all over the world, initially through physical distribution but since 2006 primarily in digital channels. Paradox games are developed primarily for PC and console platforms, but the company also releases games on mobile. The largest markets today include the US, UK, China, Germany, France, Russia and Scandinavia. Today, over three million gamers play a Paradox game each month and the number of registered Paradox users exceeds nine million.

The parent company is based in Stockholm.

SIGNIFICANT EVENTS DURING THE YEAR

Two new games were released during the year - Surviving Mars, developed by Haemimont Games and Battletech, developed by Harebrained Schemes. The company has also released Cities: Skylines for Nintendo Switch, as well as several expansions to existing titles. The share of sales made by internally developed games continues to be high, which contributes to continued strong margins since no royalty is paid to third parties for these.

On January 2, Paradox acquired 33 % of the shares in development studio Hardsuit Labs, based in Seattle, for USD 2.0 million. Paradox has an option to increase its ownership in the future. The acquisition was made in cash and no earnout will be added.

On June 7, 100 % of the shares in Seattle-based development studio Harebrained Schemes were acquired. Purchase price was set to USD 7.5 million and a contingent consideration amounting to 25% of the acquired business's earnings before publishing costs over a five-year period, to the extent that the result exceeds the fixed purchase price.

Ebba Ljungerud started as CEO for the company on August 1, and Fredrik Wester became the Chairman of the Board.

By the end of the year rights and assets for Prison Architect were purchased from Introversion Software Ltd.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

In February Stellaris was released for the first time on Console; Stellaris: Console Edition.

On March 7, Paradox announced the opening of a new internal development studio, Paradox Tectonic, which will operate in Berkeley, California. The studio will be led by industry veteran Rod Humble.

On March 21, the new game Vampire: the Masquerade - Bloodlines 2 was announced, developed by Hardsuit Labs Inc. The game is planned for released in March 2020.

EXPECTED FUTURE DEVELOPMENT

In the coming years, continued good profitability is expected. The games Imperator: Rome and Age of Wonders: Planetfall are scheduled

to be released in 2019. The game Vampire: the Masquerade - Bloodlines 2 is scheduled to be released in 2020. Development is ongoing on a number of not yet announced games and expansions to games.

REVENUES AND PROFIT

Revenues for the period amounted to SEK 1,127.7 (813.8) million, an increase by 39 % compared to the same period last year. During the year, the two new games; Surviving Mars, developed by Haemimont Games, and Battletech, developed by Hardsuit Labs, were released. Cities Skylines - Nintendo Switch Edition, developed by Tantalus Media was released for Nintendo Switch. 16 expansions were released to existing titles during the period. Revenues for the year are mainly attributable to Cities: Skylines, Stellaris, Hearts of Iron IV, Europa Universalis IV and Crusader Kings II.

Direct costs amounted to SEK 408.4 (280.8) million, primarily attributable to game development and royalties. Royalties have increased compared with the comparative period due to an increase of games sold from third party development, and royalties to third party rights holders of IP. Costs for game development has increased following game investments and releases of new games. During the period direct costs are affected by write-downs on capitalised development of SEK 36.4 (18.0) million relating to write-downs of both announced and unannounced externally developed projects.

Selling expenses amounted to SEK 102.1 (65.1) million. Selling expenses increased slightly as a result of increased investments in events, advertising, sales and marketing.

Administrative expenses for the period amounted to SEK 177.8 (106.7) million. The

increase is attributable to development and support for the own platform for distribution and support of games, analysis of game and user behaviour, increased costs for salaries within the function, overall IT support, office costs and consumable equipment. Also costs for amortisation on licenses and brands amounting to 20.1 (8.1) million are included.

Other income amounted to SEK 20.3 (1.2) million, and other expenses to SEK 4.7 (22.6) million, of which the majority relates to exchange rate differences. The positive development is primarily driven by a stronger price trend in USD against SEK in the Group's liquid assets, operating receivables and liabilities during the period compared to the same period the previous year.

Operating profit amounted to SEK 455.1 (339.8) million, an increase of 34 %. Profit before tax amounted to SEK 455.2 (339.6) million, and profit after tax amounted to SEK 353.9 (264.9) million.

FINANCIAL POSITION

Capitalised development expenditure amounted to SEK 417.9 (247.3) million at the end of the period. Investment in game projects amounted to SEK 342.2 (236.8) million, and amortisation of launched game projects amounted to SEK 135.2 (SEK 109.0) million.

Licenses, trademarks and similar rights amounted to SEK 249.1 (78.2) million. The increase compared to the comparative period is attributable to acquired brands from the acquisition of Harebrained Holdings Inc and rights and assets for the Prison Architect IP.

By the end of the period property and equipment amounted to SEK 9.5 (10.8) million.

Investments in associates amounted to SEK 14.3 (0.0) million by the end of the period, attributable to the acquisition of 33 % of the shares in development studio Hardsuit Labs, based in Seattle. The shares are valued at the equity method with a negative change of SEK -2.4 million during the period.

Accounts receivable amounted to SEK 136.3 (72.8) million by the end of the period, mainly attributable to sales on Steam during the last month of the period.

Cash and short term placements amounted to SEK 327.0 (320.1) million.

Shareholders' equity amounts to SEK 853.8 (599.9) million, driven by a strong profit development.

Deferred tax liabilities amount to SEK 110.5 (65.1) million at the end of the period, mainly attributable to tax on untaxed reserves.

Other long term liabilities amounted to SEK 61.2 (11.4) million by the end of the period. Other long term liabilities consists of an contingent consideration in connection of the purchase of Harebrained Holdings Inc, which will be paid during a five years period, as well as an additional purchase price attributable to the acquisition of the rights and assets of the Prison Architect IP, which will be paid within a three years period.

Other short term debt amounted to SEK 15.7 (4.7) million by the end of the period, mainly attributable to an contingent consideration in connection to the purchase of White Wolf.

Accrued expenses and prepaid income amounts to SEK 99.1 (79.0) million. Royalty reserves to third party developers are in line with the comparative period. Reserves for personnel related expenses has increased compared to the comparative period due to an increase in the number of employees throughout the organization as well as reserves for

variable employee compensation have increased due to increased profits. Prepaid revenues for games and expansions that have not yet been released have also increased compared to the comparative period.

CASH FLOW

Cash flow from operating activities amounted to SEK 575.1 (435.4) million, primarily attributable to operating profit. Cash flow from investing activities amounted to SEK -461.8 (-256.1) million, of which the majority relates to investments in game projects. Cash flow from financing activities was SEK -105.6 (-105.6) million, due to dividends to shareholders.

DEPRECIATION, AMORTISATION AND WRITE-DOWNS

Amortisation of capitalised development expenditure amounted to SEK 135.2 (109.0) million, the increase was attributable to the amortisation of launched game projects. Write-down of capitalised development expenditure amounted to SEK 36.4 (18.0) million relating to write-downs of both announced and unannounced externally developed projects. Depreciation of the company's brands amounted to SEK 20.1 (8.6) million. Depreciation of property, plant and equipment amounted to SEK 4.4 (3.8) million. Depreciation and amortisation related to capitalised development expenditure is included in direct costs in the income statement, and depreciation on the company's brands and property, plant and equipment are included in administrative expenses.

PARENT COMPANY

The parent company consists of the publishing branch, and in addition the parent company also provides administrative services to its subsidiaries. The subsidiaries have to a large extent only intercompany revenue for game development invoiced to the parent company, why the financial development of parent company to a great extent follows the Group's development. Revenues for the parent company amounted to SEK 1,114.7 (812.2) million. Operating profit amounted to SEK 502.9

(352.1) million. Profit before tax amounted to SEK 372.6 (257.7) million. Profit after tax amounted to SEK 290.2 (200.8) million. Shares in subsidiaries amounted to SEK 145.1 (41.1) million by the end of the year, which is attributable to the acquisition of Harebrained Holdings Inc on June 7, 2018.

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 distributors. That the distributors can continue to provide the digital distribution channels is a precondition for the Group to continue to generate revenue from them. If any key distributor 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.

Low revenues from new game launches

At the launch of new games, risks are that the sales 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.

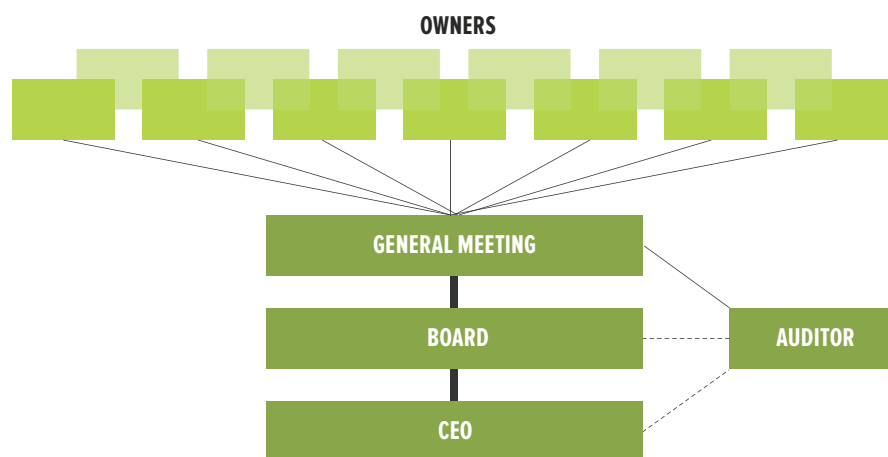
Exchange rate fluctuations

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 38 Financial risk management*.

