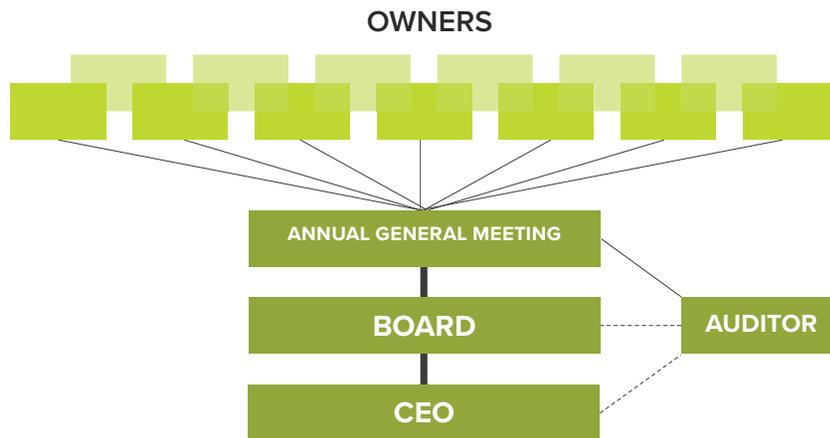


# CORPORATE GOVERNANCE REPORT

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. 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 60.

## 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

### 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 12,271 as of 31st December 2017. The largest shareholder at the end of 2017 were Wester Invest AB (Fredrik Wester) with 33.4 percent of the share capital, Investment AB Spiltan by 24.8 percent and Lerit Förvaltning AB (Peter Lindell) with 9.0 percent.

### ANNUAL GENERAL MEETING

The general meeting is the highest decision-making body in which shareholders exercise their influence over the company. The Annual General Meeting is held annually within six months of the financial year. Time and place of the Annual General Meeting 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 Annual General Meeting and Extraordinary General Meeting where a change in the articles of association is to be resolved, must be made not earlier than six weeks and not later than four weeks ahead of the general meeting. Notice to other extraordinary general meetings must be made not 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.

#### 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 2017

The Annual General Meeting 2017 was held on 5 May 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 meeting decided that the Board shall consist of five members with no alternates. The AGM decided that the remuneration shall be 180,000 SEK / year to Board members not active in the company and 360,000 SEK / year as chairman. The meeting decided to choose Håkan Sjunnesson as chairman; Fredrik Wester, Peter Lindell, Ebba Ljungerud and Cecilia Beck-Friis as members. Resolution on principles for the Nomination

Committee was established. The AGM decided to elect Grant Thornton, with Chief Auditor Stefan Hultstrand.

#### Annual General Meeting 2018

The Annual General Meeting 2018 takes place on May 18, 13:00 at Hotell Scandic Malmen in Stockholm. Notice of the Meeting will be available on the company's website [www.paradox-interactive.com](http://www.paradox-interactive.com) together with all the required documents for the AGM.

#### Attendance on the Annual General Meeting

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

#### NOMINATION COMMITTEE

The Annual General Meeting 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, 2017. The three largest shareholders will elect one representative each to form the nomination committee along with the Chairman. 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. 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. The Committee's task shall be to prepare proposals to the general meeting regarding Chairman of the Annual General Meeting, 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 2018

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 Annual General Meeting.

#### Members of the Nominating committee

- Per Håkan Börjesson, chairman (appointed by Investment AB Spiltan)
- Andras Vajlok (appointed by Westerinvest AB)
- Christoffer Häggblom (appointed by Lerit Förvaltning AB)
- Håkan Sjunnesson (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, is a member of the Nomination Committee, which is also a discrepancy under paragraph 2.3. As the company has a narrow circle of owners consisting primarily of Investment AB Spiltan and Wester Invest AB (Fredrik Wester) 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 Annual General Meeting 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 six members. The Chairman of the board is elected at the AGM and has a particular responsibility to lead the work of the board and ensure that its activities are well organized and conducted in an efficient way. The Board consists of five elected members since the Annual General Meeting 2017. The Board consists of two women and three men. Since the Annual General Meeting 2017, the Board consists of the following elected members; Chairman Håkan Sjunnesson, Fredrik Wester, Peter Lindell, Ebba Ljungnerud and Cecilia Beck-Friis. 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. The majority of the directors are also independent in relation to 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 organisation, 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 Annual General Meeting. 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 2017.

#### 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.

#### Board work in 2017

The Board's rules of procedure describes 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 2017, the Board held ten 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 2017 have been questions about investment strategies, acquisitions, interim and annual reports, dividend proposal, etc.

**Composition of the Board and attendance in 2017**

Attendance 2017	Board meetings	Audit committee	Remuneration committee
Styrelsens ordförande Håkan Sjunnesson	10 of 10	1 of 1	1 of 1
Cecilia Beck-Friis	8 of 10	1 of 1	1 of 1
Peter Lindell	10 of 10	1 of 1	1 of 1
Ebba Ljungerud	10 of 10	1 of 1	1 of 1
Fredrik Wester	10 of 10	–	–

**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 senior executives, and other remuneration to elected members, including the Chairman, is resolved by the AGM. At the Annual General Meeting on May 5, 2017 it was resolved that the remuneration to each of the elected Board members shall amount to SEK 180,000. The Chairman is paid SEK 360,000. The company's board members are not entitled to any benefits after they have resigned as members of the Board.

