



Annual Report 2016

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

Annual Report 2016

TABLE OF CONTENTS

3. ABOUT PARADOX INTERACTIVE

4. WORDS FROM THE CEO

7. THE YEAR IN BRIEF

7. THE GAMES

8. IPO - THE PARADOX WAY

9. PARADOX + TENCENT

10. OTHER INITIATIVES

11. FINANCIAL DEVELOPMENT

12. PORTFOLIO

12. ACTIVE BRANDS

13. RELEASES DURING 2016

14. STELLARIS

15. HEARTS OF IRON

16. TYRANNY

17. EXPANSIONS

19. COMING RELEASES

20. MARKET

20. THE GLOBAL GAME MARKET

21. THE GAME INDUSTRY VALUE CHAIN

22. THE PEOPLE AND THE PLAYERS

22. THE PEOPLE AND THE PLAYERS

23. THE COMMUNITY

24. FINANCIAL STATEMENTS

25. ADMINISTRATION REPORT

37. INCOME STATEMENT

38. BALANCE SHEET

40. EQUITY CHANGE

42. CASH FLOW STATEMENT

43. NOTES

62. AUDITOR'S REPORT

About Paradox Interactive



PUBLISHER, DEVELOPER OCH LICENSING

The Paradox Interactive group includes publishing and internal development of games and licensing of White Wolf's brands. The publishing operation publishes both internally developed titles and titles developed by independent studios as well as music and books. The game portfolio includes more than 75 titles and Paradox Interactive owns the most important brands, including Stellaris, Europa Universa-

lis, Hearts of Iron, Crusader Kings, Cities: Skylines, Tyranny and Magicka.

From the start over ten years ago, the company has published its games all over the world, initially through physical distribution using partners, but from 2006 digitally using its own publishing arm. The development platform is primarily PC, but the

company has released games on console and mobile platforms as well. The largest markets today include the US, UK, Germany, France, Russia and Scandinavia. Today, close to 1.5 million gamers play a Paradox game each month and the number of Paradox registered users exceeds six million.



Words from the CEO

STRONG AND EVENTFUL YEAR FOR PARADOX

We have reached year's end and can now see that our fourth quarter has closed much in the same way as the year at large – with a steady growth in turnover and profit compared to last year. At the same time it's important to remember that we will continue to have stronger quarters and less strong quarters, just like we've previously communicated.

We are cash flow positive and already have a good cash position, enabling us to do larger investments and look at interesting acquisitions. However, it's important to stress that we are in no hurry. Making the right decisions for Paradox of today and Paradox of tomorrow is the priority above all.

Over the past five years or so, Paradox has followed a clear path with one of the main principles being growth while being profitable and where the foundation is our existing target audience and our Paradox formula (the Paradox game pillars). In addition, we will use strategic acquisitions and partnerships, like the acquisition of White Wolf, to give ourselves additional strategic height to continue developing and challenging ourselves to create even better products.

A testament to the success of our work can be found on the website Metacritic, which summarizes reviews for games and more. On it, Paradox is listed as number one with best reviews during 2016 among mid-sized publishers.

Another indication can be found on Steam, our largest distribution partner, who released their top list at the end of December with the 100 best selling games of 2016. Paradox had no less than 5 titles on the list (Stellaris, Cities: Skylines, Hearts of Iron IV, Europa Universalis IV and Crusader Kings II), a clear indication of the strength and range in our portfolio.

A strong product portfolio reduces risk by making us less vulnerable during any single game release. However, any successful game launch naturally increases our ability to invest more, continuously develop and improve ourselves with regards to quality and ultimately create better products.

During the year we released two internally developed games within the niche which is our greatest strength, which in turn has contributed greatly to the results of the year. The releases turned our second quarter into the strongest quarter in our company history.

Stellaris has received a very positive reception on the market and beat the previously held company revenue record for sales the first 24 hours after release. Even though the game to some extent builds on the formula that has made Paradox Development Studio a world leader within their niche, the game has several elements where the team has pushed boundaries, tested new things and implemented changes.

Hearts of Iron is one of our biggest and most successful brands, and with so many existing fans, expectations for a new title were gigantic. Not only did Hearts of Iron IV meet these ex-

pectations, but it also became the fastest-selling historical strategy game from Paradox to date. User reviews and media reviews show that the team managed to both meet the high customer expectations and, much like with Stellaris, attract many new players.

That both new and existing players appreciate both games is a good example of how we as a company can capitalize on our existing strengths while at the same time develop and challenge ourselves.

We continuously release expansions and new content to our active game titles. During the year we have released expansion to Europa Universalis IV, Crusader Kings II, Cities: Skylines, Stellaris and Hearts of Iron IV. The active dialogue between our development teams and the community has contributed to a general increase of engagement for Paradox in all of our channels as well as an increased monthly activity in each respective game.

We also released a larger title in November, Tyranny. Tyranny is developed by Obsidian Entertainment and has received a warm reception by critics and gamers all over the world. We believe Tyranny is a game where the sales will stretch over a longer period of time and where the positive reception will be a contributing factor. Just like with our other titles, the developers are continuing to develop the game in dialogue with its community, something that also contributes to its long-tail potential.

On May 31, Paradox was listed on First North Premier and we received more than 22,000 new

shareholders. Since our goal was to invite more people on our journey in the long term, we were particularly excited to see so many fans and employees among the new shareholders. The development for the stock price has been positive and at year end shares were traded at 54 % above the introductory price.

After the IPO one of the most frequently asked questions I receive is “when are you planning to exit”? As an entrepreneur and CEO it’s hard for me to understand that question. A more suitable question in my opinion would be “how do you plan to scale”? In many ways we are just getting started on our journey.

The listing of Paradox has also had a very positive impact on our visibility in Sweden. In the past, we have focused much of our communication on the international market, but following our market debut the awareness of our business, what type of company we are, and the fact that we are Sweden’s fourth-largest games company by revenue has increased quite a bit. This has been particularly helpful for our recruiting: we are seeing greater numbers of applications for almost all of our advertised roles, and we continue to grow in order to be able to execute on our plans.

For this reason we gathered the entire company for a four day conference at the end of the year. The focus of the conference was to discuss company direction, identify our internal goals and also put into words the company culture we are so keen to keep as we continue to grow. We are very happy with the outcome of the conference and for me personally, after 13 years at Paradox, it was very gratifying to recognize our Paradox

DNA among so many new employees. A clear validation that we have the right team with us on the road ahead.

During the year we have participated in a number of annual trade shows like the Games Developers Conference in the US and Gamescom in Germany. At the shows we demo our games, make announcements regarding upcoming titles as well as meet our current and future partners. We have also had representation at different conferences (such as Slush in Helsinki and Shanghai) where we present Paradox and network.

We have also been involved in various initiatives that are more connected to our strategic goals. Our partnership with Svensk Byggtjänst (the Swedish Builders Association) for instance has received a lot of media attention. Svensk Byggtjänst has used our city builder game, Cities: Skylines, as a tool for citizen dialogue in their process of developing a new part of the city in Stockholm. Another initiative that has been running for years is sponsoring schools with game codes. These type of initiatives show that games can play a larger role in society beyond entertainment.

Another goal that we share with the entire games and tech industry is to increase the number of women in the industry. During the year Paradox became a founding ambassador for Women in Games in Stockholm and we have also organized or participated in several events with that purpose like Tjejer Kodar.

It's no secret that we have had a very close relationship with our community from the very beginning and we still encourage all of our employees, particularly our developers, to have direct contact

with our players through our social channels. We also have a long history of providing players opportunities to modify our games and create their own content which they can also share with other players.

Our modding community has contributed tremendously over many years to keep our games fresh by creating thousands of different game modifications (mods). This year we took that concept one step further by releasing official expansions featuring user-generated content. By highlighting some of our most appreciated modders, we get the chance to financially support the development of new content for our games and recognize the contribution our community makes.

We also interact with our fans IRL (in real life) and we finished the year by inviting our fans to our annual FanGathering, an event where we also announced the start of the ticket sales for PDX-Con this spring. PDXCon has previously been a yearly media event where we have gathered developers, partners and media to show them our upcoming line-up. In 2017 we will open up the doors to the public for the first time and judging from the speed at which the Golden Tickets sold out, there seems to be a large interest to attend.

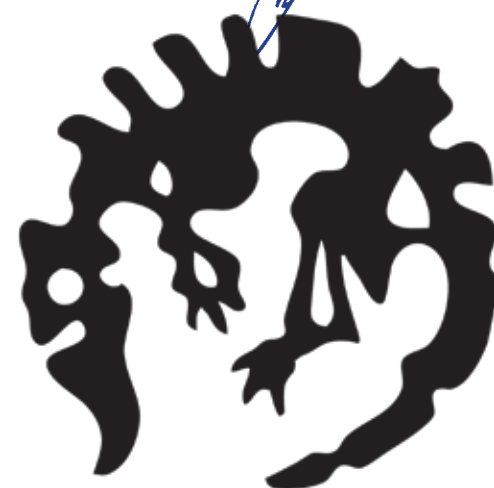
2017 has the makings of being just as exciting for us as 2016. All parts of the organisation are teeming with ideas, passion and activity. One thing we can mention right now is White Wolf who recently announced that they have licensed the brand "Werewolf: The Apocalypse" to publisher Focus Home Interactive, for a larger PC and console project. In addition to this they are working with several smaller licensing projects.

During GDC 2017 we announced a new partnership with Eugene Systems, a developer who, like Paradox, has carved a niche for themselves and became a world leader within their area of expertise. The announcement that we are now involved in the release of Steel Division: Normandy 44 was received very positively.

As communicated before, we will also continuously look at new platforms and business models. We recently recruited industry veteran Kim Nordström, with a background as studio manager at King, to drive our work in these areas.

I am by nature never satisfied since I can always identify ways to do more and better things. As we close the books on 2016 I can conclude that I am proud of our accomplishments but also that we are far from finished. Paradox will continue to aim high and work hard. A heartfelt thanks to those of you who have chosen to accompany us on our journey.

Fredrik Wester, VD



The year in brief

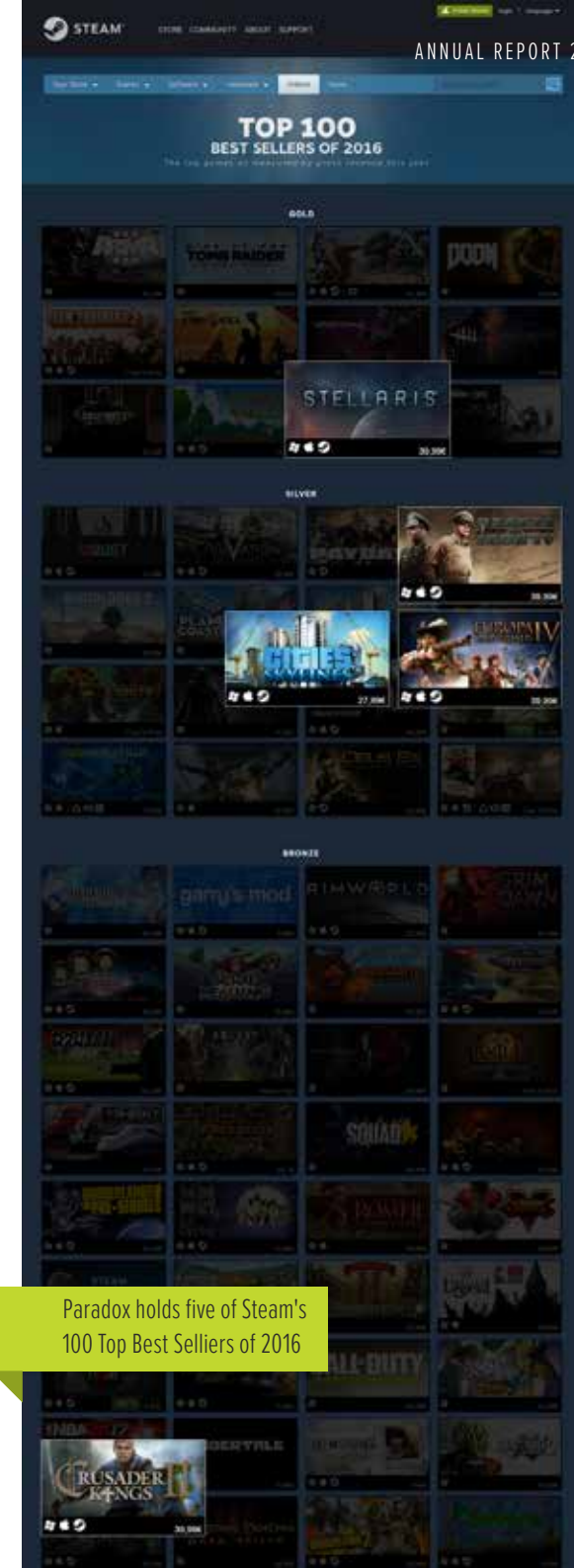
THE GAMES

On May 9th Stellaris, developed by Paradox Development Studio, was released. With 68,000 simultaneous players on the day of release, more than for Cities: Skylines, the previous record for Paradox was beaten. Less than 24 hours after release, Stellaris had sold over 200,000 units, breaking the revenue record for any of Paradox Interactive's previous titles during the same time period. For the internal development studio, the game has broken every record available and is the studio's fastest selling game ever.

Not long after the release of Stellaris, Hearts of Iron IV was released on June 6th, also developed by Paradox Development Studio. Two weeks after release the game had sold more than 200,000 copies, which is Paradox's fastest-selling historical strategy game ever. The game continued to reap success, and in February 2017 it was announced that the game has sold more than 500,000 copies.

At the end of the year, Tyranny was released. It was developed by Obsidian Entertainment, who previously also developed Pillars of Eternity in partnership with Paradox. The game has been warmly received by both the media and fans around the world and currently has a Metascore on Metacritic of 81 out of 100.