CORPORATE GOVERNANCE REPORT

Paradox is a Swedish public limited liability company and is governed based on Swedish law and internal rules and regulations. The Code is applicable for Swedish companies with shares listed on a regulated market in Sweden. Nasdaq First North Premier is not a regulated market, why Paradox is applying the Code on a voluntary basis. 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. Any discrepancies from the Code will be reported in the company's corporate governance report, which will be released for the first time in connection with the Annual 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 67.

CORPORATE GOVERNANCE MODEL



IMPORTANT EXTERNAL REGULATIONS

- The Companies Act
- Accounting legislation, Bookkeeping Act, Annual Accounts Act
- Nasdaq First North Nordic – Rulebook
- 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 about 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 the same 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 14,745 as of 31st December 2018. The largest shareholders at the end of 2018 were WesterInvest AB (Fredrik Wester) with 33.4 percent of the share capital, Investment AB Spiltan with 22.0 percent and Lerit Förvaltning AB (Peter Lindell) with 9.6 percent. 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 financial year. Time and place of the AGM are published at the latest in connection with third quarterly report. Each shareholder has also, 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 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 review report, and, if applicable, consolidated annual report and consolidated review 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 2018

The AGM 2018 was held on May 18th in Stockholm. At the meeting 67% percent 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:

Håkan Sjunnesson was elected to chair the meeting. The balance sheet and income statement for the parent company and the Group were adopted. Dividend to shareholders of SEK 1 per share was approved. The Board and the President were discharged from liability for the financial year. The AGM resolved to amend the Articles of Association to enable the Board to consist of no more than eight members instead of previous six, and that the term of office of the Board members shall not be regulated in the Articles of Association. The AGM nevertheless decided that the Board of Directors shall consist of six Board members without deputies. It was stated that the Nomination Committee proposed that fees to the Board of Directors for the period until the next AGM be raised as a market adjustment to SEK 500,000 / year to the Chairman and SEK 250,000 / year to each of the Board members elected by the AGM. The Meeting resolved to elect Håkan Sjunnesson as Chairman for the period until July 31, 2018. From August 1, 2018 until the time until the next AGM, Fredrik Wester was elected Chairman and Håkan Sjunnesson as Vice Chairman; Ebba Ljungerud was elected board member for the period until 31 July 2018; Cecilia Beck-Friis, Peter Ingman and Josephine Salenstedt were elected as board members for the period until the next AGM. Resolution on principles for the Nomination Committee was established. The AGM decided to elect Grant Thornton, with chief auditor Erik Uhlén, as auditor for the company.

The AGM resolved to approve the Board's proposal to authorize the Board to decide on a new share issue. 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 – Warranty Program 2018/2021. With full exercise of the Warranty Program, the number of shares in the company increases by 0.33 percent.

ANNUAL GENERAL MEETING 2019

The AGM 2019 takes place on May 17, 13:00 at Biograf Victoria in Stockholm. Notice of the Meeting will be available on the company's website www.paradoxinteractive.com together with all the required documents for the AGM.

Attendance on the Annual General Meeting

Year	% of votes	% of capital
2018	67	67
2017	67	67
2016	100	100
2015	100	100
2014	100	100
2013	100	100

Nomination Committee

The AGM decides how the nominations committee shall be appointed. The Chairman of the Board of Directors will contact the three largest shareholders in terms of votes on September 30, 2018. 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 so require, no changes should be made to the composition of the nominating committee if only marginal changes to the number of votes has 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.

Nomination committee ahead of the Annual General Meeting 2019

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)
- Peter Lindell (appointed by Lerit Förvaltning AB)
- Fredrik Wester (Chairman of the Board)

The composition of the Committee does not meet Code requirements for independent members in accordance with paragraph 2.3. Andras Vajlok, former CFO, and Fredrik Wester, former CEO, are members of the Nomination Committee, which is considered a discrepancy under paragraph 2.3. The majority of the members of the nomination committee shall be independent in relation to the company and the management according to section 2.3. As the company has a narrow circle of owners consisting primarily of WesterInvest AB (Fredrik Wester) and Investment AB Spiltan it is considered reasonable that these owners must be members of the committee.

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 2018 AGM, the Board has consisted of six ordinary members elected by the AGM. As of August 1, 2018, the Board has consisted of five ordinary members elected by the AGM, of which two are women and three are men. The Board of Directors consists of the following AGM-elected members; Chairman of the time until 31 July 2018, Håkan Sjunnesson was elected. From 1 August 2018 until the time until the next AGM, Fredrik Wester was elected chairman. Håkan Sjunnesson, Peter Ingman, Josephine Salenstedt and Cecilia Beck-Friis was elected as ordinary members of the board. Ebba Ljungerud resigned as a board member and was elected CEO starting from August 1, 2018. 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, two 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. Håkan Sjunnesson was appointed Chairman of the Board at the AGM 2018 for the period up to and including 31 July 2018. From August 1, 2018 to the time until the next AGM, Fredrik Wester was elected Chairman and Håkan Sjunnesson as Vice Chairman.

Rules of Procedure and Board meetings

The Board's work is further controlled by the written rules of procedure that the Board annually review and determine 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 2018

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 2018, the Board held 13 meetings, including a statutory meeting, and four for the establishment of interim or year-end reports. Ordinary Board meetings normally contains 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 2018 have been questions about investment strategies, acquisitions, interim and annual reports, dividend proposal, etc.

Composition of the Board and attendance in 2018

Attendance 2018	Board meetings	Audit committee	Remuneration committee
Fredrik Wester, Chairman	13 of 13	1 of 1	-
Håkan Sjunnesson	13 of 13	1 of 1	1 of 1
Cecilia Beck-Friis	12 of 13	1 of 1	1 of 1
Ebba Ljungerud, until 31 July 2018	13 of 13	1 of 1	1 of 1
Josephine Salenstedt, from 18 May 2018	10 of 13	-	-
Peter Ingman, from 18 May 2018	10 of 13	-	-
Peter Lindell, until 18 May 2018	3 of 13	1 of 1	1 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 election 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 18th, 2018, it was resolved that the remuneration to each of the elected Board members shall amount to SEK 250,000 and SEK 500,000 to the Chairman of the board. The company's board members are not entitled to any benefits after they have resigned as members of the Board.

Board meetings 2018

February 12, 2018 - Regular Meeting - Reviewing fixed points. Approval of the Year-end Report. Reviewing of the remuneration committee and the audit committee

March 26, 2018 - Regular Meeting - Reviewing fixed points. Approval of the Annual Report.

May 17, 2018 – Regular Meeting – Approval of interim report.

May 18, 2018 - Constituent Meeting - Adoption of policies, guidelines and instructions.

June 19, 2018 – Regular Meeting – Reviewing and approval of warrants scheme.

June 27, 2018 – Regular Meeting – Reviewing fixed points.

June 28, 2018 – Regular Meeting – Reviewing and allocating warrants.

August 13, 2018 – Regular Meeting – Reviewing fixed points. Approval of the interim report.

September 6, 2018 - Regular Meeting - Reviewing fixed points.

October 23, 2018 - Regular Meeting – Reviewing fixed points.

November 12, 2018 - Regular Meeting – Approval of the interim report.

November 23, 2018 – Regular Meeting – Reviewing fixed points.

December 19, 2018 – Regular Meeting – Reviewing fixed points.

BOARD COMMITTEES**Audit committee**

In connection with the constituent Board meeting the Board appointed an Audit Committee consisting of all board 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 all board 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 2018 Grant Thornton was appointed as the auditor of Paradox, with Erik Uhlén as chief auditor.

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 (such essential disputes, termination of agreements that are important for Paradox).

Important matters addressed by the CEO and senior management in 2018 included:

The CEO and senior management has presented interim reports on a recurring basis, presented proposals for investments in new game project, 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 2018

Remuneration to the CEO and other senior executives consists of basic salary, other benefits and pension. The CEO and other senior executives are paid a monthly salary, a variable performance-based salary, which is measured and paid on an annual basis, and customary employment benefits. Performance-based salary shall be maximized to a total of three monthly salaries and shall be based on actual outcomes in relation to established financial and operational goals. Variable remuneration is paid to all permanent employees according to a profit-sharing program decided by the AGM on May 18, 2018.

Prior to 2018, it was decided to introduce a warrant scheme for the company's employees.

The fixed salary is usually reviewed once a year and shall consider the individual's qualitative performance. The remuneration of all senior executives shall be competitive. Both Paradox Interactive and the CEO must observe six months' notice. In the event of termination by the company, the CEO is entitled to a severance pay corresponding to six months' salary, with respect to the fixed monthly salary. For other senior executives, Paradox Interactive must observe the notice period in accordance with the Employment Protection Act and the employee must observe the same notice period, however, for a maximum of 3 months. Other senior executives are also not entitled to any compensation in connection with the termination of their employment. Other employed senior executives have customary terms of employment.

The Board is entitled to deviate from the above guidelines if the Board determines that in a certain case there are special reasons to justify it.

Guidelines determined by the Board and proposed to the AGM 2019

To the AGM 2019, the Board proposes that the above guidelines, with some adjustments will be re-adopted. The Board's final proposal for guidelines is set out in the notice of AGM.

BOARD OF DIRECTORS**Fredrik Wester**

Position: Chairman of the Board, elected 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 and Chairman and CEO of WesterInvest AB, Chairman of the Board in Kichi Invest. Board member of Epidemic Sound and Asedo

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.

Josephine Salenstedt

Position: Elected in 2018.

Born: 1984

Education: Stockholm School of Economics.

Previous assignments: Over 10 years of experience in investment and active ownership in technology and e-commerce companies.

Other current assignments: Partner Rite Ventures, Chairman of Söder Sportfiske AB, Board member Skincity Sweden AB and Doro AB.

