



Interim Report

2017-01-01 - 2017-03-31

*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.

Interim Report Q1, 2017

FIRST QUARTER 2017

- Revenues amounted to SEK 121.3 (93.3) million, an increase by 30 % compared to the same period last year.
- Operating profit amounted to SEK 38.0 (25.2) million, an increase by 51 %.
- Profit before tax amounted to SEK 38.0 (25.2) million, and profit after tax amounted to SEK 29.2 (19.4) million.
- Cash flow from operating activities amounted to SEK 85.7 (32.4) million, and cash flow from investing activities amounted to SEK -44.6 (-15.2) million.
- By the end of the period cash and short term placements amounted to SEK 288.0 (106.2) million.
- Earnings per share amounted to SEK 0.28 (0.18) per share.
- Revenue from the first quarter of 2017 are mainly attributable to Cities: Skylines, Stellaris, Crusader Kings II, Hearts of Iron IV and Europa Universalis IV.

IMPORTANT EVENTS IN THE FIRST QUARTER

- One expansion was released during the period; Monks and Mystics for Crusader Kings II.
- Steam Winter Sale started December 22 and lasted until January 2.
- White Wolf announced its partnership with the Paris-based publisher Focus Home Interactive regarding a licensed PC and console game taken place in the World of Darkness.
- In February it was advertised that Hearts of Iron IV had passed 500,000 units sold.
- In March it was advertised that Cities: Skylines had passed 3.5 million units sold.
- A partnership with Eugen Systems regarding the new game Steel Division: Normandy 44 was announced, with a planned release in May 2017.

AFTER THE END OF THE PERIOD

- Cities: Skylines was released for Xbox One.
- Two expansions were released; Utopia for Stellaris and Mandate of Heaven for Europa Universalis IV.
- Paradox Publisher Weekend on Steam lasted from April 6 to April 10.

ABOUT PARADOX INTERACTIVE

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 90 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, close to 1.5 million gamers play a Paradox game each month and the number of Paradox registered users exceeds six million.

CEO says

A COMPANY IN CONSTANT CHANGE

The only thing constant is change - a worn out phrase yet still very appropriate when describing the games industry over the last decade. We've seen big, established and influential companies like THQ and Atari either wholly or partially disappear. Others, such as Valve - the people behind Steam, have seen their power and influence grow enormously in a short time frame. I would wager that the speed with which a company can go from being very important to practically irrelevant is greater in the games industry than in many other sectors.

From the outside, this can appear to be a worrying state of affairs, but those of us who are active in the industry also know how this pressure has helped us to create competitive advantages. We need to work hard, fast and smart to stay relevant. In other industries, there is a lot of talk about going digital and developing digital strategies. The game industry is practically digitalised already so we don't talk about digital strategies, we talk about strategies - period.

At Paradox, we make no secret about the importance of evolving, improving and developing ourselves. This applies to the company as a whole, but also the products and services that we provide. A certain comfort with these types of changes is something that we require of everyone that works at Paradox. It is also something that our partners and players are expected to be ready to accept.

Among the bigger changes that we have gone through over years are: The shift from being solely a development studio to becoming a successful international publisher; the change in our game distribution model from physical to digital games and the general development of our own business models where we have, amongst other things, shifted away from working solely with base products (single games) to a model where we iterate on games and release content (eg. Expansions) over a longer period of time.





We have also experimented within a number of different business areas and channels, whereby some ideas were quickly discarded, while others have become large integrated parts of our operations. A good example of this is streaming and venturing into simulation games. Handled correctly, each new initiative offers new possibilities to us, irrespective of whether we choose to pursue it in the long term. An example of this is the way we have focused on producing a large portfolio which has increased the general awareness of Paradox and our titles, even if some of the individual games released have not been great successes.

To continue in the same vein and avoid becoming complacent, we believe that it is vital to both continue challenging ourselves while at the same time developing processes to act upon all the creative competences and ideas that already exist within the company

For that reason, we have now put in place: a person whose role is to create and develop processes; a board of innovation, in which I sit and an internal innovation task force made up of people from different parts of the company. The rest of the company and, to a certain extent, our community are also involved. So far this involvement has consisted of various types of customer questionnaires and experiments, in addition to a larger workshop which will be held later this spring.

We have always had a strong focus on leadership and in an ever-changing environment the strength of the leadership becomes even more important. At Paradox, we view every employee as a leader as self-leadership is a fundamental part of our culture.