In addition to the game releases that have taken place during the year a number of expansions have been released including expansions for Cities: Skylines, Stellaris, Hearts of Iron IV, Europa Universalis IV and Crusader Kings II. The expansions have continued high attachment rate, meaning the percentage of players that have the base game that also buy the expansion. Expansions are contributing to continued high level of interest and also contribute to continued sales of the base games. In June it was announced, for example, that Europa Universalis IV had sold over one million copies.



Paradox holds five of Steam's 100 Top Best Sellers of 2016



IPO - THE PARADOX WAY

In May, Paradox was listed on Nasdaq First North Premier. The listing was aimed primarily at providing Paradox's employees, fans and the general public the opportunity to participate in the Company's future journey. In addition, a listing provides better access to the capital market with the ability to use shares as acquisition currency. At the same time, a listing provides an increased awareness of Paradox,

its activities, and the brand among both existing and potential players and fans, partners, game developers and other stakeholders, which is expected to benefit Paradox's future development.

The offering was oversubscribed several times and at year end shares were traded at 54 % above the introductory price.



Se introduktionsfilmen på: https://www.youtube.com/watch?v=Mm_g1eK7ZE0

PARADOX + TENCENT

In December Paradox announced a partnership with Tencent, which operates China's largest social network and online games platform. In mid December Cities: Skylines was released for players in China using Tencent's proprietary platforms. In addition Paradox will release Stellaris on the same platform in 2017.

CEO Fredrik Wester made the following comments on the partnership: "Paradox is a company whose games possess universal appeal, and I'm eager for the chance to share our games with a broader audience in China. Tencent is the biggest game publisher in the world, and we're glad to have such a capable partner — we know their platforms and their expertise will achieve excellent things for games like Cities: Skylines, Stellaris, and many others to come.

THE YEAR IN BRIEF - ANNUAL REPORT 2016

首页 游戏资料 都市:天际线 CITIES:SKYLINES 游戏评论 创客空间

立即购买 折扣价: ¥22

给你这个机会, 包下这个都市!

白金包156!

游戏攻略: 天际线发售以来, 低价限时! 12/12

游戏攻略: 《都市:天际线》运行问题必看 12/12

热帖: 天际线评测: 创造美丽新世界 12/07

热帖: 《都市:天际线》工商业教程 12/07

热帖: 《都市:天际线》民警教程篇 12/07

热帖: 《都市:天际线》交通教程篇 12/07

小编点评

我们总是会有一些, 关于都市的梦想: 或许是找到一处美好温暖的小家, 或许是拥有一个能煮咖啡的办公室, 或许是牵手心仪的女孩走完漫长的街道, 或许是带着相机看遍城市改造的每一丝变迁。在《都市:天际线》里面, 我们作为一个规划者, 画出的是钢筋水泥, 指出的是水电交通, 每一次点击都是敲下一记锤子, 我们主宰着整个都市, 它用繁华来响应着我们。来吧, 各位市长, 要不我们先给自己的都市, 起一个名字?

游戏DLC

天际线DLC: 夜生活 ¥16 ¥48 查看详情

天际线DLC: 冰天雪地 ¥21 ¥42 查看详情

天际线DLC: 艺术合集 ¥21 查看详情

天际线DLC: 大灾难 ¥48 查看详情

游戏介绍 最低配置 推荐配置

《都市:天际线》是一款由Colossal Order制作, Paradox Interactive发行的模拟经营游戏。玩家们在这款游戏中将不再只是为了城市的运输系统而忙碌, 而是要管理好各个方面的事务。你将会在光秃秃的地面白手起家, 建造只属于你的摩天世界。

评分: 4.8分 9人评价 我的打分: 未评分

游戏类型: 模拟经营

游戏标签: 大都会, 建造者, 规划师 发行时间: 2016-12-12

发行商: Paradox Interactive

游戏评论

我要评论 全部评论

-Anan-

之前一直在steam上玩, 这次腾讯出了, 终于有官中了! 感觉很棒! 加上这次游戏有新出

赤炎

优美的场景, 模拟了城市中大量居民在地图上穿行。上手难度很低, 很容易就能理解游戏玩法

太本

OTHER INITIATIVES

Paradox Interactive participates in various initiatives on local and global level. Two areas of focus during 2016 has been to actively work to improve the gender ratio in the games industry and to show that games, while entertainment at their core, can also contribute to so much more in society.

In 2016, Paradox became one of the founding ambassadors for Women in Games in Stockholm. Paradox Interactive will, as the Women in Games Founding Ambassador in Stockholm, support the growth of the Women in Games organization, help increase the reach and scale of its programs and help achieve the strategic goal of doubling the number of women in games over 10 years.

Paradox also partnered with "Tjejer Kodar" as a sponsor and our programmers held a very appreciated workshop at their programming camp. One goal was to make programming less daunting and encourage more women to choose a career within the discipline. Another goal was to provide insight into the games industry and the type of roles we have available.

An initiative that has garnered much media attention from BBC among others and also resulted in a documentary, is our cooperation with Svensk Byggtjänst (the Swedish Building Association). Svensk byggtjänst were looking for a game that could support and facilitate citizen dialogue and insights into city planning. Cities: Skylines has been used in several workshops while planning and developing the area Norra Djurgårdsstaden in Stockholm. Specialized content has been developed by members of

the Cities: Skylines community as well as individuals working at Svensk Byggtjänst.

The project is featured in a documentary that poses the question whether games can contribute to real societal change. Paradox's starting point is always that games are first and foremost entertainment. However we do know from own experience that games made for entertainment also can be used for other purposes. Over the years we have sponsored numerous schools and teachers with game licenses, in particular for our Grand Strategy Games, which can bring history, civic studies and economics to life in a class room environment.

TRAILER TO THE DOCUMENTARY:

<https://www.youtube.com/watch?v=Vme-ZDvhFvI>



Big commitment at Svensk Byggtjänst's workshop to try out Cities: Skylines

Photo: Jonas Borg

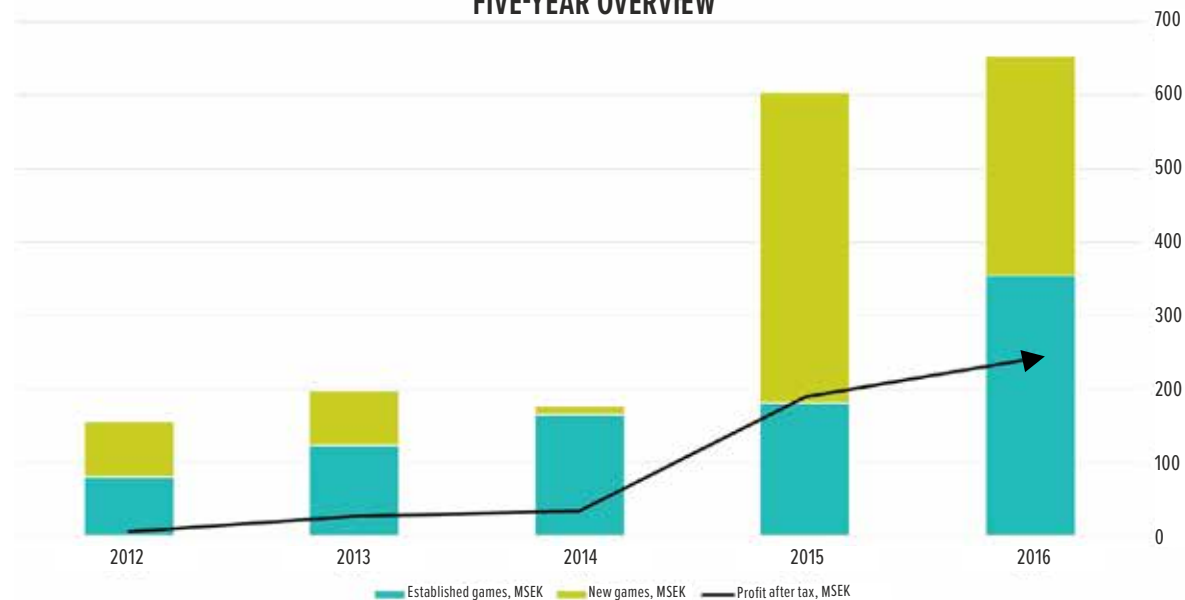
Financial development

Revenues amounted to SEK 653.7 (604.1) million, an increase of 8 % compared to the same period last year. During the year the in-house developed games Stellaris and Hearts of Iron IV were released, as well as Tyranny, developed by Obsidian Entertainment. During the year, 11 expansions have also been released including two expansions for this year's releases of Stellaris and Hearts of Iron IV. Revenue for the year is primarily attributable to the Stellaris, Cities: Skylines, Hearts of Iron IV, Europa Universalis IV, and Crusader Kings II.

The breakdown of sales for new games and established games is illustrated in the graph, where new games are defined as games that have been released in the current year, and established games are revenues from base game and expansions in games released in previous years. A growing base of revenues from established games reduces revenue volatility and dependence on single releases. During the year, the proportion of sales attributable to new releases amounted to 46 % (70 %).

Operating profit amounted to SEK 308.0 (241.7) million, an increase of 27 %. Profit before tax amounted to SEK 308.6 (242.0) million, and profit after tax amounted to SEK 240.4 (188.8) million. The positive development of profitability and margin is because of that revenue is largely attributable to the own-developed titles Stellaris and Hearts of Iron IV released in the year since in-house development do not generate any royalties to third parties.

FIVE-YEAR OVERVIEW



* A selection of Paradox releases



Portfolio

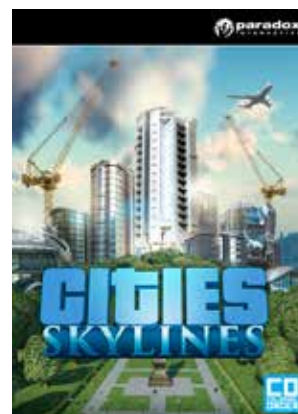
ACTIVE BRANDS

Paradox Interactive differs from many other companies in the industry in two ways:

1. We have a high proportion of self-owned brands (Pillars of Eternity excepted).
2. We have a wide range of brands in our portfolio.

The above contributes to having a variety of games types, helping us to spread risks (vulnerability) and also allows us to work on long-term development and revenue streams.

- CITIES: SKYLINES
- CRUSADER KINGS
- EUROPA UNIVERSALIS
- HEARTS OF IRON
- KNIGHTS OF PEN & PAPER
- MAGICKA
- PILLARS OF ETERNITY
- STELLARIS
- VICTORIA
- TYRANNY



Releases during 2016



Stellaris

NEW GAME

METACRITIC: 78 | 8.0
STEAM: 87%

9 MAJ



Hearts of Iron IV

NEW GAME

METACRITIC: 83 | 6.9
STEAM: 83%

6 JUNI

Here be Dragons

EXPANSION

METACRITIC: - | -
STEAM: 81%

14 JANUARI
13 JANUARI

Conclave

EXPANSION

METACRITIC: - | 4.4
STEAM: 44%

2 FEBRUARI

The White March - Part II

EXPANSION

METACRITIC: 79 | 7.0
STEAM: 88%

16 FEBRUARI

Snowfall

EXPANSION

METACRITIC: 72 | 6.8
STEAM: 57%

18 FEBRUARI

Mare Nostrum

EXPANSION

METACRITIC: - | -
STEAM: 50%

5 APRIL



Tyranny

NEW GAME

METACRITIC: 81 | 7.8
STEAM: 81%

10 NOVEMBER



The Reaper's Due

EXPANSION

METACRITIC: - | -
STEAM: 96%

25 AUGUSTI



Rights of Man

EXPANSION

METACRITIC: - | -
STEAM: 84%

11 OKTOBER



Leviathans

EXPANSION

METACRITIC: - | -
STEAM: 82%

20 OKTOBER



Natural Disasters

EXPANSION

METACRITIC: 80 | 6.5
STEAM: 83%

29 NOVEMBER



Together for Victory

EXPANSION

METACRITIC: 71 | 2.9
STEAM: 46%

15 DECEMBER



DEVELOPER



78 8.0

Metacritic score

87%

Steam user reviews



STELLARIS

Stellaris is an evolution of the grand strategy genre with space exploration at its core.

Featuring deep strategic gameplay, a rich and enormously diverse selection of alien races and emergent storytelling, Stellaris has engaging, challenging gameplay that rewards interstellar exploration as you traverse, discover,

interact and learn more about the multitude of species you will encounter during your travels.

Etch your name across the cosmos by forging a galactic empire, colonizing remote planets and integrating alien civilizations. Will you expand through war alone or walk the path of diplomacy to achieve your goals?





DEVELOPER



83

6.9

Metacritic score

83%

Steam user reviews

HEARTS OF IRON IV

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. You hold the power to tip the very balance of WWII.

It is time to show your ability as the greatest military leader in the world. Will you relive or change history? Will you change the fate of the world by achieving victory at all costs?





TYRANNY

In Tyranny, the grand war between good and evil is over – and the forces of evil, led by Kyros the Overlord, have won. The Overlord's merciless armies dominate the face of the world, and its denizens must find their new roles within the war-torn realm... even as discord begins to rumble among the ranks of Kyros' most powerful Archons.

DEVELOPER

OBSIDIAN
entertainment

81

7.8

81%

Metacritic score

Steam user reviews





Expansions

EUROPA UNIVERSALIS IV

87

Metacritic score

8.8

92%

Steam user reviews

The build of an empire continues. In the award-winning Europa Universalis IV you take control over a country and guide it over a longer period of time. The goal? To create a dominant global empire. The game spans over several centuries and freedom, depth and historical accuracy is unparalleled. Discovery travel, trade, warfare and diplomacy are given new life in this epic, strategic and tactical game.