Shareholding in the company: No ownership. Indirect ownership through Lerit Förvaltning AB. Lerit Förvaltning AB owns 10,119,532 shares.

Independence: Independent in relation to the Company and senior management. Not independent in relation to major shareholders.

Håkan Sjunnesson

Position: Chairman of the Board, elected in 2010.

Born: 1956

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

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

Other current assignments: Chairman of the Board in Coolstuff AB, Qvalia Group AB, Emerse Sverige AB, Aktivbo AB, and StoreVision Group AB. Member of the Board in Dalex in Stockholm AB, NuvoAir AB.

Shareholding in the company: 3,595,454 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.

Peter Ingman

Position: Elected in 2018.

Born: 1968

Education: Stockholm School of Economics.

Previous assignments: Board member in Founders Alliance. Founder and CEO of Spray Interactive and Mynewsdesk AB

Other current assignments: CEO in ToBePublished AB, Owner of Firesoul AB. Angel investor in emergent companies in early stages like Zenia, Musqot, NeueLabs, Beatly, Baton Rouge, Arantus and ProSk8.

Shareholding in the company: -

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

Cecilia Beck-Friis

Position: Elected in 2016.

Born: 1973

Education: Duke University, Bonnier Executive Management Program, Stockholm School of Economics, IFL Executive Education.

Previous assignments: Former Vice President TV4, CDO Bonnier Broadcasting, CEO Rayvr.

Other current assignments: CEO Hemnet.

Shareholding in the company: 5,000 shares - Direct ownership.

Independence: Independent in relation to the Company and senior management. Not independent in relation to major shareholders.

SENIOR MANAGEMENT**Ebba Ljungerud**

Position: Former member of the board, elected in 2014. Appointed as CEO from August 2018 and thus resigned as a board member.

Born: 1972

Education: M.Sc. in Business and Economics from Lund University.

Previous assignments: Extensive experience of consumer-related industries such as insurance, media and e-commerce. For the past seven years, she has worked for Kindred Group PLC

(formerly Unibet Group PLC) in various senior positions.

Other current assignments: -

Shareholding in the company: 13,400 shares, 50,000 warrants - Direct ownership.

Independence: Not independent in relation to the Company. Independent in relation to major shareholders.

Alexander Bricca

Position: Chief Financial Officer, CFO since 2018.

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 Attorney Bricca Affärsjuridik AB, Corporate legal counsel ECI Net AB.

Shareholding in the company: 25,000 warrants - Direct ownership.

John Hargelid

Position: Chief Information Officer, CIO since 2014. Resigned from the company in March 2019.

Born: 1981

Education: M.Sc. in Media Tech, Royal Institute of Technology, Stockholm 2005.

Previous assignments: Started on product / publishing in 2012, and later joined the management responsible for building technology and analysis operations. 12+ years of experience from leading roles at Paradox Interactive, Accenture, Wooga & EA Dice, focusing on digital direct sales and user-centered services.

Other current assignments: -

Shareholding in the company: 141,337 shares, 1,000 warrants - Direct ownership

Mattias Lilja

Position: Chief Production Officer since 2018.

Born: 1972

Education: Degree in physiotherapy from Uppsala University.

Previous assignments: Development secretary Child psychiatry Uppsala, Producer Paradox Interactive, Executive Vice President of Studios Paradox Interactive.

Other current assignments: Chairman of the Board of Cassius Creative AB and Nya Järnringen AB.

Shareholding in the company: 68,000 shares, 1,000 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, confirmed at the statutory board meeting May 5 2017. 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.

SUSTAINABILITY REPORT

This sustainability report has been prepared in compliance with chapter 6, sections 10-14 of the Swedish Annual Accounts Act and regards Paradox Interactive AB (publ) and its subsidiaries (collectively, "Paradox"). The report has been prepared based on the UN Global Compact guidelines. These guidelines serve as the foundation for Paradox's sustainability efforts and are used to evaluate the company's sustainability initiatives.

The overall assessment is that Paradox complies with these guidelines throughout its operations.

BUSINESS MODEL

Paradox operates primarily on the computer and video game market as a developer and publisher. In its role as developer, Paradox has contractual relationships with several external consultants who provide specific services related to the development of games, such as the artwork design. In the role of publisher, Paradox has agreements with game developers for the development and distribution of games. In addition, Paradox has contractual relationships with distributors for the sale of its games to end users. As a proprietor of intellectual property rights, Paradox has entered into a number of license agreements under which external parties developed products based on Paradox intellectual property rights.

RESPECT FOR HUMAN RIGHTS

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.

Paradox supports human rights as agreed internationally and works toward incorporating them in all agreements through its policy requiring that all contractual counterparties comply with applicable laws and regulations. Paradox has also engaged in charity work that aims to promote human rights, such as the right to life and to education, through cooperation with distribution partners. These partners give portions of their total revenue from game sales to children's hospitals and other similar initiatives, and sponsor schools by providing games designed to teach history or urban planning. Internally Paradox works primarily to ensure that employees' rights are respected, such as by offering favorable conditions for parental leave as well as the opportunity for employees to determine their work hours.

Principle 2: Businesses should make sure that they are not complicit in human rights abuses.

Within its operations, the main potential breaches that might be encountered in this area relate to labor conditions. This is because such breaches are relevant for all employers and because Paradox and its partners have a limited production of physical products in parts of the world where human rights violations of employee conditions have historically occurred.

To ensure that Paradox counterparties are not complicit in human rights abuses, our contracts with counterparties contain the requirement that they must follow all applicable laws. In addition, Paradox places significant emphasis on the professional reputation of the counterparties in order

to avoid collaboration with partners that do not apply acceptable conditions. As for the major counterparties, primarily in game development, Paradox strives to visit these counterparties prior to concluding any agreements in order to ensure that acceptable conditions are in place.

WORKING CONDITIONS AND EMPLOYEES

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Paradox has not entered into a collective agreement. However, Paradox makes clear that it does not put up any obstacles to employee engagement in labour unions. Furthermore, Paradox has appointed safety representatives and union representatives with whom continuous dialogue is held in order to promote a good relationship and to be able to capture any work environment related problems at an early stage.

Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour.

Paradox conducts business only in countries where employees have good protection and where forced labor in the industry is practically nonexistent. To avoid cooperating with parties that do not attempt to eliminate forced labor, Paradox relies on contractual obligations compelling the counterparties to comply with relevant labor legislation and the professional reputation of the counterparties.

Principle 5: Businesses should uphold the effective abolition of child labour.

The same measures are taken in relation to abolishing child labor as for forced labor, set out above.

Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Paradox has a gender equality policy, a health and safety policy, and a harassment policy, which all serve to ensure that the risk of discrimination is minimized. These policies are managed and monitored by the group's human resources function. Internal training regarding work environment is offered to all managers and employees with personnel responsibility to ensure that these have satisfactory knowledge in the field. Also, all employees are free to leave feedback or register complaints anonymously, either directly to the HR department or in the monthly employee survey. Paradox takes proactive steps to encourage women's interest in the industry, for example by participating in initiatives such as "Women in games." In this context, it should be mentioned that two of the five members of Paradox Interactive AB's Board of directors are women.

ENVIRONMENT

Principle 7: Businesses should support a precautionary approach to environmental challenges.

The game industry in which Paradox operates has a relatively limited impact on nature since most activities take place digitally. The industry, however, faces the same challenges as all other industries in which computers are used in the sense that a significant amount of energy is consumed. Issues such as travel, paper consumption and the like are also relevant. Paradox acts to minimize environmental impact by shifting most of its operations to digital media (read more about this below).

Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility.

As mentioned above, Paradox has implemented initiatives to further minimize the physical aspect of the business by selling the majority of its games in digital form and holding the majority of all external meetings through a digital platform instead of in person, thereby minimizing travel. When trips are taken, to for example game conventions, Paradox keeps the number of travelers to a minimum in order to minimize the environmental impact. Furthermore, Paradox works to minimize the use of paper through the implementation of an e-signature system for agreements and by working digital instead of printing paper, to the extent possible. As the company grows, the need for new offices increases. Paradox head office in Stockholm is rented by Vasakronan, which is an environmentally focused company. Vasakronan works purposefully to reduce the impact on the environment and is climate neutral and certified according to ISO 14001.

Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.

The environmentally friendly technologies that Paradox primarily is involved in developing is, as mentioned above, the transition from physical games, to all-digital games that are downloaded from the internet. This transition will help to reduce the environmental impact of the manufacture of physical products as well as their transportation and has found great traction in the game market.

COMBATING CORRUPTION

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Because Paradox does not consider corruption to be widespread in the game industry, it does not dedicate too significant resources to anti-corruption efforts. However, employees are aware that no form of corruption is acceptable, and to ensure that no small-scale corruption occurs, Paradox has a policy stating that all gifts given to a Paradox employee by a counterparty must be shared with the entire company so that no one individual benefits from such gifts. As regards expenses and payments, these must be approved by the employee's manager and by the finance department. This way, Paradox gains control of which payments are made by employees using Paradox funds and thereby prevents the risk of bribes or similar.

