Paradox Interactive®

Annual Report 2017

*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 2017

TABLE OF CONTENTS

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 100 titles and Paradox Interactive owns the most important brands, including Stellaris, Europa Universalis, Hearts of Iron, Crusader Kings, Cities: Skylines, Magicka and Age of Wonders. From the start over ten years ago, the company has published its games all over the world, initially through physical distribution using partners, but beginning in 2006 has primarily distributed 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, over 2 million gamers play a Paradox game each month and the number of Paradox registered users exceeds seven million.

Paradox Interactive AB (publ)'s shares are listed on Nasdaq Stockholm First North Premier under ticker PDX. FNCA Sweden AB is the company's Certified Adviser.

Words from the CEO

GEARING UP FOR 2020

For the past two years, Paradox has been gradually increasing its investments. As we gear up for 2020, we can see that our investments are larger than ever. Currently, we are doing bigger and better productions than before and we have more parallel productions in the works, all while facing higher quality demands. One example of this is the player expectation that our game series should be long term and have high replayability value.

To meet these demands, we have expanded the organization a little in advance so that we can prepare for the ventures that await us in the future. This means lower margins in the short term, but an expected high growth curve in the long term – even if all games do not reach their maximum potential.

When we expand the organization, it's also important to ensure we have the right people in the right places and in different key roles. It's about matching each person's skills, personal strengths

and motivation with the stage the company finds itself in. This way, we can also ensure that we've got what it takes to be able to meet the needs of our players and our employees.

During my own time at Paradox for example, I have mainly focused on the company's growth and business opportunities. This is where my main strength lies, but for the past two years I have not been able to spend as much time on these tasks as I've wanted. We have therefore strengthened our team with a new CEO, Ebba Ljungerud, who will start at the company in August 2018. Ebba has four years of experience working together with us on the Board and a long track record of working with companies and people in growth phases. When she assumes her position, I will transition into the role of Executive Chairman of the Board on a full-time basis so that I can focus more on what I do best.

In February 2018, we had the privilege of welcoming our new CFO, Alexander Bricca. We are very pleased that he chose to work with us and believe he can make great contributions to the business, both in our present phase and into the future.

In 2017 we released only one full-price title, something we are far from satisfied with. The reason is largely due to the decision we made a few years ago to improve the quality of our games. It was a decision that had the effect of somewhat stifling our production through a focused, limited approach. However, worth noting is that despite this we achieved sales growth in 2017. Overall, our strategy over the last few years has paid off, especially over time. But the real benefits lie ahead. We now have more teams and people who are better equipped for the future and who collaborate with fantastic developers throughout the world.

During the year, we released successful expansions with content and value that in some cases are equivalent to other full-price titles available on the games market. We also released existing games on console. Along with our earlier releases, these releases have driven growth in both revenues and number of players.

Also good to know is that we at Paradox avoid over-optimistic prognoses and normally stick to fairly conservative forecasts. However, we make sure we always have a go-big plan prepared if a game is received unexpectedly well, which means we can quickly kick start the development of new content and more marketing. Simply put, we hope for the best but plan for the worst.

For 2018, we have announced two major releases thus far: Surviving Mars and Battletech. Both have been featured extensively on several global games media lists of top game releases to watch out for in 2018.

First up is Surviving Mars, a sci-fi game with a settlement builder simulation in the same vein as Cities: Skylines. The game is all about colonizing Mars and surviving the process. It was released simultaneously on both PC and console, and was developed by Haemimont Games. Haemimont specializes in creating games with long lifespans, which creates value for players while broadening the audience over a long period of time. In this respect they resemble our own studios, Triumph Studios and Paradox Development Studio.

In April 2018, we are releasing our next game: Battletech, the long-awaited turn-based tactical game. The game comes from the original creator of BattleTech and MechWarrior and the developers of the award-winning series Shadowrun Returns.

We continue to dig deeper where we stand, as we can clearly see that we are broadening our existing audience with each game release. To create additional growth, we will therefore primarily expand our geographical reach, platforms and acquisitions.

We will focus on what we believe gives us the best returns in the short or long term. To do this, we are testing the waters by evaluating and experimenting, which is apparent in our approach to our territories. For example, our expansion in China has been slower than expected, and market alignment has been harder than we first thought. However, sales of Cities: Skylines are still robust in China. Beyond this, we are looking into potential partnerships and opportunities with different players in other markets to create more localized content in our games.