Expansions

CRUSADER KINGS II

Crusader Kings II is set during one of the most important periods in history - Medieval Europe. Nations are small enclaves of power. The Emperor struggles with the Pope. The Holy Father attracts anyone traveling to liberate the Holy Land with the forgiveness of sins. Your mission is to conquer more territory with the help of your loyal subjects and the fifth columnists alongside you. All at the same time as you state new laws and cooperate with the nobles. What do you want to achieve? The creation of medieval Europe's most powerful dynasty.

92%

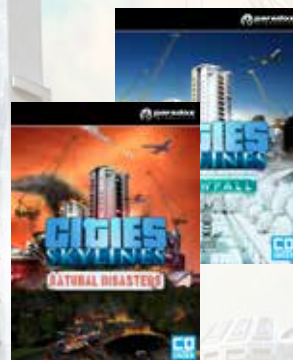
Steam user reviews

82

8.7

Metacritic score





Expansions

CITIES: SKYLINES

Cities: Skylines is a modern take on the classic city simulation. The game introduces new game play elements to realize the thrill and hardships of creating and maintaining a real city whilst expanding on some well-established tropes of the city building experience. It also includes the ability to mod the game to suit your play style as a fine counter balance to the layered and challenging simulation. You're only limited by your imagination, so take control and reach for the sky!

85

Metacritic score

8.9

93%

Steam user reviews



Expansion

PILLARS OF ETERNITY

Prepare to be enchanted by a world where the choices you make and the paths you choose shape your destiny. Returning to the frozen north, your party will learn additional secrets about the gods of Eora as they adventure through brand new content.

88%

Steam user reviews

89

Metacritic score

8.3



Expansion

KNIGHTS OF PEN AND PAPER II

Travel across land, sea, air – fight your way through caves and on occasion mud in an epic quest! Stop smugglers, face witches & pugbears, and slay dragons in order to save the day and get shiny loot. If all this becomes too much to handle - you can help the King with his crosswords instead.

84%

Steam user reviews

66

Metacritic score

6.1

Coming Releases



STEEL DIVISION: NORMANDY 44

Steel Division: Normandy 44 is a Tactical Real-Time Strategy (RTS) game, developed by Eugen Systems. This new game puts players in command of detailed, historically accurate tanks, troops, and vehicles at the height of World War II. Players can measure their tactical skills against several opponents in big multiplayer battles or against enemies in a challenging single-player campaign. Steel Division: Normandy 44 allows players to take control over legendary military divisions from six different countries, such as the American 101st Airborne, the German armored 21st Panzer or the 3rd Canadian Division, during the invasion of Normandy in 1944.



CITIES: SKYLINES - XBOX ONE EDITION

Cities: Skylines is a best-selling management game, available for Windows, Mac, and Linux PCs, and coming very soon to Xbox One and Windows 10 with all its deep gameplay and unique charm along for the ride. The Xbox One Edition and Windows 10 Edition include the award-winning base game, bundled together with the popular After Dark expansion, allowing players to plan and design for their cities' nightlife and tourist attractions.

NOT ANNOUNCED RELEASES



Market

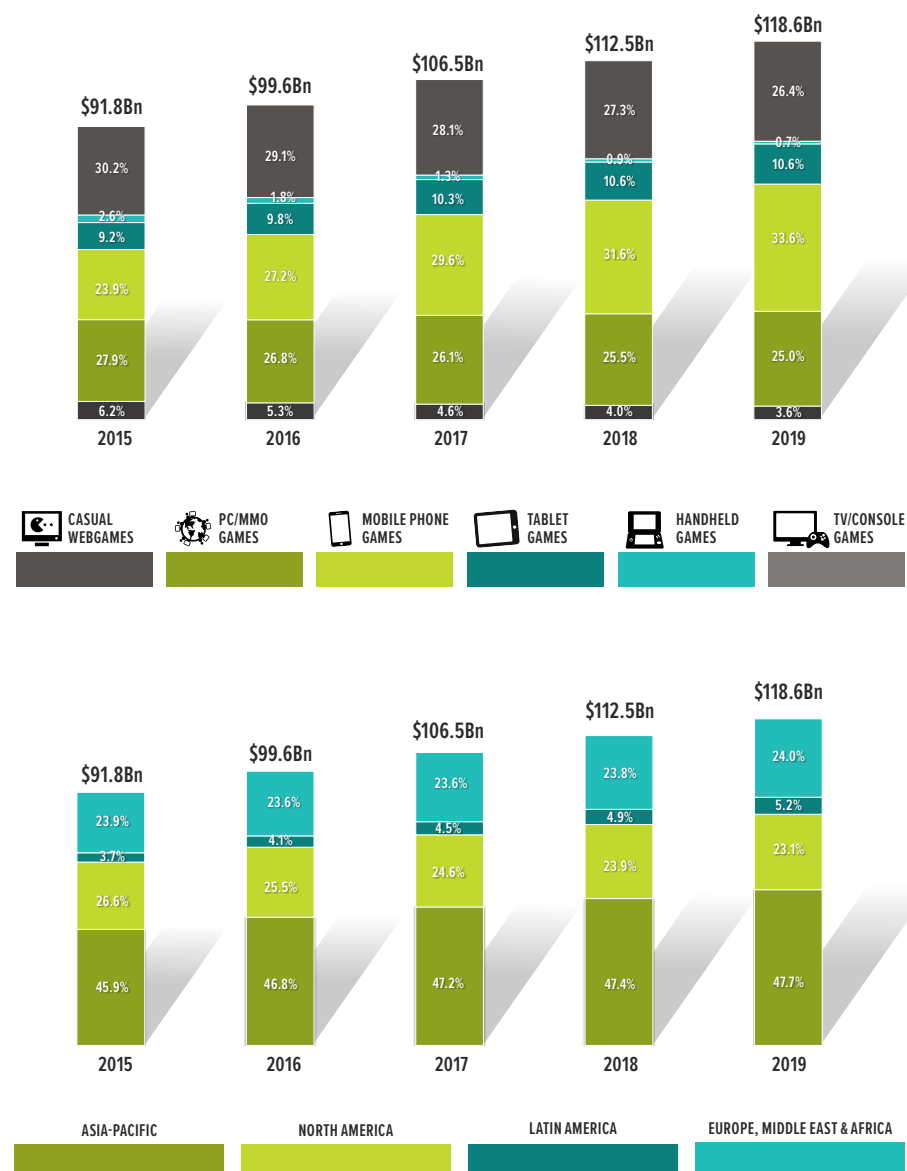
THE GLOBAL GAMING MARKET

The global gaming market continues to grow. The research firm Newzoo estimates that the total global gaming market had a turnover of 99.6 MDUSD 2016, an increase of 8.5% compared to 2015.

In terms of sales, Asia Pacific (APAC) is the largest market, followed by North America, Europe, Middle East and Africa (EMEA), and Latin America. All markets have seen growth over the previous year, and expectations are for continued growth in the coming years according to Newzoo.

The segments Mobile and Tablet will have a double-digit average growth rate between the years 2015- 2019, according to Newzoo, while PC and console games will grow by an average of 3.8% and 3.1% annually.

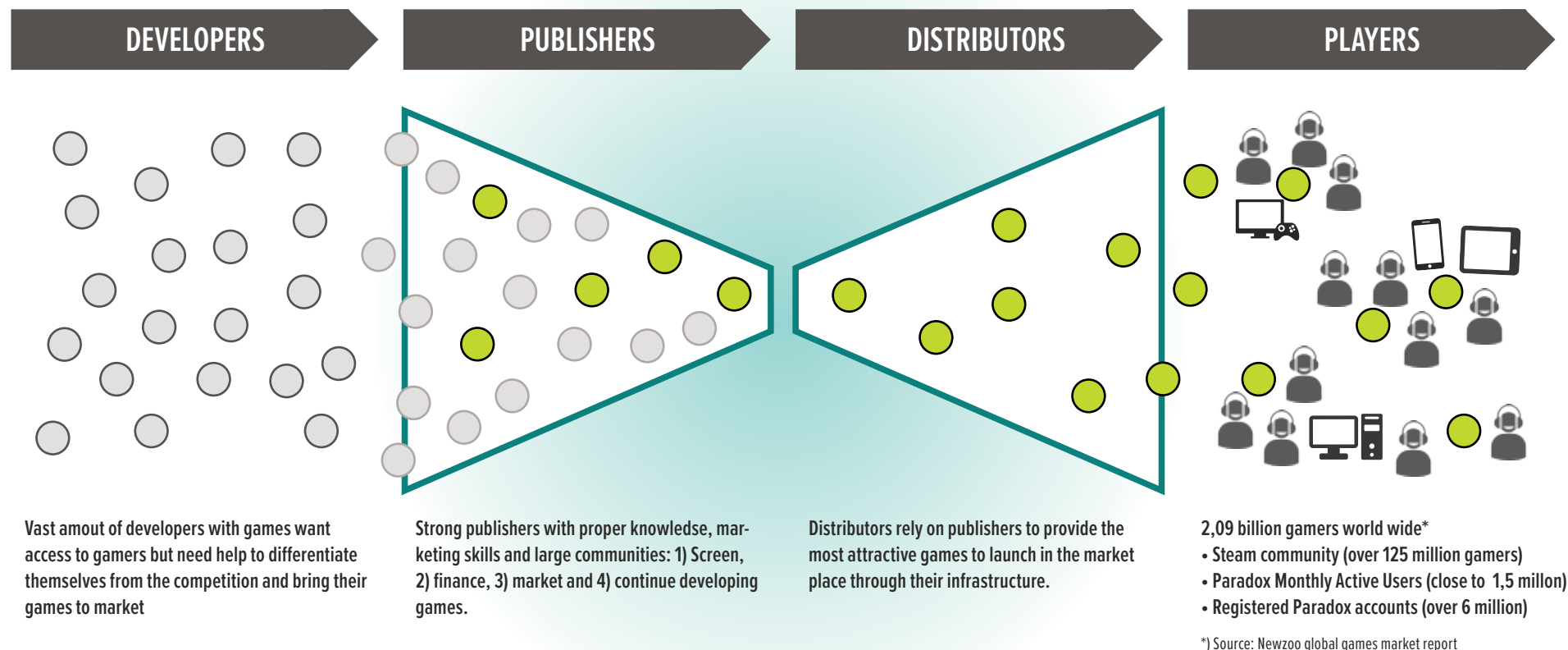
SEGMENT AND REGION BREAKDOWN OF GLOBAL GAMES REVENUES TOWARD 2019



SOURCE: NEWZOO GLOBAL GAMES MARKET REPORT

THE GAME INDUSTRY VALUE CHAIN

With a strong foothold throughout the value chain and with a large and engaged community, Paradox Interactive is well positioned to work with the best developers and distributors world wide. Paradox' revenue derives mainly from digital distribution especially on PC.

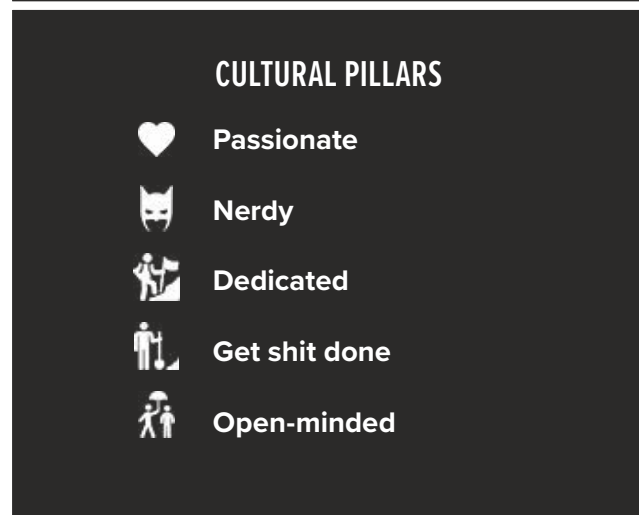
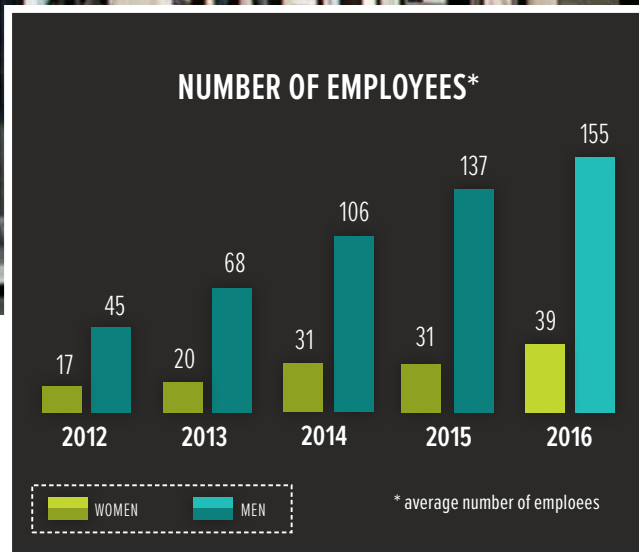


PARADOX IN THE VALUE CHAIN AND EXEMPLES OF OUR PARTNERS



Tencent 腾讯





The people and the players

The games industry consists of people working in close collaboration in creative and innovative environments. At Paradox Interactive, everyone contributes to the final product, regardless if it's in the form of a game, a project, a report or an AMA (Ask Me Anything) on Reddit etc.

For a company like Paradox Interactive it is of great strategical importance to have a clear and positive company culture to ensure long term success. The company has also grown in number of employees over the past couple of years, making this an even more important focus area. Therefore several initiatives were made in 2016 to both clarify the compa-

ny culture that has been created and developed over the years but also define it in a way that make it relevant to and resonates with people both internally and externally.

These initiatives culminated at the end of the year with a conference where the company vision and company culture was in focus and where all employees were involved. A clearer definition of our Cultural Pillars as well as a collection of self experienced or told Paradox anecdotes exemplifying the core of the company's culture was the end result.

THE COMMUNITY

Paradox has had a direct and close relationship with its players and fans from day one. In the past this interaction happened mainly via the main Paradox forum, which incidentally just passed 22,000,000 posts. However these days players are met through a variety of other channels like streaming, social media and other discussion forums (ex Steam) as well.