We take on people with great capacity for self-leadership, but we also support this through leadership courses that are available to all our employees. The formal official leadership from our personnel managers is also something that we see as central and are always trying to develop. We have an organisation where our employees have, as shown in our employee satisfaction surveys, a very high level of confidence in their closest manager and in the leadership of the company in general, which is a massive strength for the company.

To develop ourselves as leaders is also something that have prioritised highly in the management team and, to this end, we have for many years worked actively with individual and group leadership, in order to move the organisation forward in the best possible way.

During the first quarter of 2017, we released an expansion to Crusader Kings II. The game keeps on performing well both in terms of bringing in new players and re-activating existing players. We have also participated in the Game Developers Conference in San Francisco during which we: met with existing and potential partners as we usually do; gave demonstrations of our games to the media and our developers took part of the educational conference. This year we also had several speakers as a part of the program for the conference participants.

During the conference we announced our partnership with Eugen Systems and that we are publishing their game, Steel Division. We also announced a new expansion for Europa Universalis IV - Mandate of Heaven and announced a release-date for Cities: Skylines on the Xbox, which came out on the 21st of April.

While this quarter has been relatively quiet with only one game release, we have been laying the groundwork for the coming quarter which will be jam-packed with activity such as: our publisher weekend on Steam; the releases of Steel Division, Europa Universalis IV: Mandate of Heaven and Stellaris: Utopia, Cities: Skylines on Xbox; our AGM and PDXCon - our own conference.

Of course we have more things going on than just those items, but I think that you by now have realized that we prefer to focus on what is confirmed and soon to be delivered upon rather than things that are planned for the future. One thing I can say though is that our future continues to be bright and that we look forward to having more news to share with you in the near future.

Fredrik Wester, VD



Releases during the quarter



7 March 2017

CRUSADER KINGS II - MONKS AND MYSTICS

For centuries, the abbeys of Europe have had a sacred mission – to keep the flame of holy knowledge burning through an era of strife and to keep the secular powers on a righteous path. To the east, a mysterious new sect seeks out those who stray from the Prophet's path, using not-so-gentle means to remind the impious of the power of God. And, in the shadows, alchemists and religious usurpers challenge the current order. Rumors of dark sacrifices are whispered in taverns throughout the known world.

In Monks and Mystics, your characters can follow new paths in their search for religious enlightenment and holy blessing, joining sacred societies or secret brotherhoods that open new opportunities for role-playing and story-telling in one of the most popular historical strategy games ever made.



Revenues and Profit

REVENUES AND PROFIT

Revenues amounted to SEK 121.3 (93.3) million, an increase by 30 % compared to the same period last year. One expansion was released during the period; Monks and Mystics for Crusader Kings II. Revenues from the first quarter 2017 are mainly contributable to Cities: Skylines, Stellaris, Crusader Kings II, Hearts of Iron IV and Europa Universalis IV.

Direct costs amounted to SEK 50.1 (41.8) million, primarily attributable to game development and royalties to independent developers as compensation for game development. Royalties has decreased compared to last year due to an increased share of internally developed games sold, leading to significantly improved margins. Meanwhile, costs for game development following game investments and releases of new game projects has increased. During the period direct costs are affected by write-downs on capitalised costs of SEK 2.9 (0.0) million relating to a write-down of a not yet announced project with a third party developer where the project has been cancelled.

Selling expenses for the period amounted to SEK 9.7 (8.8) million. Selling expenses increased due to increased investments in advertising, sales and marketing.

Administrative expenses for the period amounted to SEK 22.0 (16.8) million, attributable to increased costs related to salary within the function, overall IT-support, gamer usage analysis, the own platform for sales and support of games and costs for supplies equipment.

Revenues and Profit, cont.

Other income amounted to SEK 0.0 (0.4) million, and other expenses to SEK 1.5 (1.0) million, of which the majority relates to exchange rate differences. The negative development is primarily driven by weaker price performance of the dollar against SEK in the Group's liquid assets, operating receivables and liabilities compared with the same quarter last year.

Operating profit amounted to SEK 38.0 (25.2) million, an increase by 51 %.

Profit before tax amounted to SEK 38.0 (25.2) million, and profit after tax amounted to SEK 29.2 (19.4) million.