In terms of platforms, we are planning to release the first mobile game from our internal mobile investment in 2018. This initiative is about creating games that are more hardcore for the mobile platform. In the future, our aim is also to release mobile games created by our internal mobile team. These will be published by Paradox and be based on our own IPs.

We have also made no secret that we are continuously looking for attractive acquisitions. We bought Triumph Studios in 2017, and in early 2018 we announced our acquisition of a 33 percent stake in Hardsuit Labs. And progress is being made with White Wolf Entertainment's efforts to develop World of Darkness. In 2018, they will step up their visibility in the market by organizing community activities and launching the fifth edition of the role-play board game Vampire the Masquerade. The game is being launched as a book, and the book is the basis for all the stories and descriptions of the world that will turn up in any subsequent products.

Those of you who follow us know that we do not provide forecasts and rarely discuss events that are not entirely confirmed. We believe it is crucial to set the right expectations and always strive to lead with actions instead of words. Internally we have a saying: the only two stages for a business to be in are development or dissolution. We hope it is clear to everyone who follows us which category we consider ourselves to be in, even though we do not provide forecasts. Many thanks to those of you who have followed us this year. We look forward to continuing our journey together in 2018.

Fredrik Wester, CEO

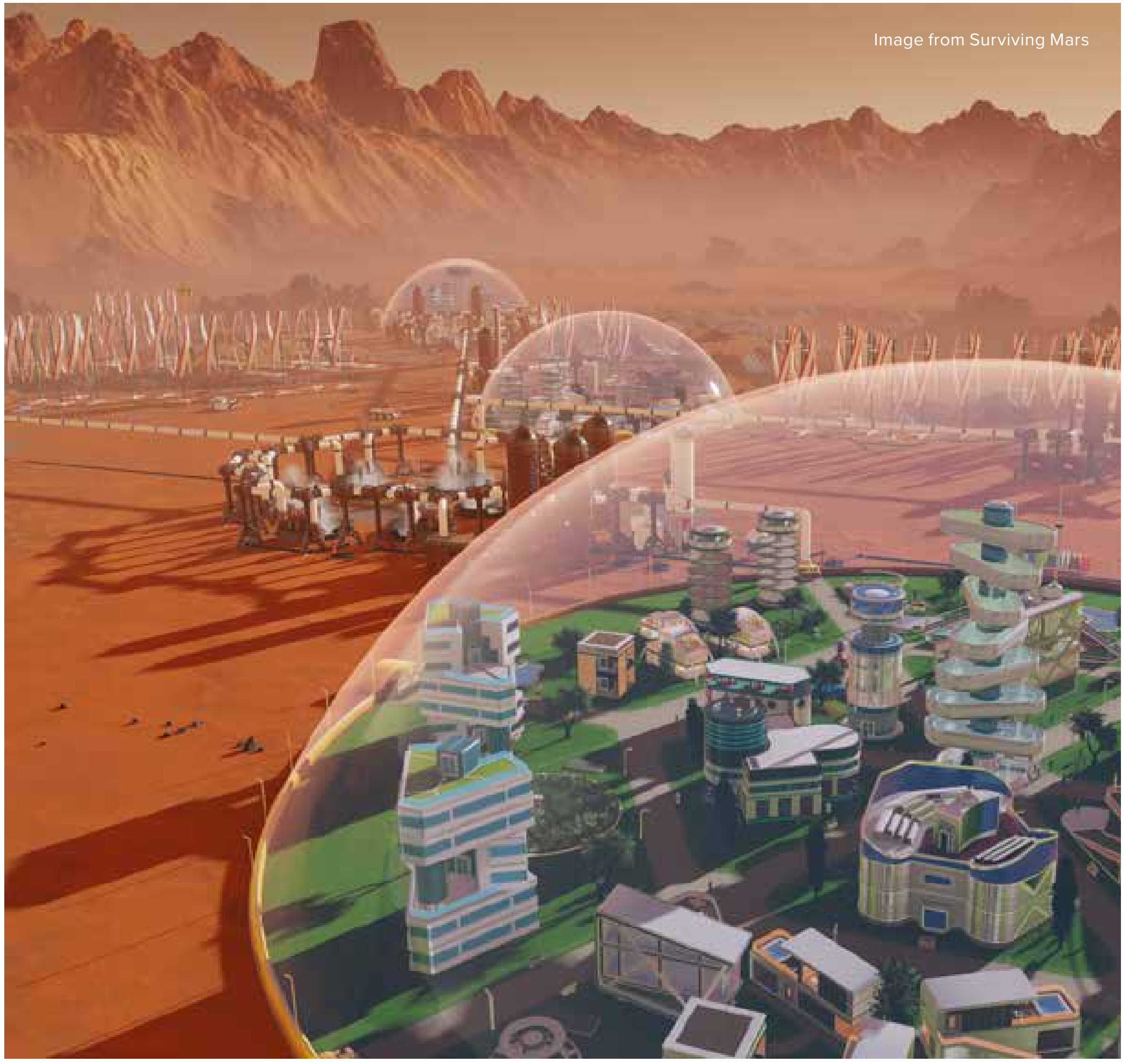


Image from Surviving Mars

The year in brief

THE GAMES

Image from Battletech

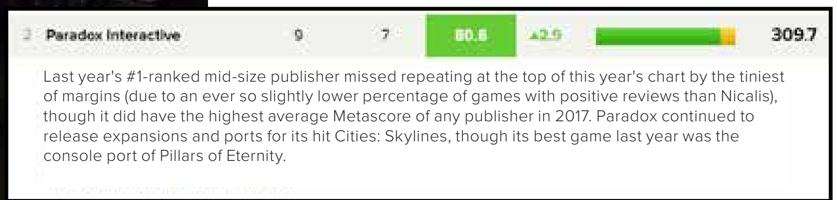
At the beginning of the year, White Wolf announced its partnership with Paris-based publisher Focus Home Interactive for a licensed PC and console game set in the World of Darkness.

In February, it was announced that Hearts of Iron IV passed 500,000 copies sold.

At PDXCON in May we announced two new games: Surviving Mars, developed by Haemimont Games with a planned release date in 2018, and Battletech, developed by Harebrained Schemes with a planned release date in 2017. In August, we announced that Battletech will instead be released in 2018.