Over the past year, views and interaction via Paradox's streaming channel <https://www.twitch.tv/paradoxinteractive> as well as the two youtube channels <https://www.youtube.com/user/ParadoxExtra> and <https://www.youtube.com/user/paradoxplaza>, in particular have increased. The number of followers on Twitch has increased with 100% in 2016 compared to 2015 and the number of views on Paradox Extra with 600% during that same time period.

At Paradox all employees from the CEO to a new employee are encouraged to interact with our community, a principle that creates fans not just for our games but also the individuals working at Paradox.

One example of this is the developer multiplayer sessions, a tradition that goes back many years, where interest has spiked over the past years thanks to streaming. The viewers are encouraged to pick sides and the intrigues from the multiplayer sessions continue during the week through various channels to build even more hype for the live play session which is also commented on by our most experienced developers. In the end of the period, which can last for months, a winner is declared. Although, much like in our games, the core of the experience does not necessarily lie in the win but rather in the journey to get there. The multiplayer sessions can be followed live here <https://www.twitch.tv/paradoxinteractive> and viewed afterwards here <https://www.youtube.com/user/ParadoxExtra>.

In addition to the online dialogue, meetings are arranged where Paradox employees can meet their fans, for example our Fan Gatherings which took place in Stockholm this year. 150 fans from different parts of the world came together to meet their favorite developers, try games and listen to our latest news.



Financial Statements

TABLE OF CONTENTS

25. ADMINISTRATION REPORT

- 25. ADMINISTRATION REPORT
- 27. CORPORATE GOVERNANCE REPORT
- 34. FIVE-YEAR SUMMARY
- 36. ALLOCATION OF PROFITS

37. INCOME STATEMENT

38. BALANCE SHEET

40. EQUITY CHANGE

42. CASH FLOW STATEMENT

43. NOTES

- 43. NOT 1 - GENERAL INFORMATION
- 43. NOT 2 - BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS
- 47. NOT 3 - PARENT COMPANY ACCOUNTING PRINCIPLES
- 48. NOT 4 - KEY ESTIMATES AND ASSUMPTIONS
- 48. NOT 5 - SEGMENT REPORTING
- 49. NOT 6 - REMUNERATION TO THE AUDITOR
- 49. NOT 7 - AVERAGE NUMBER OF EMPLOYEES, ETC.
- 49. NOT 8 - SALARIES AND EMPLOYEE BENEFITS
- 50. NOT 9 - SENIOR EXECUTIVE REMUNERATION
- 50. NOT 10 - COSTS DIVIDED BY TYPE OF COST
- 50. NOT 11 - FINANCIAL INCOME
- 51. NOT 12 - FINANCIAL COST
- 51. NOT 13 - APPROPRIATIONS
- 51. NOT 14 - INCOME TAX

- 52. NOT 15 - CAPITALISED DEVELOPMENT
- 52. NOT 16 - LICENSES, BRANDS AND SIMILAR RIGHTS
- 53. NOT 17 - PROPERTY, PLANT AND EQUIPMENT
- 53. NOT 18 - LEASES
- 53. NOT 19 - FINANCIAL ASSETS AND LIABILITIES
- 54. NOT 20 - SHARES IN SUBSIDIARIES
- 55. NOT 21 - OTHER LONG TERM ASSETS
- 55. NOT 22 - PREPAID EXPENSES AND ACCRUED REVENUES
- 55. NOT 23 - ACCOUNTS RECEIVABLE
- 55. NOT 24 - CASH AND CASH EQUIVALENTS
- 56. NOT 25 - EQUITY
- 56. NOT 26 - UNTAXED RESERVES
- 56. NOT 27 - DEFERRED TAX LIABILITIES
- 56. NOT 28 - OTHER LONG TERM LIABILITIES
- 57. NOT 29 - ACCRUED EXPENSES AND PREPAID REVENUES
- 57. NOT 30 - ASSETS PLEDGED AND CONTINGENT LIABILITIES
- 57. NOT 31 - TRANSACTIONS WITH RELATED PARTIES
- 57. NOT 32 - EVENTS AFTER THE END OF THE PERIOD
- 57. NOT 33 - ADJUSTMENTS FOR ITEMS NOTE INCLUDED IN CASH FLOW
- 58. NOT 34 - DEFINITIONS
- 58. NOT 35 - FINANCIAL RISKS
- 60. NOT 36 - FAIR VALUE
- 61. NOT 37 - EARNINGS PER SHARE AND DIVIDEND
- 61. NOT 38 - APPROVAL OF THE FINANCIAL STATEMENTS

62. AUDITOR'S REPORT

Administration Report

INFORMATION ABOUT THE OPERATIONS

The Paradox Interactive Group includes publishing and internal development of games and licensing of White Wolf's brands. The publishing operation publishes both internally developed titles and titles developed by independent studios as well as music and books. The game portfolio includes more than 75 titles and Paradox Interactive owns the most important brands, including Stellaris, Europa Universalis, Hearts of Iron, Crusader Kings, Cities: Skylines and Magicka.

From the start over ten years ago, the company has published its games all over the world, initially through physical distribution using partners, but from 2006 digitally using its own publishing arm. The development platform is primarily PC, but the company has released games on console and mobile platforms as well. The largest markets today include the US, UK, Germany, France, Russia and Scandinavia. Today, more than one million gamers play a Paradox game each month and the number of Paradox registered users exceeds five million.

The parent company is based in Stockholm.

SIGNIFICANT EVENTS DURING THE YEAR

2016 has again been a historically profitable and successful year for Paradox. Two self-developed games have been released during the year, Stellaris and Hearts of Iron IV, both of which were successful. In addition the game Tyranny, Developed by Obsidian Entertainment, was released at the end of the year. The high proportion of self-developed games has contributed to stronger margins as no royalties are paid to third parties for these.

On 31 May the company was listed on Nasdaq First North. The goal was to invite employees, fans and other long-term stakeholders in the company's continued journey. A total of 15.5% of the company was offered, and the company had over 22,000 new shareholders.

Tobias Sjögren has formally taken over as CEO of the subsidiary White Wolf Publishing AB during the year.

The subsidiary Paradox South AB (corporate identity number 556881-3777) was merged with the parent company in 2016, with merger date 2016-05-26.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

White Wolf announced its partnership with Paris-based publisher Focus Home Interactive regarding a licensed PC and console game taken place in the World of Darkness.

During GDC 2017 a new game was announced, Steel Division: Normandy 44, in cooperation with game developer Eugene Systems.

EXPECTED FUTURE DEVELOPMENT

A continued good profitability is expected for 2017. A number of not yet announced games will be launched and several expansions to other titles. Cities: Skylines will also be released for consoles in 2017. The expectation is also that partnerships will be launched on the brands of the subsidiary White Wolf Publishing.

REVENUES AND PROFIT

Revenues amounted to SEK 653.7 (604.1) million, an increase of 8 % compared to the same period last year. During the year the self-developed games Stellaris and Hearts of Iron IV, and Tyranny, developed by Obsidian Entertainment were released. In addition more than ten expansions were released to launched games. Revenues for the year is primarily attributable to the Stellaris, Cities: Skylines, Hearts of Iron IV, Europa Universalis IV, and Crusader Kings II.

Direct costs amounted to SEK 224.7 (263.4) million, primarily attributable to game development as well as royalties to external developers as compensation for game development. Royalties have decreased compared to the comparative period due to an increased proportion of sales of self-developed games, thus contributing to a significantly improved margin. At the same time the cost of game development has increased due to the expansion and launch of new game projects. Direct costs include costs for write-downs of capitalized development expenditure amounting to SEK 23.9 (28.5) million due to impairments in a released game project developed by a third party where it is judged that there is less economic value than the previous book value, and also impairments on not yet announced game projects developed by third parties where it has been decided to close down the projects.

Selling expenses amounted to SEK 40.8 (38.1) million. Selling expenses increased slightly as a result of increased investments in advertising, sales and marketing.

Administrative expenses for the period amounted to SEK 85.8 (60.1) million. The increase is attributable to increased costs for salaries within the function, overall IT support, analysis of game users, the own platform for sales and support of games, consumable equipment and rental and office costs due to the company's relocation to Västgötagatan. Other income amounted to SEK 6.6 (2.2) million, and other other expenses to SEK 1.0 (3.0) 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 compared with the previous year.

Operating profit amounted to SEK 308.0 (241.7) million, an increase of 27 %.

Profit before tax amounted to SEK 308.6 (242.0) million, and profit after tax amounted to SEK 240.4 (188.8) million.

FINANCIAL POSITION

Capitalised development expenditure amounted to SEK 137.5 (100.8) million at the end of the period. Investment in game projects amounted to SEK 129.4 (82.4) million, and amortization of launched game projects amounted to SEK 68.8 (SEK 32.0) million.

Licenses, trademarks and similar rights amounted to SEK 54.6 (61.2) million. The decrease compared to the comparative period due entirely to amortization of White Wolf's brand portfolio which was acquired in the fourth quarter of 2015.

At the end of the period property plant and equipment amounted to SEK 14.0 (SEK 17.2) million.

Accounts receivable amounted to SEK 71.4 (48.6) million at year end. The high amount in the end of the period 2016 is due to higher sales in December 2016 as a result of releases of Tyranny, expansions in December, as well as high sales of previously launched games sold on Steam Winter Sale.

Cash and short term investments amounted at the end of the period to SEK 246.9 (159.8) million.

Shareholders' equity amounted to SEK 439.9 (270.2) million, driven by strong earnings growth, but is offset by the 2015 dividend which was settled in March, 2016.

Other long-term liabilities amounted to SEK 11.4 (SEK 11.4) million at the end of the period. The other long-term liabilities consists entirely of an estimated contingent consideration in connection with the purchase of White Wolf, which will be settled after a period of three years from the transaction date to the seller CCP Games.

Accrued expenses and deferred income amounts to SEK 79.8 (SEK 72.5) million at the end of the period. Reserves for royalty to external game developers have decreased compared with the comparative period which is in part offset by deferred revenue for games that have not yet been released. In addition, reserves of variable remuneration to employees has increased compared to the comparative period due to the positive earnings trend.

CASH FLOW

Cash flow from operating activities amounted to SEK 287.7 (294.8) million, primarily attributable to operating profit. Cash flow from investing activities amounted to SEK -129.9

(-153.8) million, of which the majority relates to investments in game projects. In the comparison period, SEK 50.3 million was invested in the brand portfolio White Wolf. Cash flow from financing activities was SEK -70.8 (-31.7) million, due to dividends to shareholders.

DEPRECIATION AND AMORTIZATION

Amortization of capitalized development expenditure amounted to SEK 68.8 (32.0) million, the increase was attributable to the amortization of launched gaming projects. Impairment of capitalized development expenditure amounted to SEK 23.9 (28.5) million relating to impairments on a released game project developed by a third party where it is judged that there is less economic value than the carrying value on the balance sheet date, and also relating to not yet announced game projects developed by third parties where it was decided to close down the projects. Depreciation of the company's brands amounted to SEK 6.6 (2.3) million. Depreciation of property plant and equipment amounted to SEK 3.8 (1.5) million. Depreciation and amortization 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, some game development within the internal studio Arctic up until year-end 2015 when the employees of Arctic were transferred to Paradox Development Studio AB, and in addition the parent company also provides administrative services to its subsidiaries. Paradox Development Studio and Paradox North is only has intercompany revenue from the parent company, why the financial development of parent company to a great extent follows the Group's development. Company revenues amounted to SEK 652.1 (603.7)

million. Operating profit amounted to SEK 317.1 (243.3) million. Profit before tax amounted to SEK 317.7 (243.5) million. Appropriations amounted to SEK -84.8 (-62.2) million, consisting of Group contributions to the wholly owned subsidiary White Wolf Publishing of SEK -9.2 (-1.6) million and net provision to the tax allocation fund of SEK -75.7 (-60.6) million. Profit after tax amounted to SEK 181.4 (141.6) million.

PERSONNELL

Number of employees at the end of the year amounted to 211 people (190 people). The breakdown of employees per company was 99 (93) Paradox Interactive, 108 (75) Paradox Development Studio, 0 (11) Paradox North, 0 (10) Paradox South and 4 (1) persons in White Wolf Publishing. The average number of employees during the year was 194 persons (190 persons), of whom 155 (154) are men.

SIGNIFICANT RISKS AND UNCERTAINTIES

Dependence on key personnel and employees

Paradox is highly dependent on its employees' experience and competence. Finding, hiring 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 would in the short term could 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 would in the

short term lead to loss of income, and a longer interruption would affect the Group's financial position and results. Paradox is also dependent on 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, chances are that these are not received positively. This can lead to losses in revenue, lower margins and reduced cash flows. In addition capitalized development costs are likely to be impaired.

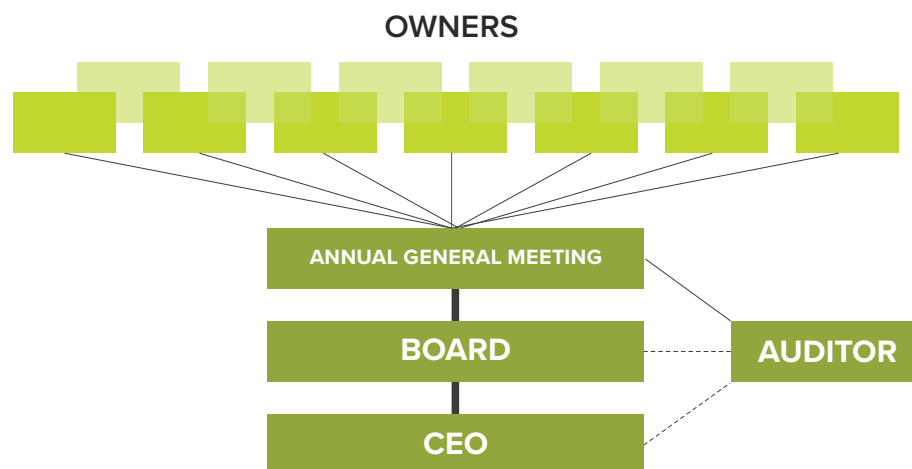
Exchange rate fluctuations

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 the Group is affected by long-term exchange rate fluctuations. At the end of the year are no hedging has been made. For financial risk management, see Note 35 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. Ahead of the IPO on First North Premier, the corporate governance practice was adapted to the Swedish Corporate Governance Code. 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 2016 Annual Report. Paradox Interactive AB (publ) is a Swedish company listed on First North Premier. The report is contained in the administration report and has been reviewed by the auditor. The audit is reported in the audit report on pages 62-63.