FINANCIAL POSITION

Capitalised development amounted to SEK 157.6 (104.6) million by the end of the period, with a net increase of SEK 20.0 million in the quarter. Investments in game projects amounted to SEK 44.6 (15.2) million and amortisation of released games amounted to SEK 21.7 (11.5) million.

Licenses, brands and similar rights amounted to SEK 52.9 (59.6) million. The decrease compared to the comparative period is entirely due to amortization of White Wolf's brand portfolio which was acquired in the fourth quarter of 2015.

By the end of the period property and equipment amounted to SEK 13.0 (16.3) million.

Accounts receivable amounted to SEK 39.0 (17.9) million by the end of the period. The high amount in the end of the period is due to higher sales in March 2017 as a result of the release of the expansion Crusader Kings II - Monks and Mystics.

Cash and short term placements amounted to SEK 288.0 (106.2) million.

Shareholders' equity amounts to SEK 469.1 (218.9) million, driven by a strong profit development.

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

Accrued expenses and prepaid income amounts to SEK 79.6 (66.1) million. Royalty reserves to third party developers has decreased compared to the comparative period. Meanwhile prepaid revenue for games which have not yet been released has increased during the period. In addition variable compensation for employees has increased due to increased profits.

CASH FLOW

Cash flow from operating activities amounted to SEK 85.7 (32.4) million, primarily attributable to the operating profit. Cash from flow investing activities amounted to SEK -44.6 (-15.2) million, referring to investments in game development. Cash flow from financing activities amounted to SEK 0.0 (-70.8) million.

DEPRECIATION, AMORTISATION AND WRITE-DOWNS

Amortisation of capitalised development amounted to SEK 21.7 (11.5) million. The increase is related to amortisation of released game projects. Write-downs of capitalised development amounted to SEK 2.9 (0.0) million, relating to a write-down of one project with a third party developer which have not yet been announced where the project has been cancelled. Amortisation of the company's brands amounted to SEK 1.7 (1.7) million. Depreciation of property and equipment amounted to SEK 0.9 (0.9) million. Amortisation and write-downs in relation to capitalised development is included in direct costs in the profit and loss statement while amortisation of brands and depreciation of property and equipment is included in administrative expenses.

PARENT COMPANY

The parent company consists of the publishing branch, and the parent company provides administrative services to its subsidiaries. Paradox Development Studio and Paradox North only has intercompany revenue from the parent company, why the financial development of the parent company to a great extent follows the Group's development. Company revenues for the first quarter amounted to SEK 118.4 (92.5) million. Operating profit amounted to SEK 39.9 (26.6) million. Profit before tax amounted to SEK 39.9 (26.6) million. Profit after tax amounted to SEK 31.1 (20.5) million.

ACCOUNTING PRINCIPLES

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. The same accounting principles has been applied as in the latest annual report. The parent company applies the Swedish Financial Reporting Board's recommendation RFR 2, accounting for legal entities. No new or revised standards have affected the financial statements of the group. It is judged that the fair values of all financial assets and liabilities are approximately equal to their book values.

RISKS AND UNCERTAINTIES

Paradox is, like most companies, exposed to certain risks in its operations. The risks and uncertainties are described as a whole in the Annual report for 2016, page 26. Of the risks can be mentioned a dependency on key employees, dependency on a few sales partners, delays of game projects, low revenues from game releases, and foreign currency. These risks and uncertainties may have a direct or indirect impact on the group's financial position and results.

CONTACT

Additional information about the company can be found on the corporate website www.paradoxinteractive.com. The company can be contacted by e-mail, ir@paradox-plaza.com, or by post Paradox Interactive AB, Västgötagatan 5, 118 27, Stockholm, Sweden.

CALENDAR

Paradox intends to distribute financial reports on the below dates.

Annual General Meeting 2017	2017-05-05
Interim report January - June 2017	2017-08-14
Interim report January - September 2017	2017-11-13
Year-end report January - December 2017	2018-02-12

ASSURANCE BY THE BOARD OF DIRECTORS

The board of directors hereby provide an assurance that the interim report provides a true and fair view of the parent company's and the group's business, positions and earnings, and also describe the significant risks and uncertainties faced by the companies making up the group.

Stockholm May 5, 2017

Håkan Sjunnesson
Chairman of the Board

Fredrik Wester
Chief Executive Officer

Peter Lindell

Ebba Ljungerud

Cecilia Beck-Friis

This interim report has not been subject to special review by the company's auditors.