In May 2017, we released Steel Division: Normandy 44 in partnership with developer Eugen Systems. The game attracted great interest in the pre-order campaign, which exceeded our own expectations as well. It then went on to achieve a more modest sales level after release. However, the game has been well received by critics and players alike, and we therefore believe it will continue to generate long-term revenues as part of our broad games portfolio.

The same month, we released Prison Architect for mobile platforms together with Introversion Software and Tag Games. A popular game, it had previously been released on other platforms. The release offered Paradox a good opportunity to build on its knowledge base prior to future releases on mobile platforms.



2	Paradox Interactive	9	7	80.6	▲2.9	309.7

Last year's #1-ranked mid-size publisher missed repeating at the top of this year's chart by the tiniest of margins (due to an ever so slightly lower percentage of games with positive reviews than Nicalis), though it did have the highest average Metascore of any publisher in 2017. Paradox continued to release expansions and ports for its hit Cities: Skylines, though its best game last year was the console port of Pillars of Eternity.

In April (Xbox One) and August (PS4), we released the console version of Cities: Skylines. Pillars of Eternity was also released in August for Xbox One and PS4. This release also gave us an important understanding of console launches ahead of 2018, and it was especially gratifying to see such a favorable reception for the games with positive user reviews, even on the new platforms. Sales have been going according to expectations, considering that the PC versions of the games have been on the market for a longer period of time. Evaluating the suitability of a console version in game projects is now an integral part of the production process. However, this does not mean that we will by default develop all games for console.

As the number of active IPs in the portfolio grows, the number of expansions also grows each year. In 2017, we released 16 expansions and some downloadable minor content. In addition to boosting sales, these expansions help more players to discover the base game, grow the number of players, and spur further development of the game by developers in collaboration with the community. Even on the marketing and sales side, we work actively on the games' life cycle by combining expansions and DLC releases through various discounts and promotions.

A concrete proof point of how our efforts impact the games' life cycle can be seen on the download platform Steam's global top-100 list of the best-selling titles of 2017. Paradox qualifies once again with five titles, of which one was released back in 2012.