FIVE-YEAR SUMMARY, GROUP

	2018	2017	2016	2015	2014
Revenues, KSEK	1,127,715	813,785	653,743	604,053	177,052
Operating profit, KSEK	455,050	339,817	308,008	241,738	44,572
Profit before tax KSEK	455,183	339,583	308,622	241,966	43,712
Profit after tax, KSEK	353,934	264,941	240,439	188,834	33,610
Operating margin	40%	42%	47%	40%	25%
Profit margin	31%	33%	37%	31%	19%
Equity/assets ratio	71%	77%	76%	66%	70%
Equity per share before and after dilution, SEK*	8.09	5.68	4.17	2.56	1.07
Earnings per share before and after dilution, SEK*	3.35	2.51	2.28	1.79	0.33
Dividend per share before and after dilution, SEK*	1.00	1.00	1.00	0.67	0.30
Number of shares by the end of the period before and after dilution*	105,600,000	105,600,000	105,600,000	105,600,000	105,600,000
Average number of shares before and after dilution*	105,600,000	105,600,000	105,600,000	105,600,000	102,846,667
Average number of employees	327	243	194	168	137
Number of employees at the end of the year	405	269	211	190	162

*Key figures calculated after split of shares 1000:1 that occurred in March 2016.
For definition of key figures, see note 36.

FIVE-YEAR SUMMARY, PARENT COMPANY

	2018	2017	2016	2015	2014
Revenues, KSEK	1,114,678	812,209	652,093	603,691	177,052
Operating profit, KSEK	502,881	352,111	317,094	243,292	44,177
Result after financial items, KSEK	503,015	352,137	317,703	243,521	43,704
Profit after tax, KSEK	290,230	200,800	181,395	141,583	26,379
Operating margin	45%	43%	49%	40%	25%
Profit margin	26%	25%	28%	23%	15%
Equity/assets ratio	74%	78%	77%	69%	70%
Equity per share before and after dilution, SEK*	5.61	3.86	2.96	1.91	0.87
Earnings per share before and after dilution, SEK*	2.75	1.90	1.72	1.34	0.26
Dividend per share before and after dilution, SEK*	1.00	1.00	1.00	0.67	0.30
Number of shares by the end of the period before and after dilution*	105,600,000	105,600,000	105,600,000	105,600,000	105,600,000
Average number of shares before and after dilution*	105,600,000	105,600,000	105,600,000	105,600,000	102,846,667
Average number of employees	131	103	89	83	58
Number of employees at the end of the year	160	110	99	93	79

*Key figures calculated after split of shares 1000:1 that occurred in March 2016.
For definition of key figures, see note 36.

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 2018 Paradox Interactive AB's largest shareholders are Westerinvest AB 33.4% (Fredrik Wester), Investment AB Spiltan 22.0 % and Lerit Förvaltning AB (Peter Lindell) 9.6 %.

Dividend policy

Paradox Interactive AB (publ) dividend policy is based on the principle that the total dividend should be adapted to the trend of earnings and cash flow, while taking into account the Group's development, investments, acquisitions and financial position. The Board of Directors' view is that the ordinary dividend should amount to 50 % of the net profit calculated over a business cycle.

Allocation of profits**The following is at the disposal of the AGM**

Share premium reserve	27,994,400
Retained earnings	-110,564,736
Profit for the year	290,230,212
	207,659,877

The Board of Directors proposes

Distribution to shareholders SEK 1.00 per share	105,600,000
Retained earnings be carried forward	102,059,877
	207,659,877

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.

INCOME STATEMENT

KSEK	Note	GROUP		PARENT COMPANY	
		2018-01-01 2018-12-31	2017-01-01 2017-12-31	2018-01-01 2018-12-31	2017-01-01 2017-12-31
Revenues	5	1,127,715	813,785	1,114,678	812,209
Direct costs	7, 8	-408,350	-280,845	-375,679	-282,277
Gross profit		719,365	532,940	738,999	529,932
Selling expenses	7, 8	-102,085	-65,092	-100,685	-64,016
Administrative expenses	6, 7, 8, 9, 19	-177,792	-106,662	-149,029	-92,802
Other income		20,259	1,231	14,988	1,116
Other expenses		-4,697	-22,600	-1,392	-22,119
Operating profit	11	455,050	339,817	502,881	352,111
Financial income	12	141	26	141	26
Financial expense	13	-7	-260	-7	0
Profit after financial items		455,183	339,583	503,015	352,137
Appropriations	14	–	–	-130,427	-94,406
Income tax expense	15	-101,249	-74,642	-82,358	-56,931
Profit for the year and total comp income for the year		353,934	264,941	290,230	200,800
Attributable to:					
Parent company shareholders		353,934	264,941		
Earnings per share attributable to parent company shareholders (SEK):					
- before and after dilution	40	3.35	2.51		
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified to profit or loss					
Translation differences		5,525	662		
Total comprehensive income for the period		359,460	265,603		

BALANCE SHEET

KSEK	Note	2018-12-31	2017-12-31	2018-12-31	2017-12-31
ASSETS					
Fixed assets					
Intangible fixed assets					
Capitalised development	16	417,928	247,328	383,845	231,401
Licenses, brands and similar rights	17	249,082	78,183	99,757	181
Tangible fixed assets					
Property and equipment	18	9,514	10,807	7,499	10,468
Financial assets					
Shares in subsidiaries	21	–	–	145,109	41,091
Receivables from group companies	33	–	–	50,301	50,301
Investments in associates	22	14,349	–	16,766	–
Other long term assets	23	3,462	3,462	3,462	3,462
Total fixed assets		694,334	339,779	706,740	336,903
Working capital					
Current assets					
Account receivable	25	136,333	72,822	131,466	72,524
Receivables from group companies		–	–	11,042	
Tax assets		–	347	–	1,267
Other receivables		13,295	26,548	12,212	24,464
Prepaid expenses and accrued revenues	24	25,942	22,673	25,725	22,588
Total current assets		175,570	122,391	180,444	120,843
Cash and cash equivalents	26	327,044	320,100	297,365	304,516
Total working capital		502,614	442,491	477,809	425,359
TOTAL ASSETS		1,196,948	782,270	1,184,549	762,262

BALANCE SHEET (cont.)

KSEK	Note	GROUP		PARENT COMPANY	
		2018-12-31	2017-12-31	2018-12-31	2017-12-31
EQUITY AND LIABILITIES					
Equity	27				
<i>Restricted equity</i>					
Share capital		528	528	528	528
Reserves		6,188	662	–	–
Capitalised development reserve				383,845	226,340
<i>Non-restricted equity</i>					
Share premium reserve		27,994	27,994	27,994	27,994
Retained earnings		465,133	305,791	-110,565	-48,260
Profit for the year		353,934	264,941	290,230	200,800
Total equity		853,777	599,917	592,033	407,403
Untaxed reserves	28			361,375	243,448
Long term liabilities					
Deferred tax liabilities	29	110,486	65,080	–	–
Other liabilities	30	61,227	11,432	61,227	–
Total long term liabilities		171,713	76,512	61,227	–
Current liabilities					
Accounts payable		31,364	22,147	26,010	21,854
Liabilities to group companies	33	–	–	23,072	17,292
Current tax liabilities		25,376	–	24,219	–
Other liabilities	30	15,661	4,692	1,946	1,177
Accrued expenses and prepaid revenues	31	99,057	79,001	94,668	71,089
Total current liabilities		171,458	105,840	169,914	111,412
Total liabilities		343,172	182,352	231,141	111,412
TOTAL EQUITY AND LIABILITIES		1,196,948	782,270	1,184,549	762,262

CHANGE IN GROUP EQUITY

	Note	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
At the beginning of the period 2017-01-01		528	27,994	–	411,391	439,914
Dividend		–	–	–	-105,600	-105,600
Shareholder's transactions		–	–	–	-105,600	-105,600
Profit for the year and total income for the period		–	–	662	264,941	265,603
At the end of the period 2017-12-31	27	528	27,994	662	570,732	599,917
At the beginning of the period 2018-01-01		528	27,994	662	570,732	599,917
Dividend		–	–	–	-105,600	-105,600
Shareholder's transactions		–	–	–	-105,600	-105,600
Profit for the year and total income for the period		–	–	5,525	353,934	359,460
At the end of the period 2018-12-31	27	528	27,994	6,188	819,067	853,777

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

CHANGES IN EQUITY, PARENT COMPANY

	Note	Share capital	Capitalised development reserve	Share premium reserve	Retained earnings	Profit for the year	Total equity
Opening balance 2017-01-01		528	93,268	27,994	9,017	181,395	312,203
Dividend		–	–	–	-105,600	–	-105,600
Transfer of previous year's result		–	–	–	181,395	-181,395	–
Transfer to capitalised development reserve		–	133,072	–	-133,072	–	–
Profit for the year		–	–	–	–	200,800	200,800
Closing balance 2017-12-31	27	528	226,340	27,994	-48,260	200,800	407,403
Opening balance 2018-01-01		528	226,340	27,994	-48,260	200,800	407,403
Dividend		–	–	–	-105,600	–	-105,600
Transfer of previous year's result		–	–	–	200,800	-200,800	–
Transfer to capitalised development reserve		–	157,505	–	-157,505	–	–
Profit for the year		–	–	–	–	290,230	290,230
Closing balance 2018-12-31	27	528	383,845	27,994	-110,565	290,230	592,033

CASH FLOW STATEMENT

KSEK	Note	GROUP		PARENT COMPANY	
		2018-01-01 2018-12-31	2017-01-01 2017-12-31	2018-01-01 2018-12-31	2017-01-01 2017-12-31
Operating profit		455,050	339,817	502,881	352,111
Adjustment for items not included in cash flow	35	198,669	139,075	149,855	131,250
Interest received		–	15	–	14
Interest paid		-7	-260	-7	–
Tax paid		-56,647	-55,150	-56,872	-54,612
Cash flow from current operations before changes in working capital		597,064	423,497	595,857	428,763
CHANGES IN WORKING CAPITAL					
Change in current receivables		-34,690	2,310	-46,690	2,289
Change in current liabilities		12,741	9,604	7,605	-1,091
Cash flow from current operations		575,115	435,411	556,772	429,961
INVESTING ACTIVITIES					
Investments in subsidiaries	37	–	–	-65,463	-40,900
Acquisition of intangible assets		-381,271	-220,736	-374,969	-220,866
Investments in subsidiaries, net of cash acquired	37	-60,977	-35,004	–	–
Investments in associated companies		-16,766	–	-16,766	–
Acquisition of tangible assets		-2,785	-325	-1,125	-325
Acquisition of financial assets		–	-60	–	-60
Cash flow from investing activities		-461,800	-256,124	-458,323	-262,151
FINANCING ACTIVITIES					
Paid dividend		-105,600	-105,600	-105,600	-105,600
Cash flow from financing activities		-105,600	-105,600	-105,600	-105,600
Cash flow for the year		7,715	73,687	-7,151	62,210
Cash and cash equivalents at the beginning of the year		320,100	246,906	304,516	242,306
Exchange rate effect		-771	-493	–	–
Cash and cash equivalents at the end of the year	26	327,044	320,100	297,365	304,516

NOTES

NOTE 1 GENERAL INFORMATION

Paradox is a global developer and publisher of PC games, music and books.