This information is information that Paradox Interactive AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication on May 5, 2017.

KEY FIGURES FOR THE GROUP

	2017-01-01 2017-03-31	2016-01-01 2016-03-31	2016-01-01 2016-12-31
Revenues, KSEK	121,263	93,274	653,743
Operating profit, KSEK	37,961	25,174	308,008
Profit before tax, KSEK	37,973	25,165	308,622
Profit after tax, KSEK	29,203	19,392	240,439
Operating margin	31%	27%	47%
Profit margin	24%	21%	37%
Equity/assets ratio	76%	67%	76%
Equity per share before and after dilution, SEK*	4.44	2.07	4.17
Earnings per share before and after dilution, SEK*	0.28	0.18	2.28
Number of shares by the end of the period before and after dilution*	105,600,000	105,600,000	105,600,000
Average number of shares before and after dilution*	105,600,000	105,600,000	105,600,000
Average number of employees	218	191	194
Number of employees by the end of the period	224	190	211

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

OPERATING MARGIN

Operating profit after depreciation and amortisation in relation to revenues

PROFIT MARGIN

Profit after tax in relation to revenues

EQUITY/ASSETS RATIO

Equity at the end of the period in relation to total assets at the end of the period

EQUITY PER SHARE

Shareholders' equity divided by the number of shares outstanding at the end of the period

EARNINGS PER SHARE

Profit for the period divided by the average number of shares outstanding during the period

EQUITY

Shareholders' equity



GROUP INCOME STATEMENT

KSEK

	2017-01-01 2017-03-31	2016-01-01 2016-03-31	2016-01-01 2016-12-31
Revenues	121,263	93,274	653,743
Direct costs	-50,122	-41,848	-224,729
Gross profit	71,140	51,426	429,015
Selling expenses	-9,723	-8,843	-40,770
Administrative expenses	-22,006	-16,807	-85,837
Other income	58	350	6,566
Other expenses	-1,508	-952	-966
Operating profit	37,961	25,174	308,008
Financial income	12	17	681
Financial expense	0	-26	-67
Profit after financial items	37,973	25,165	308,622
Income tax expense	-8,770	-5,774	-68,182
Profit for the period and total income for the period	29,203	19,392	240,439
Attributable to:			
Shareholders of the parent company	29,203	19,392	240,439
Non-controlling interests	-	-	-
Earnings per share attributable to the shareholders of the parent company, SEK	0.28	0.18	2.28

GROUP BALANCE SHEET

KSEK

	2017-03-31	2016-03-31	2016-12-31
ASSETS			
Non-current assets			
Capitalised development	157,553	104,636	137,531
Licenses, brands and similar rights	52,942	59,560	54,596
Property and equipment	13,042	16,307	13,987
Other long term assets	3,402	3,402	3,402
Total non-current assets	226,939	183,905	209,516
Current assets			
Accounts receivable	38,984	17,932	71,390
Tax assets	13,874	5,188	3,244
Other receivables	20,052	8,668	28,932
Prepaid expenses and accrued revenue	26,198	4,198	22,598
Other short term placements	-	49,660	-
Cash and cash equivalents	288,025	56,572	246,906
Total current assets	387,132	142,217	373,071
TOTAL ASSETS	614,071	326,123	582,587

GROUP BALANCE SHEET

KSEK

	2017-03-31	2016-03-31	2016-12-31
EQUITY AND LIABILITIES			
Equity			
Share capital	528	528	528
Other capital contributed	27,994	27,994	27,994
Retained earnings	411,391	170,952	170,952
Profit for the period	29,203	19,392	240,439
Total equity	469,117	218,866	439,914
Long term liabilities			
Deferred tax liabilities	36,001	19,354	36,001
Other liabilities	11,432	11,432	11,432
Total long term liabilities	47,434	30,787	47,434
Current liabilities			
Accounts payable	14,814	6,167	12,311
Other liabilities	3,157	4,230	3,135
Accrued expenses and prepaid revenues	79,550	66,073	79,794
Total current liabilities	97,521	76,470	95,240
Total liabilities	144,954	107,257	142,674
TOTAL EQUITY AND LIABILITIES	614,071	326,123	582,587