**Board meetings 2017**

February 13, 2017 - Regular Meeting  
Approval of the Year-end Report.

March 24, 2017 - Regular Meeting  
Approval of the Annual Report.

May 5, 2017 – Regular Meeting  
Reviewing fixed points. Approval of interim report.

May 5, 2017 - Constituent Meeting  
Adoption of policies, guidelines and instructions.

June 27, 2017 – Regular Meeting  
Reviewing fixed points.

August 14, 2017 – Regular Meeting  
Reviewing fixed points. Approval of the interim report.

August 17, 2017 - Regular Meeting  
Reviewing fixed points.

October 16, 2017 - Regular Meeting  
Reviewing fixed points.

November 13, 2017 - Regular Meeting  
Approval of the interim report.

December 18, 2017 – 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 Annual General Meeting. 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 2017 Grant Thornton was appointed as the auditor of Paradox, with Stefan Hultstrand 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 2017 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**

Remuneration to the CEO and other senior executives consists of a fixed salary, other benefits and pension plans. A market-based monthly salary is paid to the CEO and other senior executives. Other normal employee benefits are also applicable. Variable remuneration is paid to all full-time employees, with the exception of the CEO, according to a profit-sharing program adopted by the Board on February 13, 2017.

#### **Profit sharing program**

All full-time employees and temporary employees with an employment of at least three months are entitled to participate in the Company's profit-sharing program. These conditions mean that the staff receives 5 percent of the company's profit before distribution, allocations and tax.

### **Guidelines determined by the AGM 2017**

The Board proposes that the Annual General Meeting resolves to approve the Board's proposed guidelines for remuneration for senior management as stated below. Senior management means the CEO and other senior management of the company.

The CEO is paid according to his own preference a compensation of one SEK per fiscal year. Other members of senior management are paid a market based monthly salary and customary benefits. Senior management, excluding the CEO, is part of the joint profit sharing program for all permanent employees as decided by the Board.

The fixed salary is in general reviewed on a yearly basis and shall take into account the individual's qualitative performance. Remuneration to senior management, except the CEO shall be market based.

Both Paradox and the CEO shall observe a six-month notice period. CEO is not entitled to any severance payment. Paradox will observe the period of notice in accordance with the Employment Protection Act. Senior executives must observe the same notice, however, at 3 months. Other senior management is not entitled to any compensation in connection with their employment being terminated. Other senior management 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 2018**

To the Annual General Meeting 2018, 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.

## STYRELSE

### 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 and Aktivbo A. Member of the Board in Dalex i Stockholm AB, Digilär AB, NuvoAir AB and StoreVision Group 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 Lindell

**Position:** Member of the Board, elected in 2014.

**Born:** 1954

**Education:** M.Sc. in Industrial Engineering and Management from Linköping University.

**Previous assignments:** Large number of assignments in Rite Internet Ventures Holding AB and the companies in which Rite Internet Ventures Holding AB invested.

**Other current assignments:** Chairman of the Board in Frank Dandy AB, Rite Internet Ventures Holding AB, Acervo AB, StoreVision Group AB and Rite Ventures Förvaltning AB. Member of the Board in Lednil AB, Packfront Software Solutions AB, Cidro Holding AB, Berinor B.V. och Stiftelsen Good Sport Foundation. Styrelsesuppleant i Aktiebolaget Baccarat, Livsstil & Hälsa E. Norén AB, and Rite Ventures Finland AB.

**Shareholding in the company:**  
9,535,359 shares - Through Company.

**Independence:** Independent in relation to the Company and senior management. Not independent in relation to major shareholders, owner of Lerit Förvaltning AB.

### Ebba Ljungerud

**Position:** Member of the Board, elected in 2014.

Appointed as CEO from August 2018.

**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. Her current role is Chief Commercial Officer for the group.

**Shareholding in the company:** 12,200 shares - Direct ownership.

**Independence:** Independent in relation to the Company. Independent in relation to major shareholders.

### Fredrik Wester

**Position:** CEO, Member of the Board, elected in 2010.

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

### Cecilia Beck-Friis

**Befattning:** Member of the Board, 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. Board member of Net Insight AB and board member of Acando.

**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.

## LEDANDE BEFATTNINGSHAVARE

### Fredrik Wester

Vänligen se beskrivning i avsnittet Styrelse.

### Susana Meza Graham

**Position:**

Chief Operating Officer, COO, since 2014.

**Born:** 1976

**Education:** Fil. kand in marketing, Stockholm University.

**Previous assignments:** Susana has more than 10 years of experience of marketing and games, and was previously CMO at EVP

Publishing and CMO and PR Manager at Paradox.

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

**Shareholding in the company:**

1,000,000 shares – Through company.

### John Hargelid

**Position:** Chief Information Officer, CIO since 2014.

**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.

**Shareholding in the company:** 291,337 shares – Direct ownership

### Mattias Lilja

**Position:** Chief Product 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 – Through company.

### Alexander Bricca

**Position:** Chief Financial Officer, CFO since 2018.

**Born:** 1976

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

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

**Other current assignments:** Board member Stillfront Group AB (publ) t o m Annual General Meeting 2018, Deputy Board Deputy Coldwood Interactive AB t o m Annual General Meeting 2018.

**Shareholding in the company:** –

**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](http://www.paradoxinteractive.com).