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 11,684 as of 31st December 2016. The largest shareholder at the end of 2016 were Wester Invest AB (Fredrik Wester) with 33.4 percent of the share capital, Investment AB Spiltan by 30.5 percent and Lerit AB (Peter Lindell) with 10.9 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 2016

The Annual General Meeting 2016 was held on 22 March in Stockholm. At the meeting 100% 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 670 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 and two

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 whether Håkan Sjunnesson as chairman; Fredrik Wester, Peter Lindell, Ebba Ljungerud as members; and Susana Meza Graham as deputy. New member of the Board Cecilia Beck-Friis and new deputy member elected Lars Klingstedt were elected. Per H Börjesson has resigned as alternate and Lars Klingstedt has declined re-appointment as a member of the Board. Resolution on principles for the Nomination Committee was established.

Extraordinary General Meeting 2016

An Extraordinary General Meeting was held on February 22, 2016 in Stockholm. The decision was made for listing of the company on Nasdaq First North. It was resolved to amend the Articles of Association in accordance with the Board's proposal. A decision was made to increase the Company's share capital through a bonus issue in accordance with the Board's proposal. It was decided to implement a share split 1000: 1 in accordance with the Board's proposal.

Annual General Meeting 2017

The Annual General Meeting 2017 takes place on May 5 15:00 at Västgötagatan 5 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
2016	100	100
2015	100	100
2014	100	100
2013	100	100
2012	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, 2016. 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 2017

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)
- Fredrik Wester, CEO (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. Fredrik Wester, CEO, 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 and two deputies since the Annual General Meeting 2016. To appoint deputies is a deviation from the Swedish Code of Corporate Governance Code 4.2. The company has historically had one to two deputies for practical reasons. The Board includes two women and three men. Since the Annual General Meeting 2016, the Board consists of the following elected members; Chairman Håkan Sjunnesson, Fredrik Wester, Peter Lindell, Ebba Ljungerud and Cecilia Beck-Friis. Susana Meza Graham and Lars Klingstedt are deputies. 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 2016.

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 2016

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 2016, the Board held nine 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 2016 have been questions about the IPO, investment strategies, interim and annual reports, dividend proposal, etc.

Swedish Code of Corporate Governance pt 7.6 indicates that the board should ensure that the company's six- or nine-month report is reviewed by the company's auditor. Since the company went public in May 2016 the company chose to have the first-quarterly report reviewed by the auditor, and has therefore chosen not to have the six-month or nine-month report reviewed.

Composition of the Board and attendance in 2016

Attendance 2016	Board meetings	Audit committee	Remuneration committee
Håkan Sjunnesson, chairman	9 of 9	0 of 0*	0 of 0*
Cecilia Beck-Friis	7 of 9	0 of 0*	0 of 0*
Peter Lindell	9 of 9	0 of 0*	0 of 0*
Ebba Ljungerud	8 of 9	0 of 0*	0 of 0*
Fredrik Wester	9 of 9	–	–

**Audit committee and Remuneration committee did not meet during the year 2016 since these meetings has taken place after the end of the year, and the company was listed May 31, 2016.*

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 March 22, 2016 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 com-

pany's board members are not entitled to any benefits after they have resigned as members of the Board.

Board meetings 2016

February 22, 2016 - Regular Meeting
Approval of the interim report.

April 20, 2016 - Regular Meeting
Approval of the interim report.

April 20, 2016 - Constituent meeting
Adoption of policies, guidelines and instructions.
Members of the board committees appointed.

April 28, 2016 – per capsulam
Approval of the prospectus.

June 1, 2016 - Regular Meeting
Reviewing fixed points.

August 24, 2016 - by correspondence
Approval of the interim report.

September 5, 2016 - Regular Meeting
Reviewing fixed points.

November 11, 2016 - Regular Meeting
Approval of the interim report.

December 9, 2016 - Regular Meeting
Reviewing fixed points.

BOARD COMMITTEES

Audit committee

In connection with the constituent Board meeting on April 20th, 2016 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 on April 20th, 2016 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 2016 Stefan Hultstrand was appointed as the auditor of Paradox, with Nilla Rocknö as deputy 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 as essential disputes, termination of agreements that are important for Paradox).

Important matters addressed by the CEO and senior management in 2016 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 April 20, 2016.

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 and an additional 5 percent of profit before distribution, allocations and tax which exceeds a profit margin of 10 percent.

Guidelines determined by the AGM 2016

According to the Swedish Code of Corporate Governance, item 9.1, the Board shall monitor and evaluate the guidelines for remuneration to senior executives that the Annual General Meeting by law to decide. This has not been done at the AGM 2016, when the company at the time was not yet listed, and thus it had begun to apply the Code. Instead, a decision was made regarding variable remuneration of Board Meeting April 20, 2016 under the above section on Profit-sharing program.

Guidelines determined by the Board and proposed to 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.

BOARD OF DIRECTORS

Håkan Sjunnesson

Position:

Styrelseordförande, invald i styrelsen 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, Diligär AB, Aktivbo AB, AktivBo Holding AB, and StoreVision Group AB. Member of the Board in Dalex i Stockholm AB and Dikes-häxan AB.

Shareholding in the company:

4,000,000 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 of Frank Dandy AB, Rite Internet Ventures Holding AB, Acervo AB and Rite Ventures Förvaltning AB. Board member of Lednil AB, Packfront Software Solutions AB, StoreVision Group AB, Cidro Holding AB and Berinor B.V. and Good Sports AB, Deputy Board member of Aktiebolaget Baccarat, Livsstil & Hälsa E. Norén AB, Rite Ventures Finland AB och Smart Grid Control Sweden AB.

Shareholding in the company:

11,550,000 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.

Born: 1972

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

Previous assignments: Extensive experience from consumer services such as insurance, media and e-commerce. For the past seven years, she has held various leading positions within Kindred Group PLC (tidigare Unibet Group PLC). She is currently Chief Commercial Officer for the group.

Other current assignments: -

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: Studied International Business at Gothenburg University.

Other current assignments: Chairman of the Board of Sahara Silversmycken AB and Chairman and CEO of WesterInvest AB. Board member of Star Lake Holding AB, White Wolf Publishing AB and board member and CEO of Paradox Development Studio AB and Paradox North AB.

Shareholding in the company:

35,235,937 shares - Through Company.

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

Cecilia Beck-Friis

Position:

Member of the Board, elected in 2016.

Born: 1973

Education: IFL Executive education at Stockholm School of Economics, Berghs school of communication.

Previous assignments: Deputy CEO of TV4 Group and other assignments within the Bonnier Group.

Other current assignments: Founder and CEO of Ravyr AB. 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.

SENIOR MANAGEMENT

Fredrik Wester

Please refer to the section Board of Directors

Susana Meza Graham

Position: Deputy Board member and Chief Operating Officer, COO. Elected in 2010, COO since 2014.

Born: 1976

Education:

BA in marketing, Stockholm University.

Previous assignments: 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 of Spelplan-ASGD AB, Meza-Graham AB.

Shareholding in the company:

1,223,000 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: Chief Innovation Officer Paradox Interactive, more than 10 years of experience from leadership and managerial roles at Accenture and EA DICE. Started his career in the industry with running the game development competition Swedish Game Awards.

Other current assignments:

Partner in Percantor Handelsbolag.

Shareholding in the company:

321,337 shares – Direct ownership

Shams Jorjani

Position: Vice President Business Development since 2012

Born: 1983

Education: B.Sc. in Media Technology at Royal Institute of Technology, Stockholm 2008

Previous assignments: Producer, Business Developer, Vice President Products Paradox Interactive.

Other current assignments: Deputy Board member Paula Kaplan AB. Partner in Omnigenus Scientific Services Handelsbolag.

Shareholding in the company:

510,000 shares – Direct ownership

Mattias Lilja

Position: Executive Vice President of Studios since 2015.

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 Järningen AB.

Shareholding in the company:

93,000 shares – Direct ownership

Daniela Sjunnesson

Position: Chief Marketing Officer since 2016.

Born: 1985

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

Previous assignments: Vice President Marketing, Marketing Manager Paradox Interactive.

Other current assignments: -

Shareholding in the company:

150,000 shares – Direct ownership

Johan Sjöberg

Position: Chief Product Officer since 2013.

Born: 1974

Education: BA in Practical Philosophy from Stockholm University.

Previous assignments: more than 20 years of experience from the gaming industry. Vice President Business Development at Digital Development Management, Inc, Studio Manager at Pixel Tales AB, and Author and Game Designer at Target Games AB.

Other current assignments: Chairman of the Board of Pixel tales AB and My Left Head Entertainment AB. Board member in Star Stable Entertainment AB.

Shareholding in the company:

120,000 shares – Direct ownership

Andras Vajlok

Position:

Chief Financial Officer, CFO since 2011.

Born: 1971

Education: BA from Gothenburg University.

Previous assignments: Nasdaq OMX Stockholm AB, Manpower AB.

Other current assignments: Chairman of the Board of Silfverlok AB. Member of the Board of Struktonit AB. Deputy board member in Paradox Development Studio AB, Paradox North AB and White Wolf Publishing AB.

Shareholding in the company:

1,450,000 shares – Through 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 April 20 2016. 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.

FIVE-YEAR SUMMARY (GROUP)

	2016	2015	2014	2013	2012
Revenues, KSEK	653,743	604,053	177,052	197,855	141,183
Profit before tax KSEK	308,622	241,966	43,712	33,569	8,471
Profit after tax, KSEK	240,439	188,834	33,610	27,043	5,396
Operating margin	47%	40%	25%	17%	9%
Profit margin	37%	31%	19%	14%	4%
Equity/assets ratio	76%	66%	70%	59%	32%
Equity per share before and after dilution, SEK*	4.17	2.56	1.07	0.57	0.33
Earnings per share before and after dilution, SEK*	2.28	1.79	0.33	0.27	0.05
Dividend per share before and after dilution, SEK*	1.00	0.67	0.30	0.00	0.00
Number of shares by the end of the period before and after dilution*	105,600,000	105,600,000	105,600,000	100,000,000	100,000,000
Average number of shares before and after dilution*	105,600,000	105,600,000	102,846,667	100,000,000	100,000,000
Average number of employees	194	168	137	88	62

*Key figures calculated after split of shares 1000:1 that occurred in March 2016.

Comparative figures 2012 has been prepared in accordance with the Annual Accounts Act and have not been restated to IFRS.

For definition of key figures, see note 34.

FIVE-YEAR SUMMARY (PARENT COMPANY)

	2016	2015	2014	2013	2012
Revenues, KSEK	652,093	603,691	177,052	198,635	141,153
Result after financial items, KSEK	317,703	243,521	43,704	33,495	8,055
Profit after tax, KSEK	181,395	141,583	26,379	20,368	3,374
Operating margin	49%	40%	25%	17%	9%
Profit margin	28%	23%	15%	10%	2%
Equity/assets ratio	77%	69%	70%	56%	32%
Equity per share before and after dilution, SEK*	2.96	1.91	0.87	0.42	0.25
Earnings per share before and after dilution, SEK*	1.72	1.34	0.26	0.20	0.03
Dividend per share before and after dilution, SEK*	1.00	0.67	0.30	0.00	0.00
Number of shares by the end of the period before and after dilution*	105,600,000	105,600,000	105,600,000	100,000,000	100,000,000
Average number of shares before and after dilution*	105,600,000	105,600,000	102,846,667	100,000,000	100,000,000
Average number of employees	89	83	58	39	27

*Key figures calculated after split of shares 1000:1 that occurred in March 2016.

Comparative figures 2012 has been prepared in accordance with the Annual Accounts Act and have not been restated to IFRS.

For definition of key figures, see note 34.

THE SHARE, OWNERSHIP, DIVIDEND POLICY AND ALLOCATION OF PROFIT**The Share**

According to the Articles of Association, the share capital shall be not less than SEK 500 000 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 105.6 million 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. Prior to the IPO, 31 May, the Company completed a bonus issue and a share split 1000: 1.

Ownership

At the end of 2016 Paradox Interactive AB's largest shareholders are Wester Invest AB 33.4% (Fredrik Wester), Investment AB Spiltan 30.5% and Lerit AB (Peter Lindell) 10.9%.

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	9,017,427
Profit for the year	181,394,541
	218,406,368

The Board of Directors proposes

Distribution to shareholders SEK 1.00 per share	105,600,000
Retained earnings be carried forward	112,806,368
	218,406,368

The Board makes the following statement

The Company's and Group's financial position is good. The Board believes that the proposed dividend has a coverage in the equity of the company and is within the framework of the company's dividend policy. The Company's and the Group's cash flows are strong. Solvency and liquidity will be adequate after the proposed dividend in relation to the sector the company and the Group operates, and the company is assumed to fulfill their obligations in the short and long term.

The Board therefore considers that the proposed dividend is justifiable considering both the requirements of its own nature, scope and risks place on the size of the parent company and consolidated equity, consolidation and investment needs, liquidity and financial position.

The opinion should be seen against the background of the information contained in the annual report.