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 Västgötagatan 5, 118 27, Stockholm.

The annual report for the year that ended December 31, 2018 (including comparative figures) was approved for publication by the Board of Directors on April 3, 2019 (see note 41).

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 3

NEW OR REVISED STANDARDS OR INTERPRETATIONS

IFRS 15 'Revenue from Contracts with Customers' and the related clarifications replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new Standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. The introduction had no effect on the Group's financial position, earnings or cash flow.

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard makes major changes to the previous guidance on the classification and measurement of financial assets and introduces a new model with 'expected credit loss' for the impairment of financial assets. IFRS 9 also contains new requirements on the application of hedge accounting. The new standard has been applied retroactively without restatement of prior reporting periods, with the combined effect of the first application recognized as an adjustment to the opening balance of retained earnings at January 1, 2018. The adoption had no impact on the Group's financial position, earnings or cash flow.

STANDARDS, AMENDMENTS TO STANDARDS IN ISSUE NOT YET EFFECTIVE AND NOT ADOPTED EARLY BY THE GROUP

As of the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards published by the IASB. These have not yet entered into force and have not been early adopted by the Group. Disclosure of those expected to be relevant to the consolidated financial statements listed below.

Board and CEO anticipates that all relevant statements will be included in the Group's accounting policies during the first reporting period beginning after the date of the statement becomes effective. New standards, amendments and interpretations not applied or stated below is not expected to have any material impact on the consolidated financial statements.

IFRS 16 Leases

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's longrunning project to overhaul lease accounting. Leases will be recognized in the balance sheet as an asset and liability in the form of a right-of-use asset and a lease obligation. The exceptions are leases with a lease period of 12 months or less and leases amounting to smaller values.

IFRS 16 is effective for fiscal years beginning January 1, 2019 or later. The Group applies the simplified transition method which means that the comparative year is not recalculated. The main impact on the accounts arise from the reporting of lease contracts for premises. The opening effect on the consolidated balance sheet as of January 1, 2019 is that a lease asset and a lease liability are added, each at SEK 23.1 million.

OVERVIEW OF ACCOUNTING PRINCIPLES

Principles of consolidation

The consolidated financial statements include the parent company and subsidiaries' operations until December 31, 2018. All subsidiaries have a closing date on December 31.

All intercompany transactions and balances are eliminated upon consolidation, including unrealized gains and losses on transactions between group companies. In the case of unrealized losses on intercompany sales of assets are reversed on consolidation, also assesses the underlying asset impairment from a group perspective. Amounts recognized 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 of subsidiaries acquired during the year are recognized from the date of acquisition, divestment or alternatively enter into force, as appropriate.

The Group attributes total comprehensive income or loss of subsidiaries to the owners of the parent company.

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. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Investments in associates

Investments in associates are accounted for using the equity method. The carrying amount of the investment in associates and joint ventures is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate and joint venture, 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 and joint ventures 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.

Foreign currency translation***Functional and presentation currency***

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

Transactions and balances in Foreign 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 recognized 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).

Foreign operations

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.

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.

Revenue

The majority of revenues in Paradox comes from the sale of computer games through contracts with digital platform partners such as Valve, Sony and Microsoft. Payment flows from the client in these cases via the platform operators who pays any VAT and charge their fee, usually 20-30% after tax deducted before the money reaches Paradox. The assessment is that the platform partner is Paradox's customer, which means that the revenue recognition is made net, after the fee has been paid to the platform partner. Some sales also take place from Paradox's website Paradoxplaza.com, where Paradox instead receives the entire income from the user. The received compensation for sold games is usually recognized as revenue in the period in which the game is sold. In cases where sales are made through pre-orders, the revenue is allocated to the release day. In cases where sales are made by expansion pass that contains several expansions that have not yet been released, the revenue is accrued on the basis of the underlying expansion releases included in the expansion pass, distributed on the basis of the value that each expansion represents.

Direct costs

Paradox develops its own games, and publish games from external developers. Development work directly attributable to the development before the launch of the game, as well as depreciation and amortization on game projects are considered direct costs. Salaries, variable employee compensation, social security, etc. for staff in the function is included. Direct costs also includes royalties paid to external developers and rightsholders in licensing and sales of their games.

Selling expenses

Selling expenses include expenses for sales and marketing, games, exhibitions, public relations and support. It also includes salaries, variable employee compensation, social security, etc. for staff in the function.

Administrative expenses

Administrative expenses consist of expenses for salaries, variable employee compensation, social security, etc. for staff in the function. It includes costs for external consultants, overall IT costs, analysis of game users, and the costs of the own platform for sales and support of games. Rental costs and consumption equipment are also included. Amortization and impairment losses of acquired brands are also classified as administrative expenses. Depreciation on fixtures and fittings are also included.

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. It includes mainly exchange gains and losses from operations.

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 recognized 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 capitalization 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 intangible assets have a finite useful life. All intangible assets, including capitalized game projects, are accounted by using the cost model whereby capitalized costs are depreciated over the estimated lifetime. The residual values and useful lives are reviewed at each closing day. In addition, an impairment is made.

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 amortized but assessed for impairment.

Amortization and impairment of trademarks included in administrative expenses and depreciation and amortization of capitalized development expenditure are included under the direct costs.

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

Tangible fixed assets

IT equipment as servers and other equipment are initially recorded at cost. Subsequently measured at cost less accumulated depreciation and impairment losses.

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.

Testing for impairment of intangible and tangible fixed assets

Assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is made with the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less sales costs and value in use. In order to determine the value in use, Group Management estimates the expected future cash flows and determines an appropriate discount rate in order to calculate the present value of these cash flows.

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

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- 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 recognized in income are classified as "Financial expenses" and "Financial income", except for impairment of trade receivables classified as "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

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and fair value through other comprehensive income, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Classification and subsequent measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include borrowings, 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 recognized in the income statement are included in "Financial income" or "Financial expense", alternatively Other income or Other expenses.

Income taxes

The tax expense reported in the income statement consists of the sum of deferred tax and current tax not recognized 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.

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 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 recognized 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 offers employees the opportunity to participate in share-related incentive programs in the form of a warrant program. Allocated warrants are offered to employees free of charge. The purpose of the warrant program is to reward a long-term commitment with the company's employees, to ensure that the company's long-term value growth is reflected in the program participants' remuneration, to contribute to the possibilities of recruiting and retaining competent employees and to otherwise increase the community of interest between the Group's employees and the company's shareholders. The program is also expected to motivate program participants for continued employment with the company. When allotted warrants are offered free of charge, the cost of social security contributions on the benefit for this is reported in the period for allotment.

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.

Provisions and contingent liabilities

Provisions for product warranties, legal disputes, loss of contract or other claims are recognized 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 recognized 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.

NOT 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 recognized 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 recognized as part of the untaxed reserves.

Fund for development expenses

Capitalised development expenditure is allocated to a fund for development expenditure from 1 January 2016. The fund is restricted equity and dissolve at the same rate as the company does depreciation or amortization of capitalized 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.

NOT 4**KEY ESTIMATES AND ASSUMPTIONS**

When preparing the financial statements must board and the CEO in accordance with the accounting and valuation principles to make certain estimates, judgments and assumptions that affect the recognition and measurement of assets, provisions, liabilities, income and expenses. The areas where such estimates can be very important for the group, and which may affect the income statements 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

Revenues obtained by the payment streams that go through digital platform operators such as Valve is recognized after deduction of the operators fee.

reported by votes contributions to the distributor. It's Paradox assessment that this is a revenue sharing, so the proceeds from such transactions are recognized net in the income statement, as opposed to if the revenue were recognized as revenue in the form of gross of end user payments with direct costs retiring earnings record for the distributor's share of revenue.

Capitalised development costs for game development

The division between research and development phases of new development of software and determining whether the requirements for capitalization of development costs are met requires assessments. After activation the group management monitors whether the reporting requirements for development costs continue to be fulfilled and if there are indications that the capitalized expenses may be subject to impairment.

The group holds capitalized intangible assets not yet completed. Such must be tested for impairment at least annually. In order to do this, an estimate must be made of future cash flows attributable to the asset or the cash-generating unit to which the asset is to be attributed when it is completed. An appropriate discount rate must also be determined to discounting these estimated cash flows.

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 White Wolf

The contingent consideration as part of the acquisition of the White Wolf has been valued based on projected revenues over three years. The contingent consideration is accounted for as a short term liability in the Group. If revenue deviates from the forecasted revenues, the liability may need to be revalued with the effect taken over the income statement.