CHANGE IN GROUP EQUITY

KSEK

	Share capital	Other capital contributed	Retained earnings	Retained earnings
At the beginning of the period 2016-01-01	106	27,994	242,126	270,226
Bonus issue	422		-422	0
Dividend			-70,752	-70,752
Shareholders' transactions			-71,174	-71,174
Profit for the period and total income for the period	-	-	19,392	19,392
At the end of the period 2016-03-31	528	27,994	190,344	218,866
At the beginning of the period 2017-01-01	528	27,994	411,391	439,914
Profit for the period and total income for the period	-	-	29,203	29,203
At the end of the period 2017-03-31	528	27,994	440,594	469,117

GROUP CASH FLOW STATEMENT

KSEK

	2017-01-01 2017-03-31	2016-01-01 2016-03-31	2016-01-01 2016-12-31
Operating profit	37,961	25,174	308,008
Adjustment for items not included in cash flow	27,203	14,000	103,645
Interest received	12	43	139
Interest paid	0	-26	-83
Tax paid	-19,400	-25,293	-69,110
Cash flow from current operations before changes in working capital	45,776	13,899	342,599
<i>Changes in working capital</i>			
Change in current receivables	41,287	35,505	-38,218
Change in current liabilities	-1,319	-17,016	-16,646
Cash flow from current operations	85,743	32,388	287,735
Investing activities			
Acquisition of intangible assets	-44,625	-15,248	-129,404
Acquisition of tangible assets	-	0	-516
Cash flow from investing activities	-44,625	-15,248	-129,920
Financing activities			
Paid dividend	-	-70,752	-70,752
Cash flow from financing activities	-	-70,752	-70,752
Cash flow for the period	41,118	-53,612	87,063
Cash and cash equivalents at the beginning of the period	246,906	159,844	159,844
Cash and cash equivalents at the end of the period	288,025	106,232	246,906

PARENT COMPANY INCOME STATEMENT

KSEK

	2017-01-01 2017-03-31	2016-01-01 2016-03-31	2016-01-01 2016-12-31
Revenues	118,413	92,452	652,093
Direct costs	-48,684	-41,842	-224,121
Gross profit	69,729	50,610	427,972
Sales expenses	-9,476	-8,802	-40,402
Administrative expenses	-18,933	-14,976	-76,002
Other income	39	347	6,451
Other expenses	-1,508	-924	-924
Operating profit	39,851	26,255	317,094
Financial income	11	15	659
Financial expense	0	-26	-50
Profit after financial items	39,863	26,245	317,703
Year-end appropriations	0	0	-84,819
Income tax expense	-8,770	-5,774	-51,490
Profit for the period and total income for the period	31,093	20,471	181,395

PARENT COMPANY BALANCE SHEET

KSEK	2017-03-31	2016-03-31	2016-12-31
ASSETS			
Non-current assets			
Capitalised development	157,553	104,636	137,531
Licenses, brands and similar rights	469	914	579
Property and equipment	13,042	16,307	13,987
Shares in subsidiaries	190	240	190
Receivables from group companies	50,301	50,301	50,301
Other long term assets	3,402	3,402	3,402
Total non-current assets	224,956	175,800	205,990
Current assets			
Accounts receivable	36,863	17,865	71,046
Tax assets	14,015	5,441	3,586
Other receivables	19,829	8,428	28,231
Prepaid expenses and accrued revenues	26,198	4,178	22,573
Other short term placements	-	49,660	-
Cash and cash equivalents	283,133	49,949	242,306
Total current assets	380,037	135,521	367,741
TOTAL ASSETS	604,993	311,320	573,732

PARENT COMPANY BALANCE SHEET

KSEK

	2017-03-31	2016-03-31	2016-12-31
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital	528	528	528
Capitalised development reserve	127,702	15,248	93,268
<i>Non-restricted equity</i>			
Share premium reserve	27,994	27,994	27,994
Retained earnings	155,978	87,028	9,017
Profit for the period	31,093	20,471	181,395
Total equity	343,295	151,269	312,203
Untaxed reserves	163,642	87,973	163,642
Current liabilities			
Accounts payable	14,760	6,084	12,214
Liabilities to group companies	9,591	5,322	11,583
Other liabilities	942	763	934
Accrued expenses and prepaid revenues	72,763	59,908	73,155
Total current liabilities	98,056	72,078	97,887
Total liabilities	98,056	72,078	97,887
TOTAL EQUITY AND LIABILITIES	604,993	311,320	573,732