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	
		2016-01-01 2016-12-31	2015-01-01 2015-12-31	2016-01-01 2016-12-31	2015-01-01 2015-12-31
Revenues	5	653,743	604,053	652,093	603,691
Direct costs	7, 8	-224,729	-263,375	-224,121	-263,207
Gross profit		429,015	340,678	427,972	340,484
Selling expenses	7, 8	-40,770	-38,087	-40,402	-38,037
Administrative expenses	6, 7, 8, 9, 18	-85,837	-60,051	-76,002	-58,361
Other income		6,566	2,179	6,451	2,179
Other expenses		-966	-2,981	-924	-2,973
Operating profit	10	308,008	241,738	317,094	243,292
<i>Profit from financial items</i>					
Financial income	11	681	477	659	473
Financial expense	12	-67	-249	-50	-244
Profit after financial items		308,622	241,966	317,703	243,521
Appropriations	13			-84,819	-62,151
Income tax expense	14	-68,182	-53,132	-51,490	-39,787
Profit for the year and total comp income for the year		240,439	188,834	181,395	141,583
Attributable to:					
Parent company shareholders		240,439	188,834		
Earnings per share attributable to parent company shareholders (SEK):					
- before and after dilution	37	2.28	1.79		

BALANCE SHEET

KSEK

Note

ASSETS

Non-current assets

Intangible fixed assets

		GROUP		PARENT COMPANY	
		2016-12-31	2015-12-31	2016-12-31	2015-12-31
Capitalised development	15	137,531	100,840	137,531	100,840
Licenses, brands and similar rights	16	54,596	61,215	579	1,025
Tangible fixed assets					
Property and equipment	17	13,987	17,226	13,987	17,226
Financial assets					
Shares in subsidiaries	20	–	–	190	240
Receivables from group companies	30	–	–	50,301	50,301
Other long term assets	21	3,402	3,402	3,402	3,402
Total non-current assets		209,516	182,683	205,990	173,034

Current assets

Current receivables

Account receivable	23	71,390	48,588	71,046	48,234
Tax assets		3,244	–	3,586	–
Other receivables		28,932	13,517	28,231	13,292
Prepaid expenses and accrued revenues	22	22,598	4,327	22,573	4,274
Total current receivables		126,165	66,432	125,436	65,800
Other short term placements	19	–	109,686	–	109,686
Cash and cash equivalents	24	246,906	50,158	242,306	45,700
Total current assets		373,071	226,276	367,741	221,186
TOTAL ASSETS		582,587	408,959	573,732	394,220

BALANCE SHEET (cont.)

KSEK	Note	GROUP		PARENT COMPANY	
		2016-12-31	2015-12-31	2016-12-31	2015-12-31
EQUITY AND LIABILITIES					
Equity	25				
<i>Restricted equity</i>					
Share capital		528	106	528	106
Capitalised development reserve				93,268	–
<i>Non-restricted equity</i>					
Share premium reserve		27,994	27,994	27,994	27,994
Retained earnings		170,952	53,292	9,017	31,867
Profit for the year		240,439	188,834	181,395	141,583
Total equity		439,913	270,226	312,203	201,550
Untaxed reserves	26			163,642	87,973
Long term liabilities					
Deferred tax liabilities	27	36,001	19,354		
Other liabilities	28	11,432	11,432	–	–
Total long term liabilities		47,434	30,786	–	–
Current liabilities	29				
Accounts payable		12,311	16,498	12,214	16,391
Liabilities to group companies	30	–	–	11,583	6,640
Current tax liabilities		–	14,331	–	13,948
Other liabilities		3,135	4,599	934	810
Accrued expenses and prepaid revenues	29	79,794	72,519	73,155	66,908
Total current liabilities		95,240	107,947	97,887	104,697
Total liabilities		142,674	138,733	97,887	104,697
TOTAL EQUITY AND LIABILITIES		582,587	408,959	573,732	394,220

CHANGE IN GROUP EQUITY

	Note	Share capital	Other capital contributed	Retained earnings	Total equity
At the beginning of the period 2015-01-01		106	27,994	84,972	113,072
Dividend		–	–	-31,680	-31,680
Shareholder's transactions		–	–	-31,680	-31,680
Profit for the year and total income for the period		–	–	188,834	188,834
At the end of the period 2015-12-31	25	106	27,994	242,126	270,226
At the beginning of the period 2016-01-01		106	27,994	242,126	270,226
Bonus issue		422	–	-422	–
Dividend		–	–	-70,752	-70,752
Shareholder's transactions		422	–	-71,174	-70,752
Profit for the year and total income for the period		–	–	240,439	240,439
At the end of the period 2016-12-31	25	528	27,994	411,392	439,914

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 develop- ment reserve	Share premium reserve	Retained earnings	Profit for the year	Total equity
Opening balance 2015-01-01		106	–	27,994	37,168	26,379	91,647
Dividend		–	–	–	-31,680	–	-31,680
Transfer of previous year's result		–	–	–	26,379	-26,379	–
Profit for the year		–	–	–	–	141,583	141,583
Closing balance 2015-12-31	25	106	–	27,994	31,867	141,583	201,550
Opening balance 2016-01-01		106	–	27,994	31,867	141,583	201,550
Bonus issue		422	–	–	-422	–	–
Dividend		–	–	–	-70,752	–	-70,752
Transfer of previous year's result		–	–	–	141,583	-141,583	–
Transfer to capitalised development reserve		–	93,268	–	-93,268	–	–
Merger difference		–	–	–	10	–	10
Profit for the year		–	–	–	–	181,395	181,395
Closing balance 2016-12-31	25	528	93,268	27,994	9,017	181,395	312,203

CASH FLOW STATEMENT

KSEK	Note	GROUP		PARENT COMPANY	
		2016-01-01 2016-12-31	2015-01-01 2015-12-31	2016-01-01 2016-12-31	2015-01-01 2015-12-31
Operating profit		308,008	241,738	317,094	243,292
Adjustment for items not included in cash flow	33	103,645	64,730	97,472	63,186
Interest received		139	44	102	40
Interest paid		-83	-247	-50	-244
Tax paid		-69,110	-34,912	-69,024	-34,919
Cash flow from current operations before changes in working capital		342,599	271,353	345,594	271,355
Changes in working capital					
Change in current receivables		-38,218	-34,644	-37,751	-34,267
Change in current liabilities		-16,646	58,089	-20,311	54,238
Cash flow from current operations		287,735	294,798	287,532	291,326
Investing activities					
Investments in subsidiaries		-	-	60	-50
Acquisition of intangible assets		-129,404	-132,721	-129,404	-82,420
Acquisition of tangible assets		-516	-17,686	-516	-17,686
Acquisition of financial assets		-	-3,402	-	-3,402
Loans to subsidiaries		-	-	-	-50,301
Cash flow from investing activities		-129,920	-153,809	-129,860	-153,859
Financing activities					
Paid dividend		-70,752	-31,680	-70,752	-31,680
Cash flow from financing activities		-70,752	-31,680	-70,752	-31,680
Cash flow for the year		87,063	109,309	86,919	105,787
Cash and cash equivalents at the beginning of the year		159,844	50,535	155,386	49,599
Cash and cash equivalents at the end of the year	24	246,906	159,844	242,306	155,386

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, 2016 (including comparative figures) was approved for publication by the Board of Directors on March 24, 2017 (see note 38).

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.

Standards, amendments and interpretations effective for 2016

No new, amended or revised standards and interpretations that came into effect in 2016 have had any material impact on the Group's financial statements.

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 9 Financial Instruments

IFRS 9 Financial Instruments entails the completion of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard requires extensive changes in IAS 39's guidance on the classification and measurement of financial assets and introduces a new "Expected Loss" model for the impairment of financial assets. IFRS 9 also provides new guidelines for the application of hedge accounting.

Group management has begun to assess the impact of IFRS 9 but has not yet been able to provide quantified information. Preliminary assessment is that with the current principles and operations will not affect the Group. IFRS 9 is effective for annual periods beginning January 1, 2018 or later.

IFRS 15 Revenue from contracts with customers

IFRS 15 introduces new requirements for the recognition of revenue and replaces IAS 18 Revenue, IAS 11 Construction Contracts and more revenue related interpretations. The new standard introduces a control-based accounting model for revenue and provide additional guidance in many areas that are not addressed in detail in the current IFRS rules, including how to report agreements with several performance obligations, variable pricing, the customer's right of return, right to buy back the supplier and other common complexities.

Group management has begun to assess the impact of IFRS 15 but has not yet been able to provide quantified information. Preliminary assessment is that with the current principles and operations will not affect the Group. IFRS 15 is effective for annual periods beginning January 1, 2018 or later.

IFRS 16 Leases

IFRS 16 replaces IAS 17 and three related interpretations. It is the result of the IASB's long-term projects to overhaul lease accounting. Leases will be recognized in the balance sheet as an asset in the form of a lease and 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. Group management has not yet fully assessed the impact of the standard and therefore can not provide quantified information.

OVERVIEW OF ACCOUNTING PRINCIPLES

Principles of consolidation

The consolidated financial statements include the parent company and subsidiaries' operations until 31 December 2016. All subsidiaries have a closing date on 31 December.

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 or disposed of during the year are recognized from the date of acquisition, divestment or alternatively enter into force, as appropriate.

Group related comprehensive income for the subsidiaries to the parent company and non-controlling interests based on their respective ownership interests.

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 balance sheet date but are valued at historic cost (restated at the transaction date).

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 distributors such as Steam, Plug Digital, Ztorm, Green Man Gaming, GOG (Good Old Games), Humble Bundle and Koch Media. Payment flows from the client in these cases via the distributor who pays any VAT and charge their fee, usually 30% after tax deducted before the money reaches Paradox. The assessment is that this income should be treated as revenue sharing agreement, which means that the accounting of revenue is net of the fee to the distributor, which is deemed to reflect the economic substance of the transactions. Some sales are also from Paradox own website Paradoxplaza, where Paradox instead receives the full revenue from the user. Compensation received for selling games are recognized as income in the period in which the game is released for sale.

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 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. Depreciation and amortization of acquired brands are also classified as administrative expenses. Depreciation on fixtures and fittings are also included.

Intangible fixed assets

Initial recognition of intangible assets

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. Paradox owns the rights to all brands and distribution rights to all material revenue generating games. Of the capitalized trademarks all are owned by Paradox.

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.

Reporting in subsequent periods

All intangible assets have a finite useful life. All intangible assets, including capitalized game projects, are accounted for using the cost model whereby capitalized costs are depreciated over the estimated lifetime. The residual values and useful lives are reviewed at each balance sheet date. 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.

Gains or losses on disposal of intangible assets is determined as the difference between proceeds and the carrying amount of the assets and recognized in income in the items "Other operating income" or "Other operating expenses".

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.

Gains or losses on disposal of property, plant and equipment is determined as the difference between proceeds and the carrying amount of the assets and recognized in income in the items "Other operating income" or "Other operating expenses".

Leased assets

The Group has only operating leases. When the Group is the lessee, lease payments under operating leases straight line basis over the lease term. Associated costs such as maintenance and insurance, are expensed as incurred.

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 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 selling costs and usefull value. To determine the value the Group management's estimates expected future cash flows and determining an appropriate discount rate to calculate the present value of those cash flows.

Financial instruments

Recognition and Measurement at initial recognition

Financial assets and financial liabilities are recognized when the Group becomes a party to the agreement in terms of the financial instrument agreed conditions. These are measured at initial recognition at fair value, adjusted for transaction costs, except for financial instruments classified as financial assets or financial liabilities at fair value through profit or loss. These are measured at fair value on initial recognition. Subsequent measurement of financial assets and liabilities are described below.

Financial assets are removed from the statement of financial position when the contractual rights relating to the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. A financial liability is removed from the statement of financial position when it is extinguished, discharged, canceled or expires.

Classification and subsequent measurement of financial assets

As for subsequent valuations classified as financial assets that are designated and effective as hedging instruments in the following categories at initial recognition:

- Loans and receivables
- Financial assets at fair value through profit and loss

The impairment of all financial assets except those measured at fair value through profit or loss must be tested at least at each reporting date to determine whether there is objective evidence of impairment of a financial asset or group of financial assets. Different criteria to determine impairment are used for each category of financial assets, which are described below.

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".

Loans and receivables

Loans and receivables are financial assets that are not derivatives, with fixed or determinable payments that are not quoted in an active market. After initial recognition, they are measured at amortized cost, using the effective interest method, less any impairment losses. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, receivables, and most of the other receivables fall into this category of financial instruments.

Individually significant receivables are tested for impairment when they are past due or when other objective evidence that a specific counterparty will not pay. Claims that individually are not considered to have suffered any impairment are reviewed for impairment in groups, which is determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The estimated impairment is then based on newly developed histories of the proportion of bad debts to counterparties for each identified group.

The Group's loans and receivables consist mainly of receivables, other receivables and cash.

Financial assets at fair value through profit

Financial assets at fair value through profit or loss includes assets that meet certain conditions, and thus identified at fair value through profit or loss at initial recognition. All derivatives are classified in this category.

Assets in this category are measured at fair value with gains or losses recognized in earnings. The fair values of financial assets in this category are determined by reference to transactions in active markets or using a valuation technique where there is active markets.

The Group's financial assets at fair value through profit or loss consists of fixed-income funds.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include accounts payable and other liabilities and other long-term liabilities in the form of additional contingent liabilities for the purchase of White Wolf.

Financial liabilities are measured after initial recognition at amortized cost using the effective interest method.

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".

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 and dividends

Share capital represents the par value of the shares issued.

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.

Dividends payable to shareholders is included in other liabilities when the dividends were approved at a general meeting before the closing date.

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.

Provisions and contingent liabilities

Provisions for product warranties, lawsuits, 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.

Provisions for product warranties, lawsuits, 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.

Provisions are measured at the estimated amount required to settle the present obligation, based on the best information available at the balance sheet date, including the risks and uncertainties associated with the present obligation. In cases where there are a number of similar obligations, the probability of an outflow through an overall assessment of the obligations. 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.