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. The contingent consideration is accounted for as a long term liability in the Group. If revenue and costs deviates from the forecasted, the liability may need to be revalued with the effect taken over the income statement.

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 recognized as a cost under direct costs when it arises.

Impairment of non-financial assets

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.

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.

NOTE 5**REVENUES AND SEGMENT REPORTING**

For 2018, revenue includes SEK 3,371 (162) thousand that was included in pre-paid revenue for pre-orders and season pass at the beginning of the period.

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;

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
USA	954,081	702,112	945,527	704,434
Sweden	31,172	23,570	32,889	21,780
Rest of Europe	126,212	75,161	120,100	73,062
Rest of the World	16,250	12,942	16,162	12,934
Total	1,127,715	813,785	1,114,678	812,209

In 2018 SEK 810.0 (615.8) million, or 72 % (76 %) of revenue came from a single platform operator, Valve.

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

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
PC	972,024	726,763	967,438	723,875
Console	137,709	76,444	137,709	76,444
Mobile	5,953	5,108	5,953	4,903
Others	12,029	5,470	3,577	6,986
Total	1,127,715	813,785	1,114,678	812,209

NOTE 6 REMUNERATION TO THE AUDITOR

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
The expensed compensation amounts to:				
<i>Grant Thornton Sweden AB</i>				
-audit	556	328	556	328
-audit related assignments	135	—	135	—
-other services	214	110	214	110
Total	905	438	905	438

NOTE 7 AVERAGE NUMBER OF EMPLOYEES, ETC.**Average number of employees**

	2018		2017	
	Number	Of whom men	Number	Of whom men
<i>Parent company</i>				
Sweden	131	99	103	75
<i>Subsidiaries</i>				
Sweden	150	125	133	109
Netherlands	19	19	7	7
USA	27	24	—	—
Total for the Group	327	267	243	191

Directors and senior executives

	2018		2017	
	Number	Of whom men	Number	Of whom men
Board of Directors	5	3	5	3
CEO and other senior executives	4	3	8	6

NOTE 8 SALARIES AND EMPLOYEE BENEFITS

Expenses recognized for employee compensation:

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Salaries - Board of Directors and senior management	8,096	9,734	8,096	7,870
Salaries - other employees	176,338	109,248	71,941	46,921
Pensions - Board of Directors and senior management	171	367	171	324
Pensions - other employees	5,887	4,562	2,754	1,958
Other social costs	50,822	36,351	26,681	18,042
Total	241,314	160,262	109,643	75,115

NOTE 9 SENIOR EXECUTIVE REMUNERATION

Costs and liabilities related to pensions and similar to the Board of Directors, CEO:

2018	Variable compensation				Total
Board and senior executives	Salaries	Variable compensation	Other benefits	Pensions	
Chairman of the Board Fredrik Wester	0	—	—	—	0
Board member Håkan Sjunnesson	500	—	—	—	500
Board member Cecilia Beck-Friis	250	—	—	—	250
Board member Peter Ingman	250	—	—	—	250
Board member Josephine Salenstedt	250	—	—	—	250
CEO Ebba Ljungerud	1,147	434	871	52	2,504
Other senior executives (3)	2,648	1,276	470	119	4,513
Total	5,045	1,710	1,341	171	8,267

2017 Board and senior executives	Salaries	Variable compensa- tion	Other benefits	Pensions	Total
Chairman of the Board Håkan Sjunnesson	360	–	–	–	360
Board member Peter Lindell	180	–	–	–	180
Board member Cecilia Beck-Friis	180	–	–	–	180
Board member Ebba Ljungerud	180	–	–	–	180
CEO Fredrik Wester	615	–	–	28	643
Other senior executives (8)	7,551	668	–	339	8,558
Total	9,066	668	–	367	10,101

The Board of Directors

The Board is paid in accordance with decision by the AGM. Decided Board fees amount to SEK 1,500 (900) thousand. Chairman of the Board receives SEK 500 (360) thousand and board members receive SEK 250 (180) thousand. Håkan Sjunnesson who has been the Chairman of the Board part of the year and Vice Chairman of the Board for the other part of the year, receives SEK 500 thousand. Fredrik Wester, who has been CEO part of the year and Chairman of the Board the other part of the year receives SEK 1 per fiscal year. Ebba Ljungerud who has been board member part of the year and the CEO the other part of the year receives board fees for the period from the AGM 2018 through July 31, 2018. Pension costs have amounted to SEK 0 thousand (SEK 0) and outstanding pension obligations are SEK 0 (SEK 0).

Senior executives

Principles for remuneration to senior executives are decided at the ordinary board meeting. Remuneration to senior executives takes the form of a fixed salary. Senior executives participate in the same profit sharing program as other employees, as well as a performance-based remuneration program. The Group only has defined contribution pension plans. 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.

NOTE 10

SHARE-BASED EMPLOYEE REMUNERATION

The Annual General Meeting on May 18, 2018 decided to introduce a warrant program, warrant scheme 2018/2021 addressed to employees of the Group. The number of outstanding warrants amounts to 229,500 with the right to subscribe for the same amount of shares in Paradox Interactive AB (publ). Allocated 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 subscription of shares may take place during the period June 15, 2021 to June 30, 2021. Costs for social security contributions for allocated options amount to SEK 1.3 million during the period. In the event that full subscription of these warrants takes place, the Parent Company's equity will be increased by SEK 55.5 million. The number of shares after any dilution at the end of the period amounted to 105,829,500. The share price is less than the exercise price for the warrant scheme during the period.

NOTE 11

DEPRECIATION, AMORTISATION AND WRITE-DOWNS DIVIDED BY FUNCTION

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Direct costs	-171,626	-126,996	-145,439	-126,996
Selling expenses	–	–	–	–
Administrative expenses	-24,229	-10,416	-4,275	-4,243
Total	-195,855	-137,412	-149,714	-131,239

NOTE 12

FINANCIAL INCOME

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Interest income	–	15	–	14
Gain in sale of shares	141	12	141	12
Total	141	27	141	26

Of which interest income from group companies

– –

NOTE 13

FINANCIAL COST

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Interest expense	-7	-260	-7	–
Total	-7	-260	-7	0

Of which interest expense to group companies

– –

NOTE 14 APPROPRIATIONS

	PARENT COMPANY	
	2018	2017
Group contributions	-12,500	-14,600
Reversal of tax allocation	2,073	5,194
Transfer to tax allocation	-120,000	-85,000
Total	-130,427	-94,406

NOTE 15 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 22% (22%) and the reported tax expense in the income statement is as follows:

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Profit before tax	455,183	339,583	372,588	257,731
Tax according to applicable tax rate, 22%	-100,140	-74,708	-81,969	-56,701
Tax attributable to prior years	-9	88	-9	88
Adjustment for tax rate differences in foreign jurisdictions	-679	276	—	—
Non-taxable income	—	82	—	3
Non-deductible items	-420	-379	-379	-321
Recognized tax expense	-101,249	-74,642	-82,358	-56,931

Specification of recognized tax expense:

Current tax				
On net profit	-55,834	-45,650	-82,348	-57,008
Adjustment on prior year tax	-9	88	-9	78
Deferred tax expense				
Change in untaxed reserves	-45,406	-29,079	—	—
Tax reported in the income statement	-101,249	-74,642	-82,358	-56,931

NOTE 16 CAPITALISED DEVELOPMENT

Changes in the carrying values of capitalised development:

	GROUP		PARENT COMPANY	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Opening accumulated cost	540,709	303,916	524,782	303,916
Acquisition through business combination	36,332	15,469	—	—
Activated development cost	305,654	220,866	297,884	220,866
Exchange rate differences	804	458	—	—
Closing accumulated cost	883,500	540,709	822,666	524,782
Depreciation				
Opening depreciation	-215,351	-106,391	-215,351	-106,391
Exchange rate differences	-42	—	—	—
Depreciation for the year	-135,777	-108,960	-119,350	-108,960
Closing accumulated depreciation	-351,170	-215,351	-334,701	-215,351
Write-downs				
Opening accumulated write-downs	-78,030	-59,994	-78,030	-59,994
Exchange rate differences	81	—	—	—
Write-downs for the year	-36,398	-18,036	-26,090	-18,036
Closing accumulated write-downs	-114,347	-78,030	-104,120	-78,030
Closing residual value	417,982	247,328	383,845	231,401

In addition to capitalised development the Group expensed costs related to research and development of SEK 75,842 (72,246) thousand as direct costs.

An impairment of SEK 36,398 (18,036) thousand have been recognized during the year relating to capitalised development. During the period, write-downs have been made regarding externally developed games that were launched during the year, as well as non-announced externally developed games. Impairment testing is done regularly for the entire game portfolio, both for launched games, and games that are still under development. The impairment tests have been based on the respective game's projected income over the next three years. All the discount rates used for the game project exceeds 10 %.

All amortisation and write-downs of capitalized development is included in Direct costs in the income statement.

NOTE 17 LICENSES, BRANDS AND SIMILAR RIGHTS

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

	GROUP		PARENT COMPANY	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Opening accumulated cost	99,305	67,560	5,827	5,827
Acquisition through business combination	89,895	30,833		
Addition	99,757	–	99,757	–
Exchange rate differences	1,305	912	–	–
Closing accumulated cost	290,261	99,305	105,584	5,827
Opening accumulated depreciations	-21,122	-12,964	-5,646	-5,248
Exchange rate differences	98	–	–	–
Depreciation for the year	-20,155	-8,158	-181	-398
Outgoing accumulated depreciations	-41,179	-21,122	-5,827	-5,646
Closing residual value	249,082	78,183	99,757	181

NOTE 18 PROPERTY, PLANT AND EQUIPMENT

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

	GROUP		PARENT COMPANY	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Opening accumulated cost	22,052	21,308	21,633	21,308
Acquisition through business combination	4,558	381	–	–
Addition	1,125	325	1,125	325
Exchange rate differences	-80	38	–	–
Outgoing accumulated cost	27,655	22,052	22,758	21,633
Opening accumulated depreciations	-11,245	-7,321	-11,165	-7,321
Opening depreciations on acquisitions	-2,546	–	–	–
Depreciations for the year	-4,350	-3,924	-4,094	-3,844
Outgoing accumulated depreciations	-18,141	-11,245	-15,259	-11,165
Closing residual value	9,514	10,807	7,499	10,468

NOTE 19 LEASES

The Group rents office space through operating leases. Future minimum lease payments are as follows:

	MINIMUM LEASE PAYMENTS			
	within 1 year	1-5 years	after 5 years	Total
2018-12-31	24,207	182,005	25,245	231,457
2017-12-31	14,868	25,119	0	39,987

Leasing expenses during the reporting period amounted to SEK 23,262 (17,688) thousand which consists of the minimum lease payments. The parent company will take up new premises during the second half of 2019.

NOTE 20 FINANCIAL ASSETS AND LIABILITIES**Categories of 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:

2018-12-31	Amortised cost	Fair value through profit or loss	Derivatives	Non-financial items	Total
Capitalised development	–	–	–	417,928	417,928
Licenses, brands	–	–	–	249,082	249,082
Property, plant and equipment	–	–	–	9,514	9,514
Investments in associates	–	–	–	14,349	14,349
Other long term receivables	3,462	–	–	–	3,462
Accounts receivables	136,333	–	–	–	136,333
Tax assets	–	–	–	–	–
Other current assets	13,295	–	–	–	13,295
Prepaid expenses	–	–	–	25,942	25,942
Other short term placements	–	–	–	–	–
Cash and cash equivalents	327,044	–	–	–	327,044
Total financial assets	480,135	–	–	716,814	1,196,948
Deferred tax liabilities	–	–	–	110,486	110,486
Other long term liabilities	–	61,227	–	–	61,227
Accounts payable	31,364	–	–	–	31,364
Current tax liabilities	–	–	–	25,376	25,376
Other liabilities	8,536	7,125	–	–	15,661
Accrued expenses and prepaid revenue	99,057	–	–	–	99,057
Total financial liabilities	138,957	68,352	–	135,862	343,172

2017-12-31	Loans and accounts receivable	Fair value through profit or loss	Financial liabilities amortized cost	Non-financial items	Total
Capitalised development	–	–	–	247,328	247,328
Licenses, brands	–	–	–	78,183	78,183
Property, plant and equipment	–	–	–	10,807	10,807
Investments in associates	–	–	–	–	–
Other long term receivables	3,462	–	–	–	3,462
Accounts receivables	72,822	–	–	–	72,822
Tax assets	–	–	–	347	347
Other current assets	26,548	–	–	–	26,548
Prepaid expenses	–	–	–	22,673	22,673
Other short term placements	–	–	–	–	–
Cash and cash equivalents	320,100	–	–	–	320,100
Total financial assets	422,932	–	–	359,337	782,270
Deferred tax liabilities	–	–	–	65,080	65,080
Other long term liabilities	–	11,432	–	–	11,432
Accounts payable	–	–	22,147	–	22,147
Current tax liabilities	–	–	–	–	–
Other liabilities	–	–	4,692	–	4,692
Accrued expenses and prepaid revenue	–	–	65,871	13,130	79,001
Total financial liabilities	–	11,432	92,710	78,210	182,352

Assets at fair value through profit or loss

Used methods for valuing financial assets and liabilities at fair value through the income statement are presented in Note 38.

Other financial instruments

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

- accounts receivable and other current assets
- cash and cash equivalents
- accounts payable and other liabilities

NOTE 21**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, Netherlands	Development	18,000	100%	40,900
Paradox Development Studio AB	Stockholm	Development	100,000	100%	90
Paradox North AB	Stockholm	Development	1,000	100%	50
White Wolf Entertainment AB	Stockholm	Licensing	1,000	100%	50
Harebrained Holdings Inc	Seattle, USA	Development	10,000,000	100%	104,019

Changes during the year:

	PARENT COMPANY	
	2018-12-31	2017-12-31
Opening accumulated cost	41,090	190
Acquisition White Wolf Publishing AB	–	40,900
Förvärv Harebrained Holdings Inc	104,019	–
Outgoing accumulated cost	145,109	41,090

NOTE 22**INVESTMENTS IN ASSOCIATES**

On January 2, Paradox acquired 33 % of the shares in development studio Hardsuit Labs, based in Seattle, for USD 2.0 million. The acquisition was made in cash and Paradox has an option to increase its ownership in the future. The shares are valued in the Group according to the equity method.

Financial information summary in Hardsuit Labs is as follows:

	2018-12-31	2018-01-02
Cash and cash equivalents	2,593	6,694
Other current receivables	3,687	1,501
Non-current assets	4,925	3,603
Total Assets	11,205	11,798
Long-term financial liabilities	0	0
Other long-term liabilities	4,145	2,922
Short-term financial liabilities	0	0
Other short-term liabilities	7,525	2,090
Total liabilities	11,670	5,012
Net assets	-465	6,786
Reconciliation to carrying amounts:		
Opening net assets January 2, 2018	6,786	6,786
Profit or loss for the period	-7,326	0
Other comprehensive income	0	0
Closing net assets	-540	6,786
Group share in %	33%	33%
Group's share	-178	2,239
Goodwill	14,527	14,527
Carrying amount	14,349	16,766
	2018	2018-01-02
Revenue	68,303	-
Depreciation and amortisation	-	-
Income tax expense	-	-
Total comprehensive income	-7,251	-

NOTE 23 OTHER LONG TERM ASSETS

	GROUP		PARENT COMPANY	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Opening accumulated cost	3,462	3,402	3,462	3,402
Deposits	—	60	—	60
Outgoing accumulated cost	3,462	3,462	3,462	3,462

Other long-term assets relate to rental deposits to the company's landlord.

NOTE 24 PREPAID EXPENSES AND ACCRUED REVENUES

	GROUP		PARENT COMPANY	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Prepaid rental costs	4,757	3,718	4,757	3,718
Prepaid royalty costs	—	6,615	2,343	6,615
Other prepaid costs	7,441	4,270	4,881	4,185
Accrued revenue	13,744	8,070	13,744	8,070
Total	25,942	22,673	25,725	22,588

NOTE 25 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	GROUP		PARENT COMPANY	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Accounts receivables gross	136,333	72,822	131,466	72,524
Provision for doubtful receivables	—	—	—	—
Total	136,333	72,822	131,466	72,524

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

NOTE 26 CASH AND CASH EQUIVALENTS

All the Group's accounts receivables and other receivables have been reviewed for indications of impairment. No receivables have to be written down, as in previous year. Loan losses are reported under Selling expenses.

Cash and cash equivalents consist of the following:

	GROUP		PARENT COMPANY	
	2018-12-31	2017-12-31	2018-12-31	2017-01-01
Balances with banks	327,044	320,100	297,365	304,516
Total	327,044	320,100	297,365	304,516

NOTE 27 EQUITY**Share capital**

The share capital of the Parent Company consists only of fully paid ordinary shares with a nominal value of SEK 1. 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.

	2018-12-31	2017-12-31
Subscribed and paid shares:		
At the beginning of the year	528,000	528,000
Total at the end of the year	528,000	528,000

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 recognized directly in equity amounted to SEK 0 (0) thousand.

NOTE 28 **UNTAXED RESERVES**

	PARENT COMPANY	
	2018-12-31	2017-12-31
Untaxed reserves:		
fiscal year 2012	–	2,073
fiscal year 2013	8,500	8,500
fiscal year 2014	9,775	9,775
fiscal year 2015	60,600	60,600
fiscal year 2016	77,500	77,500
fiscal year 2017	85,000	85,000
fiscal year 2018	120,000	–
Total	361,375	243,448

NOTE 29 **DEFERRED TAX LIABILITIES**

Deferred taxes arising from temporary differences are summarized as follows:

	GROUP		PARENT COMPANY	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Opening balance	65,080	36,001	–	–
Change in untaxed reserves	25,944	17,557	–	–
Intangible assets from acquisitions	19,462	11,521	–	–
Closing balance	110,486	65,080	–	–

All changes in deferred tax has been recognized in the income statement. Deferred tax is from untaxed reserves in the parent company, as well as deferred tax on intangible assets from the acquisitions of Harebrained Holdings Inc.

NOTE 30 **OTHER LIABILITIES**

Other long term liabilities consist of the following:

	GROUP		PARENT COMPANY	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Contingent consideration, White Wolf brands	–	11,432	–	–
Contingent consideration, Harebrained Holdings Inc.	38,555	–	38,555	–
Contingent consideration, Prison Architect	22,672	–	22,672	–
Total other long term liabilities	61,227	11,432	61,227	–

Other current liabilities consist of the following:

	GROUP		PARENT COMPANY	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Contingent consideration, White Wolf brands	7,125	–	–	–
Other liabilities	8,536	4,692	1,946	1,177
Total other current liabilities	15,661	4,692	1,946	1,177

NOTE 31 **ACCRUED EXPENSES AND PREPAID REVENUES**

	GROUP		PARENT COMPANY	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Accrued personnel costs	58,950	41,482	28,688	18,936
Accrued royalty costs	23,090	24,947	27,402	26,649
Accrued game development costs	–	–	21,758	13,324
Prepaid revenues	12,629	9,597	12,629	9,597
Other accrued costs	4,388	2,975	4,191	2,583
Total	99,057	79,001	94,668	71,089

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

NOTE 32 ASSETS PLEDGED AND CONTINGENT LIABILITIES

	GROUP		PARENT COMPANY	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Assets pledged				
Business mortgage	28,600	28,600	28,600	28,600
Contingent liabilities	None	None	None	None

Business mortgages are issued to an unused overdraft facility.