Cash Flow Analysis

The cash flow statement is prepared using the indirect method. The reported cash flow includes only transactions involving cash payments. The Company's cash and cash equivalents consist of cash and bank balances and other short-term placements.

NOTE 3

PARENT COMPANY ACCOUNTING PRINCIPLES

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

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

Shares in subsidiaries

Shares in subsidiaries are 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 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.

NOTE 4 KEY ESTIMATES AND ASSUMPTIONS

When 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 flows that go through digital distributors such as Steam 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. To do this, the estimation of future cash flows attributable to the asset or cash-generating unit to which the asset will be thrilled when it is completed. An appropriate discount rate should also decide 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.

Additional 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 additional purchase price is part of the valuation of the brand on the asset side, and constitute other long-term debt of the same amount. If the sale deviates from the forecasted revenues, additional purchase price and debt need to be reassessed in equal parts.

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 balance sheet date 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**SEGMENT REPORTING**

Group Management has determined the operating segments based on the information processed by the President and which is the basis for making strategic decisions. The operations consist of one segment.

Consolidated revenue from clients are divided into the following geographical areas:

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
USA	583,906	552,573	579,781	552,213
Sweden	7,151	4,654	9,625	4,654
Rest of Europe	61,151	42,553	61,151	42,553
Rest of the World	1,536	4,273	1,536	4,271
Total	653,743	604,053	652,093	603,691

Revenues are allocated based on who is the counterparty in the transaction. When revenue is via distributor the breakdown is based on where the dealer is located and not where the end user is located. For income received directly from the end customer revenues have been allocated based on where the user is assumed to be at the time of purchase.

In 2016 SEK 558.7 million, or 85 % (82 %) of its revenue came from a single digital retailer, Steam.

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

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
PC	643,104	589,061	643,104	589,061
Consol	3,137	9,811	3,137	9,811
Mobile	3,055	4,708	3,055	4,708
Others	4,448	473	2,797	111
Total	653,743	604,053	652,093	603,691

NOTE 6 REMUNERATION TO THE AUDITOR

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Grant Thornton Sweden AB				
-audit	300	234	300	195
-audit related assignments	150	–	150	–
-other services	125	–	125	–
Total	575	234	575	195

NOTE 7 AVERAGE NUMBER OF EMPLOYEES, ETC.

Average number of employees

	2016		2015	
	Number	Of whom men	Number	Of whom men
Parent company				
Sweden	89	66	83	65
Subsidiaries				
Sweden	105	89	85	72
Total for the Group	194	155	168	137

Directors and senior executives

	2016		2015	
	Number	Of whom men	Number	Of whom men
Group				
Board of Directors	9	7	9	8
CEO and other senior executives	9	7	9	7
Parent company				
Board of Directors	5	3	5	4
CEO and other senior executives	8	6	8	6

NOTE 8 SALARIES AND EMPLOYEE BENEFITS

Expenses recognized for employee compensation divided up as follows:

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Salaries - Board of Directors and senior management	11,141	9,465	8,059	9,465
Salaries - other employees	91,337	80,665	41,682	33,958
Pensions - Board of Directors and senior management	351	332	269	332
Pensions - other employees	3,374	2,933	1,764	1,367
Other social costs	30,813	26,106	16,346	14,026
Total	137,016	119,501	68,120	59,148

The Board of Directors

To the Board is paid in accordance with decision by the AGM. Decided Board fees amount to SEK 900 (450) thousand. Chairman of the Board receives SEK 360 (180) thousand and board members receive SEK 180 (90) thousand. Pension costs have amounted to SEK 0 (0) thousand and outstanding pension obligations are SEK 0 (0) thousand. Board members have the right to bill their fees to the amount equal annual compensation in the form of salary.

CEO

The Board determines the CEO's salary. The salaries and remuneration and pensions for board members and senior executives includes salaries and benefits for the CEO on SEK 1,234 (1,354) thousand, as well as pension costs about SEK 55 (55) thousand. The CEO has no contractual notice period. Agreements on severance pay do not exist.

The Group has only defined contribution pension plans.

NOTE 9 SENIOR EXECUTIVE REMUNERATION

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

2016**Board and senior executives**

	Salaries	Variable compensation	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	1,234	–	–	55	1,289
Other senior executives (8)	6,578	2,429	–	296	9,303
Total	8,712	2,429	–	351	11,492

2015**Board and senior executives**

	Salaries	Variable compensation	Other benefits	Pensions	Total
Chairman of the Board Håkan Sjunnesson	180	–	–	–	180
Board member Peter Lindell	90	–	–	–	90
Board member Lars Klingstedt	90	–	–	–	90
Board member Ebba Ljungerud	90	–	–	–	90
CEO Fredrik Wester	1,354	–	–	55	1,409
Other senior executives (8)	5,443	2,218	–	277	7,938
Total	7,247	2,218	–	332	9,797

Principles

Principles for remuneration to senior executives is decided at ordinary Board meeting. Remuneration to the CEO and senior executives consists of a fixed salary. Senior executives except the CEO participates in the same profit-sharing programs and other employees. There are no agreements on severance pay. Other senior executives include the company's management team.

Outstanding pension commitments for the Board and CEO amounts to SEK 0 (0) thousand.

NOTE 10 COSTS DIVIDED BY TYPE OF COST

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Capitalised development	8,092	10,738	8,092	10,738
Personnel costs	-142,276	-139,568	-72,932	-78,976
This year's depreciations	-79,154	-35,750	-72,981	-34,206
Write-downs for the year	-23,933	-28,547	-23,933	-28,547
Other expenses	-114,064	-168,386	-178,771	-228,614
Total	-351,335	-361,513	-340,525	-359,605

NOTE 11 FINANCIAL INCOME

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Interest income	99	44	40	40
Change in value of short term placements	340	433	433	433
Gain in sale of shares	242	–	242	–
Total	681	477	659	473

Of which interest income from group companies

– –

NOTE 12 FINANCIAL COST

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Interest expense	-41	-249	-24	-244
Change in value of short term placements	-26	–	-26	–
Total	-67	-249	-50	-244
Of which interest expense to group companies			–	–

NOTE 13 APPROPRIATIONS

	PARENT COMPANY	
	2016	2015
Group contributions	-9,150	-1,551
Reversal of tax allocation	1,831	–
Transfer to tax allocation	-77,500	-60,600
Total	-84,819	-62,151

NOTE 14 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	
	2016	2015	2016	2015
Profit before tax	308,622	241,966	232,884	181,370
Tax according to applicable tax rate, 22%	-67,897	-53,233	-51,235	-39,901
Tax attributable to prior years	-26	247	-26	247
Non-taxable income	83	105	82	104
Non-deductible items	-342	-251	-312	-236
Recognized tax expense	-68,182	-53,132	-51,490	-39,787

Specification of recognized tax expense:

Current tax				
On net profit	-51,509	-40,047	-51,464	-40,034
Adjustment on prior year tax	-26	247	-26	247
Deferred tax expense				
Change in untaxed reserves	-16,647	-13,332	–	–
Tax reported in the income statement	-68,182	-53,132	-51,490	-39,787

NOTE 15 CAPITALISED DEVELOPMENT

Changes in the carrying values of capitalised development:

	GROUP		PARENT COMPANY	
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Opening accumulated cost	174,512	99,722	174,512	99,722
Activated development cost	129,404	82,420	129,404	82,420
Disposals	—	-7,630	—	-7,630
Closing accumulated cost	303,916	174,512	303,916	174,512
Opening depreciation	-37,611	-5,829	-37,611	-5,829
Disposals	—	246	—	246
Depreciation for the year	-68,780	-32,028	-68,780	-32,028
Closing accumulated depreciation	-106,391	-37,611	-106,391	-37,611
Opening accumulated write-downs	-36,061	-14,898	-36,061	-14,898
Disposals	—	7,384	—	7,384
Write-downs for the year	-23,933	-28,547	-23,933	-28,547
Closing accumulated write-downs	-59,994	-36,061	-59,994	-36,061
Closing residual value	137,531	100,840	137,531	100,840

In addition to capitalised development the Group expensed costs related to research and development of SEK 39 390 (25 589) thousand as "Direct costs".

An impairment of SEK 23 933 (28 547) thousand have been recognized during the year relating to capitalised development. 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 13.5%.

Impairment losses consist partly of game projects with third-party developers where the cooperation has been terminated and the contracts have been terminated and partly of game projects with third-party developers which has been written down as a result of the value being judged to have less economic value than the previous carrying value of the projects.

All depreciation and amortization of capitalized development expenditure is included in "Direct costs" in the income statement.

NOTE 16 LICENSES, BRANDS AND SIMILAR RIGHTS

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

	GROUP		PARENT COMPANY	
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Opening accumulated cost	67,560	5,827	5,827	5,827
Acquisitions	—	61,733	—	—
Closing accumulated cost	67,560	67,560	5,827	5,827
Opening accumulated depreciations	-6,345	-4,082	-4,802	-4,082
Depreciation for the year	-6,619	-2,263	-446	-720
Outgoing accumulated depreciations	-12,964	-6,345	-5,248	-4,802
Closing residual value	54,596	61,215	579	1,025

NOTE 17 **PROPERTY, PLANT AND EQUIPMENT**

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

	GROUP		PARENT COMPANY	
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Opening accumulated cost	20,792	3,106	20,792	3,106
Acquisitions	516	17,686	516	17,686
Sales and disposals	–	–	–	–
Outgoing accumulated cost	21,308	20,792	21,308	20,792
Ingoing accumulated depreciations	-3,565	-2,107	-3,566	-2,107
Depreciations for the year	-3,756	-1,458	-3,755	-1,458
Outgoing accumulated depreciations	-7,321	-3,565	-7,321	-3,565
Closing residual value	13,987	17,227	13,987	17,227

NOTE 18 **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
2016-12-31	13,780	26,826	0	40,606
2015-12-31	10,565	36,581	0	47,146

Leasing expenses during the reporting period amounted to SEK 13,780 (10,565) thousand which consists of the minimum lease payments. The lease has a non-terminable maturity of 5 years.

NOTE 19 **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:

2016-12-31	Loans and accounts receivable	Fair value through profit or loss	Financial liabilities amortized cost	Non-financial items	Total
Capitalised development	–	–	–	137,531	137,531
Licenses, brands	–	–	–	54,596	54,596
Property, plant and equipment	–	–	–	13,987	13,987
Other long term receivables	3,402	–	–	–	3,402
Accounts receivables	71,390	–	–	–	71,390
Tax assets	–	–	–	3,244	3,244
Other current assets	28,932	–	–	–	28,932
Prepaid expenses	–	–	–	22,598	22,598
Other short term placements	–	–	–	–	–
Cash and cash equivalents	246,906	–	–	–	246,906
Total financial assets	350,631	–	–	231,956	582,587

Deferred tax liabilities	–	–	–	36,001	36,001
Other long term liabilities	–	–	11,432	–	11,432
Accounts payable	–	–	12,311	–	12,311
Current tax liabilities	–	–	–	–	–
Other liabilities	–	–	3,135	–	3,135
Accrued expenses and prepaid revenue	–	–	66,664	13,130	79,794
Total financial liabilities	–	–	93,542	49,131	142,674

2015-12-31	Loans and accounts receivable	Fair value through profit or loss	Financial liabilities amortized cost	Non-financial items	Total
Capitalised development	–	–	–	100,840	100,840
Licenses, brands	–	–	–	61,215	61,215
Property, plant and equipment	–	–	–	17,226	17,226
Other long term receivables	3,402	–	–	–	3,402
Accounts receivables	48,588	–	–	–	48,588
Tax assets	–	–	–	–	–
Other current assets	13,517	–	–	–	13,517
Prepaid expenses	–	–	–	4,327	4,327
Other short term placements	–	109,686	–	–	109,686
Cash and cash equivalents	50,158	–	–	–	50,158
Total financial assets	115,665	109,686	–	183,608	408,959
Deferred tax liabilities	–	–	–	19,354	19,354
Other long term liabilities	–	–	11,432	–	11,432
Accounts payable	–	–	16,498	–	16,498
Current tax liabilities	–	–	–	14,331	14,331
Other liabilities	–	–	4,599	–	4,599
Accrued expenses and prepaid revenue	–	–	61,422	11,097	72,519
Total financial liabilities	–	–	93,951	44,782	138,733

Assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of investments in money market funds (presented in the item "Other short term placements") held by the Group for short-term trading.

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 20

SHARES IN SUBSIDIARIES

Group composition

The Group includes the following direct holdings in subsidiaries:

Name	Base	Operations	Number of shares	Share	Book value
Paradox Development Studio AB	Stockholm	Development	100,000	100%	90
Paradox North AB	Stockholm	Development	1,000	100%	50
White Wolf Publishing AB	Stockholm	Licensing	1,000	100%	50

Changes during the year:

	GROUP	
	2016-12-31	2015-12-31
Opening accumulated cost	240	190
Acquisition White Wolf Publishing AB	–	50
Fusion Paradox South AB	-50	–
Outgoing accumulated cost	190	240

The subsidiary Paradox South AB (corporate identity number 556881-3777) was merged in 2016 per 2016-05-26. The merged companies' sales and operating profit are included in the acquiring company's income statement for the period before registration of the merger amounting to SEK 0 or -8 thousand resp. Total repossessed assets amounted to SEK 142 thousand and total liabilities of SEK 66 thousand.