NOTE 33 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 SEK 63,686 (50,301) thousand, and liabilities to subsidiaries SEK 48,963 (29,892) thousand, of which SEK 25,891 (12,600) thousand accrued expenses. Of the receivables SEK 50,301 (50,301) thousand comprised of receivables from subsidiaries attributable to the financing of the purchase of White Wolf. Receivables and liabilities between Group companies are eliminated on consolidation. At the end of the year, the Parent Company had outstanding liabilities to associated companies amounting to SEK 2,871 (0) thousands. Company sales to subsidiaries during the year amounted to SEK 617 (5,887) thousand and purchases to SEK 147,308 (89,819) thousand. The Parent Company's purchases from associated companies during the year amounted to SEK 6,823 (0) thousands. Sales and purchases between Group companies is mainly related to the game development activities in the subsidiaries. Receivables and liabilities between Group companies at the 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 34 EVENTS AFTER THE END OF THE PERIOD

In February, Stellaris was released for console for the first time; Stellaris: Console Edition.
In March, the new Paradox Tectonic development studio was opened in Berkeley California. The studio will be led by industry veteran Rod Humble.
In March, the new game Vampire: the Masquerade - Bloodlines 2, developed by the associated company Hardsuit Labs Inc., was announced. The game has a scheduled release in March 2020.

NOTE 35 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	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Depreciation of non-financial items	159,708	121,027	123,624	113,203
Write-downs of non financial items	36,402	18,036	26,090	18,036
Change in fair value of financial items	141	12	141	12
Investments accounted for using the equity method	2,418	–	–	–
Total adjustments	198,669	139,075	149,855	131,250

NOTE 36 DEFINITIONS

Operating margin

Operating profit in relation to revenues

Profit margin

Profit after tax in relation to revenues

Equity/assets ratio

Equity as a percentage of total assets

Equity per share

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

Earnings per share

Profit after tax in relation to the average number of shares outstanding during the year

Equity

Equity including untaxed reserves deducted by deferred tax liabilities

NOTE 37**ACQUISITIONS**

On June 7, 2018, 100% of the shares were acquired in Harebrained Holdings Inc, including the wholly-owned subsidiary Harebrained Schemes LLC, based in Seattle, USA. Paradox has paid a fixed purchase price of USD 7,500 thousand at the time of purchase plus an earn-out amounting to 25% of the acquired business's earnings before publishing costs over a five-year period, to the extent that the result exceeds the fixed purchase price. No maximum amount is regulated in the agreement.

The acquisition will increase Paradox market share as well as own development capacity for upcoming games. The cash flow effect of the acquisition at Group level is SEK -61,397 thousand, where SEK -420 thousand regarding expensed acquisition costs are included in administrative expenses.

If Harebrained had been acquired on January 1, 2018, the acquisition had contributed with additional revenues of SEK 10,464 thousand and a further positive result of SEK 1,037 thousand. Harebrained contributed a turnover of SEK 4,494 thousand and a loss of SEK -2,545 thousand from the date of acquisition until December 31, 2018.

	2018
Purchase price:	
Cash consideration	65,043
Contingent consideration	38,555
	103,598
<i>Reported amounts of identifiable net assets</i>	
Licenses, brands and similar rights	87,010
Capitalized development expenditure	35,407
Cash and cash equivalents	4,068
Other assets	15,577
Deferred tax liabilities	-25,657
Other liabilities	-12,807
	103,598

NOTE 38**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 separate note above.

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 does not issue warrants. The most significant financial risks to which the Group is exposed to are described below.

Currency exposure

Exposures to exchange rate changes arise from the Group's sales to and purchases from other countries. These sales and purchases are made mainly in US dollars (USD), British pound (GBP) and euro (EUR). The result is also affected by the translation of foreign subsidiaries' earnings and balance sheet items into Swedish krona.

If the Swedish krona had weakened against all other currencies by 10%, the profit for the year would have improved by SEK 65,591 (46,608) thousand. Of the Group's total revenue, 2% (2%) is in Swedish kronor. 59% (57%) of the Group's total costs are in Swedish kronor.

Generally, the risk exposure is not hedged for exchange rate fluctuations for future cash flows with financial instruments. However, the Group's policy enables hedging after the Board's approval. No currency hedging was made during the year or the previous year.

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's policy is to only do business with creditworthy 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 together with the credit limits per customer.

On 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:

	2018-12-31	2017-12-31
Overdue:		
Less than three months	13,940	212
More than three months but not more than six months	–	100
More than six months but not more than twelve months	102	–
More than a year	–	–
Total	14,042	312

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 SEK 0 thousand 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

Liquidity risk is the risk that the Group can not meet its obligations. The Group manages liquidity needs by monitoring forecasted inflows and outflows of the business. Long-term liquidity needs for a period of 18 months are identified quarterly. Net cash requirements are compared with the available proceeds to establish the margin of safety or potential deficits. The Group's goal is to have liquid funds amounting to at least SEK 100,000 thousands. This goal was achieved during the reporting periods. The Group's financial liabilities mainly consist of accounts payable and reserves for royalties to game developers, where the contractual maturity date falls within 12 months. Long-term financial liabilities mainly consist of contingent consideration which falls due within 1-5 years.

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 39

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:

2018-12-31	Level 1	Level 2	Level 3
Financial liabilities			
Contingent consideration, Harebrained Schemes	–	–	38,555
Contingent consideration, White wolf	–	–	7,125
Total	–	–	45,680

2017-12-31	Level 1	Level 2	Level 3
Financial liabilities			
Contingent consideration, White wolf	–	–	11,432
Total	–	–	11,432

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 SEK 38,555 thousand has been calculated through a probability assessment of future cash flows based on the acquired studio's earnings, adjusted for a discount rate of 15%. The probability-assessed outflow of financial resources before the discount amounts to SEK 64,736 thousand 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.

The fair value of the conditional purchase consideration from the acquisition of White Wolf's brand portfolio has been calculated according to the present value technique. The fair value of SEK 7,125 thousand has been calculated through an assessment of future cash flows based on the acquired assets' income. Since the contract period expired in the fourth quarter of 2018 and paid out in the first quarter of 2019, no amount has been discounted.

Valuation at fair value, Level 3

	Contingent consideration	
	2018	2019
Opening balance January 1	11,432	11,432
Acquisition through business combinations, Harebrained Holdings Inc	38,555	–
Amounts reported through profit or loss in:		
Other income, revaluation White Wolf purchase price	-4,307	–
Balance at December 31	45,680	11,432
Total unrealised gains included in other income in profit or loss, attributable to instruments within Level 3	4,307	–

NOTE 40**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	2018	2017
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	105,600,000	105,600,000

Dividend

In 2018, Paradox Interactive paid out dividends of SEK 105,600 (105,600) thousand to its shareholders. This corresponds to a dividend of SEK 1.00 per share (1.00 per share).

In 2019, the Board proposes a dividend of SEK 105.6 million, 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 2018. The income tax is not expected to be affected at the company level in the parent company as a result of this transaction.

NOTE 41**APPROVAL OF THE FINANCIAL STATEMENTS**

Consolidated financial statements for the reporting period ended 31 December 2018 (including comparatives) were approved by the Board on April 3, 2019.

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 2019-04-03

Fredrik Wester
Chairman of the Board

Ebba Ljungerud
CEO

Håkan Sjunnesson

Cecilia Beck-Friis

Peter Ingman

Josephine Salenstedt

Our audit report was submitted on April 3, 2019
Grant Thornton Sweden AB

Erik Uhlén
Authorized Public Accountant

AUDITOR'S REPORT

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 2018 except for the corporate governance statement on pages 30-36 and the sustainability statement on pages 37-38. The annual accounts and consolidated accounts of the company are included on pages 27-68 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 as of 31 December 2018 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 2018 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 opinion does not include the corporate governance statement on pages 30-36 and the sustainability statement on pages 37-38. 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 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 INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

The Board of Directors and the Managing Director are responsible for the other information. The other information can be found on pages 1-26 and 30-38. 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 DIRECTORS 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 intends 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.

AUDITOR'S REPORT (CONT.)

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

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 Directors and the Managing Director of Paradox Interactive AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors 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 DIRECTORS 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.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine, and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors'

AUDITOR'S REPORT (CONT.)

reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

THE AUDITOR'S EXAMINATION OF THE CORPORATE GOVERNANCE STATEMENT

The Board of Directors is responsible for that the corporate governance statement on pages 30-36 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 RevU 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.

THE AUDITOR'S REPORT ON THE SUSTAINABILITY STATEMENT

The Board of Directors is responsible for that the sustainability statement on pages 37-38 has been prepared in accordance with the Annual Accounts Act.

Our examination of the sustainability statement is conducted in accordance with FAR's auditing standard RevR 12 The auditor's report on the sustainability statement. This means that our examination of the sustainability 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 sustainability statement has been prepared.

Stockholm 2019-04-03
Grant Thornton Sweden AB

Erik Uhlén
Authorized Public Accountant