NOTE 21 OTHER LONG TERM ASSETS

	GROUP		PARENT COMPANY	
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Opening accumulated cost	3,402	–	3,402	–
Deposits	–	3,402	–	3,402
Outgoing accumulated cost	3,402	3,402	3,402	3,402

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

NOTE 22 PREPAID EXPENSES AND ACCRUED REVENUES

	GROUP		PARENT COMPANY	
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Prepaid rental costs	3,434	3,236	3,434	3,183
Prepaid royalty costs	17,681	–	17,681	–
Other prepaid costs	1,483	1,091	1,458	1,091
Total	22,598	4,327	22,573	4,274

NOTE 23 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	GROUP		PARENT COMPANY	
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Accounts receivable gross	71,390	48,588	71,046	48,234
Provision for doubtful receivables	–	–	–	–
Total	71,390	48,588	71,046	48,234

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

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

Changes in provisions for doubtful receivables is as follows:

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Opening balance	–	-2,408	–	-2,408
Write-off actual loan losses	–	374	–	374
Reversal of previously impaired receivables	–	2,034	–	2,034
Provision for doubtful receivables	–	–	–	–
Closing balance	–	–	–	–

NOTE 24**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

	GROUP		PARENT COMPANY	
	2016-12-31	2015-12-31	2016-12-31	2014-01-01
Balances with banks	246,906	50,158	242,306	45,700
Total	246,906	50,158	242,306	45,700

Cash and cash equivalents in the cash-flow statement consist of the following:

	2016-12-31	2015-12-31	2016-12-31	2014-01-01
Balances with banks	246,906	50,158	242,306	45,700
Other short term placements	–	109,686	–	109,686
Total	246,906	159,844	242,306	155,386

NOTE 25 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 Annual General Meeting.

	2016-12-31	2015-12-31
Subscribed and paid shares:		
At the beginning of the year	105,600	105,600
Bonus issue	422,400	–
Total at the end of the year	528,000	105,600

The Group has no share-based payments.

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 26 UNTAXED RESERVES

	PARENT COMPANY	
	2016-12-31	2015-12-31
Untaxed reserves:		
fiscal year 2010	–	1,831
fiscal year 2011	5,194	5,194
fiscal year 2012	2,073	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	–
Total	163,642	87,973

NOTE 27 DEFERRED TAX LIABILITIES

Deferred taxes arising from temporary differences are summarized as follows:

	GROUP		PARENT COMPANY	
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Opening balance	19,354	6,022	–	–
Change in untaxed reserves	16,647	13,332	–	–
Closing balance	36,001	19,354	–	–

All changes in deferred tax has been recognized in the income statement. All deferred tax has is from untaxed reserves in the parent company.

NOTE 28 OTHER LONG TERM LIABILITIES

Other long term liabilities consist of the following:

	GROUP		PARENT COMPANY	
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Contingent consideration	11,432	11,432	–	–
Total	11,432	11,432	–	–

The conditional additional purchase price is attributable to the acquisition of the White Wolf. The additional purchase price is variable and is calculated based on the sale of the White Wolf brand for three years. Settlement of the purchase price is made after the expiry of a three-year period. The carrying values of debt are considered a reasonable approximation of fair value.

NOTE 29 ACCRUED EXPENSES AND PREPAID REVENUES

	GROUP		PARENT COMPANY	
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Accrued personnel costs	49,402	39,568	23,606	19,297
Accrued royalty costs	18,377	28,762	18,377	28,762
Accrued game development costs	411	–	19,588	14,662
Prepaid revenues	6,841	1,124	6,841	1,124
Other accrued costs	5,174	3,065	4,743	3,063
Total	79,794	72,519	73,155	66,908

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

NOTE 30 ASSETS PLEDGED AND CONTINGENT LIABILITIES

	GROUP		PARENT COMPANY	
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
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 31 TRANSACTIONS WITH RELATED PARTIES

The Group's related parties include all companies within the Group, the Board, CEO and other senior executives. Transactions between companies is carried at cost. At the end of the year, the parent company had receivables from subsidiaries SEK 50,301 (50,301) thousand, and liabilities to subsidiaries SEK 30,759 (21,302) thousand, of which SEK 19,176 thousand accrued expenses. Of the receivables SEK 50,301 (50,301) thousand comprised of receivables from the subsidiary attributable to the financing of the purchase of the White Wolf. Receivables and liabilities between Group companies are eliminated on consolidation. Company sales to subsidiaries during the year amounted to SEK 2,474 (0) thousand and purchases to SEK 61,168 (61,472) thousand. 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.

Surplus cash is invested in fixed-income funds managed by Spiltan Fonder AB, a subsidiary of Investment AB Spiltan in which Paradox Interactive Chairman of the Board is employed. At year-end investments amounted to SEK 0 (109,686) thousand. Investments have been made at market terms.

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 32 EVENTS AFTER THE END OF THE PERIOD

No events leading to adjustments or significant events that do not lead to adjustments have occurred between the balance sheet date and the date of issue.

NOTE 33 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	
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Depreciation of non-financial items	79,154	35,750	72,981	34,206
Write-downs of non financial items	23,933	28,547	23,933	28,547
Change in fair value of financial items	558	433	558	433
Total adjustments	103,645	64,730	97,472	63,186

NOTE 34**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 35**FINANCIAL RISKS****Risk management objectives and policies**

The Group is exposed to various risks in relation to financial instruments. Summary information on the Group's financial assets and financial liabilities are divided into categories, see separate note, see above. The main types of risks are market risk, credit risk and liquidity risk.

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 stock options. The most significant financial risks to which the Group is exposed to are described below.

Market risk analysis

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and other price risk, as a result of both operations and investments.

Currency exposure

Exposures to exchange rate changes arising 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).

In order to reduce the Group's exposure to exchange rate risk, cash flows that are in SEK are monitored to give the group the opportunity to enter into foreign exchange forward contracts in accordance with the Group's risk management policies. In general, Group's risk management procedures differs between the short-term foreign currency cash flows (due within 6 months) and cash flows with a longer horizon (due after 6 months). In cases where the amounts to be paid and received in a particular currency is expected to be in balanced, no further hedging is made. Currency forward contracts are primarily entered for significant long-term currency exposures that are not expected to be offset against other foreign exchange transactions in the same currency. At the end of 2016 there are no non-overdue contracts.

Information on financial assets and liabilities in foreign currencies that expose the Group to currency risk is provided below. The amounts shown are those reported to the board and senior management, translated into SEK using the closing rate:

	SHORT TERM EXPOSURE		
	USD	GBP	EUR
2016-12-31			
Financial assets	66,937	985	2,948
Financial liabilities	-1,985	–	-7,466
Total exposure	64,952	985	-4,518
2015-12-31			
Financial assets	71,123	1,272	7,679
Financial liabilities	-3,001	–	-8,895
Total exposure	68,122	1,272	-1,216

The following table shows the profit after tax and shareholders equity sensitivity regarding the Group's financial assets and financial liabilities and exchange rates USD / SEK, GBP / SEK and EUR / SEK "all else equal". The sensitivity analysis is based on the Group's financial instruments in foreign currency held each balance sheet date and also takes into account foreign exchange forward contracts that balances the effects of changes in foreign exchange rates.

If SEK had strengthened against the respective currency by 10%, this would have had the following effect after tax:

	PROFIT FOR THE YEAR		
	USD	EUR	GBP
2016-12-31	-5,066	-77	352
2015-12-31	-5,314	-99	95

If SEK had weakened against the respective currency by 10 %, this would have had the following effect after tax:

	PROFIT FOR THE YEAR		
	USD	EUR	GBP
2016-12-31	5,066	77	-352
2015-12-31	5,314	99	-95

Exposures to foreign exchange rates vary during the year depending on the volume of transactions with foreign countries. The analysis above is considered nevertheless to be representative of the Group's exposure to currency risk.

Interest risk

The Group has at the end of the year, no interest-bearing liabilities. Liquid assets are subject to a non-significant interest rate risk.

Analysis of credit risk

Credit risk is the risk that a counterparty will not fulfill an obligation to the Group. The Group is exposed to this risk for various financial instruments, such as by granting loans to and receivables from customers, making deposits, investments in fixed income securities, etc. The maximum exposure to credit risk is limited to the carrying amount of financial assets at 31 December, as summarized below:

	2016-12-31	2015-12-31
Types of financial assets - carrying amounts		
Fixed income funds	–	109,686
Cash and cash equivalents	246,906	50,158
Accounts receivable and other assets	106,969	65,507
Total	353,876	225,351

The Group continuously monitors defaults of customers and other counterparties, identified either individually or collectively by the group, and incorporates this information into its credit risk controls. If external ratings and / or reports, relating to customers and other counterparties are available at a reasonable cost they collected and used. The Group's policy is to only do business with creditworthy counterparties.

The Group's management believes that all the above financial assets that have not been written down or due for payment on December 31 have a high credit quality.

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:

	2016-12-31	2015-12-31
Overdue:		
Less than three months	1,325	126
More than three months but not more that six months	100	374
More than six months but not more than twelve months	–	–
More than a year	–	–
Total	1,425	500

Based on historical information about customer default rates the group management believes that the receivables that have not matured or been impaired have good credit.

The credit risk on cash and cash equivalents and short-term investments in the form of money market funds considered to be negligible, since the counterparties are renowned institutions with high credit ratings by 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. The data used to analyze these cash flows are consistent with those used in the analysis of the contractual maturities below. Liquidity needs are monitored in various time spans, daily and weekly basis. Long-term liquidity needs for a period of 18 months are identified a quarterly basis. Net cash requirements are compared with the available proceeds to establish the margin of safety or potential deficits. This analysis shows that available proceeds expected to be sufficient during this period.

The Group's goal is to have cash and marketable securities that meet the liquidity requirements of a minimum period of 30 days. This goal was achieved during the reporting periods

The Group takes into account expected cash flows from the financial assets on the assessment and management of liquidity risk, especially cash reserves and accounts receivable. The Group's existing cash reserves and receivables exceed a significant extent the current requirements to cash outflows. Cash flows from accounts receivable and other receivables are all due within six months.

On 31 December, the Group's financial liabilities (including interest payments where applicable) that can be summarized as follows:

2016-12-31	SHORT TERM		LONG TERM	
	within 6 months	6-12 months	1-5 years	later than 5 years
Contingent consideration	—	—	11,432	—
Accounts payable and other liabilities	95,240	—	—	—
Total	95,240	—	11,432	—

This compares with maturities in previous reporting periods, the Group's financial liabilities that are not derivatives, as follows:

2015-12-31	SHORT TERM		LONG TERM	
	within 6 months	6-12 months	1-5 years	later than 5 years
Contingent consideration	—	—	11,432	—
Accounts payable and other liabilities	107,947	—	—	—
Total	107,947	—	11,432	—

The above amounts reflect the contractual undiscounted cash flows. Amounts falling due within 12 months agree with book amounts, since the discount to maturity is negligible.

NOTE 36

FAIR VALUE

Financial instruments measured at fair value

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 that are recurring fair value:

2016-12-31	Level 1	Level 2	Level 3
Financial assets			
Interest funds	—	—	—
Total	—	—	—

2015-12-31	Level 1	Level 2	Level 3
Financial assets			
Interest funds	–	109,686	–
Total	–	109,689	–

There have been no transfers between Level 1 and Level 2 during the period. The Group has no financial liabilities at fair value. The Group has only financial instruments measured at fair value in level 2.

NOTE 37**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, ie 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	2016	2015
Weighted average number of shares used to calculate earnings per share	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 2016, Paradox Interactive paid out dividends of SEK 70,752 (31,680) thousand to its shareholders. This corresponds to a dividend of SEK 0.67 per share (0.30 per share).

In 2017, 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 2016. The income tax is not expected to be affected at the company level in the parent company as a result of this transaction.

NOTE 38**APPROVAL OF THE FINANCIAL STATEMENTS**

Consolidated financial statements for the reporting period ended 31 December 2016 (including comparatives) were approved by the Board on 24 March 2017.

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 2017-03-24

Håkan Sjunnesson
Chairman of the Board

Fredrik Wester
CEO

Peter Lindell

Cecilia Beck-Friis

Ebba Ljungerud

My audit report was submitted on March 24, 2017

Stefan Hultstrand
Authorized Public Accountant

This auditor's report is a translation of the Swedish language original.
In the events of any differences between this translation and the Swedish original the latter shall prevail.

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

I have audited the annual accounts and consolidated accounts of Paradox Interactive AB (publ) for the financial year 2016-01-01—2016-12-31 except for the corporate governance report on pages 27-33. The annual accounts and consolidated accounts of the company are included on pages 24-61 in this document.

In my 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 2016 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 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance report on pages 27-33. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

I 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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–23. The Board of Directors and the Managing Director are responsible for the other information.

My opinion on the annual accounts and consolidated accounts does not cover this other information and I do not express any form of assurance conclusion regarding this other information.

In connection with my audit of the annual accounts and consolidated accounts, my 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 I also take into account my knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If I, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, I am required to report that fact. I 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

My 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 my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 my 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.
- 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. I 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 I conclude that a material uncertainty exists,

AUDITOR'S REPORT (cont)

I am required to draw attention in my auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify my opinion about the annual accounts and consolidated accounts. My conclusions are based on the audit evidence obtained up to the date of my 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. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my opinions.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to my audit of the annual accounts and consolidated accounts, I have also audited the administration of the Board of Directors and the Managing Director of Paradox Interactive AB (publ) for the financial year 2016-01-01—2016-12-31 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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

My objective concerning the audit of the administration, and thereby my 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.

My objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby my 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, I 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 my professional judgment with starting point in risk and materiality. This means that I 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. I examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to my opinion concerning discharge from liability. As a basis for my opinion on the Board of Directors' proposed appropriations of the company's profit or loss I examined the Board of Directors' 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.

ny's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on my professional judgment with starting point in risk and materiality. This means that I 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. I examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to my opinion concerning discharge from liability. As a basis for my opinion on the Board of Directors' proposed appropriations of the company's profit or loss I examined the Board of Directors' 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 report

The Board of Directors is responsible for that the corporate governance report on pages 27-33 has been prepared in accordance with the Annual Accounts Act.

My examination of the corporate governance report is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance report. This means that my examination of the corporate governance report 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.

I believe that the examination has provided me with sufficient basis for my opinions.

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

Stockholm 24 March 2017

Stefan Hultstrand

Authorized Public Accountant