In 2017, Paradox still continues to top the rankings of the world's best mid-size publishers on Metacritic, a website that aggregates critic reviews.

THE PLAYERS

Paradox continues to maintain direct and open communications with its community. As our player base increases, so do our interactions. Communication takes place through a variety of channels, such as Steam's own discussion forum and different channels that make up Paradox's own ecosystem.

On Paradox's own streaming channel, which now has a total of more than 13 million video views, we host various types of live events – everything from game walkthroughs and release celebrations to quarterly report briefings with the CEO and CFO. Much of this content is edited and repurposed for the other channels so that people who miss the live broadcasts can still take part.

As proof of interest in this content, we can note the increase in views and subscribers on YouTube. Paradoxplaza has more than 100 million views and Paradox Extra more than 27 million views, and both have over 100,000 subscribers. Paradox Extra was launched to avoid an overload of content on the main channel while ensuring relevant content for viewers. For the same reason, a second channel was launched in November with a sole focus on Grand Strategy. This channel already has over 3 million views and 40,000 subscribers.

All employees at Paradox, from the CEO to new hires, are encouraged to interact with our community. Players take an active role in product development together with the developers.

In 2017, Paradox opened up its annual PDXCON event to the public for the first time. The tradition of personally meeting fans every year goes back to 2003, but our previous fan gatherings have been smaller. This time around, 750 people gathered from more than 22 countries (including Australia and South Korea) for a real Paradox party.

The event received a 91% approval rating by visitors, and Paradox achieved more than twice as much media impact for participating titles and the company as a whole compared with GDC and Gamescom, for example. Something that virtually all visitors commented on was the unique personal interaction with developers and employees. This was especially fun because the personal touch was one of our goals despite the near-tenfold increase in the size of the event.

THE PEOPLE

Throughout the year Paradox has talked about making greater investments in mobile platforms, and in May we announced the launch of a mobile team in Malmö. The team is relatively small, and their mission is to take Paradox Interactive's existing IPs into the mobile world. Not by building the same games for mobile, but by using the IPs as a springboard to build new types of games.

At the end of June we announced the acquisition of game developer Triumph Studios, and the formal transaction took place in July. Prior to the acquisition, the management team spent much time in dialogue with both founders of Triumph Studios to secure the acquisition plans from multiple perspectives – the business, development approaches, future plans and, of course, corporate culture. Triumph Studios makes a natural fit in the Paradox portfolio, and the company has a long track record of creating highly popular games for a specific target group. The smoothness of the transition is a testament to our shared views regarding each company's community of players, love of game development and the passion of their people.

The teams are also growing in other areas of the organization. Paradox runs multiple productions in parallel, with wiggle room for future investments. One way we do this is through hiring, but we also make use of outsourcing as well as specific consultants for specific tasks. And we ensure that we always align the organization based on what best suits the business.

To manage this growth, Paradox continues to promote cultural activities such as holding conferences for the entire company. We focus on leadership through leadership development for all employees. In addition, we regularly conduct organizational reviews to make sure that smart decisions can be made when necessary in the organization and that all employees can have a voice in the production of our games or in the projects they belong to.

OTHER INITIATIVES

In 2017 we continued our collaboration with Girls Code ("Tjejer kodar"), a leading programming camp for young women in Sweden. As part of the collaboration, we offered various outreach events before the start of the camp to attract more individuals. We also created more intensive training in game programming, which received the highest rating during this event. To date, Girls Code has trained more than 700 women in several different technologies. Their goal is to lower the thresholds and get more women interested in programming.

We also started a collaboration with the organization My Dream Now. The organization's purpose is to create inspiring collaboration between schools and the working world. Their vision is for all students to feel a sense of self-worth in society and find their own paths to jobs and dreams. The students are in middle school or high school and come from areas such as Tensta and Rinkeby. The collaboration mainly consists of study visits to Paradox.

Requests for study visits have increased dramatically, and during the year we made it a priority to welcome more groups. In order to offer more opportunities to visit Paradox, we prioritize larger groups from schools and training programs. The requests come from all corners of the world and from all levels of education, from primary school to universities like MIT.

Interest in working in the game industry has also increased, and we have taken part in creating several events that serve as an introduction to the game industry for interested individuals. Among other initiatives, Paradox has organized events together with Women in Games and has participated in events organized by other players in the game industry.

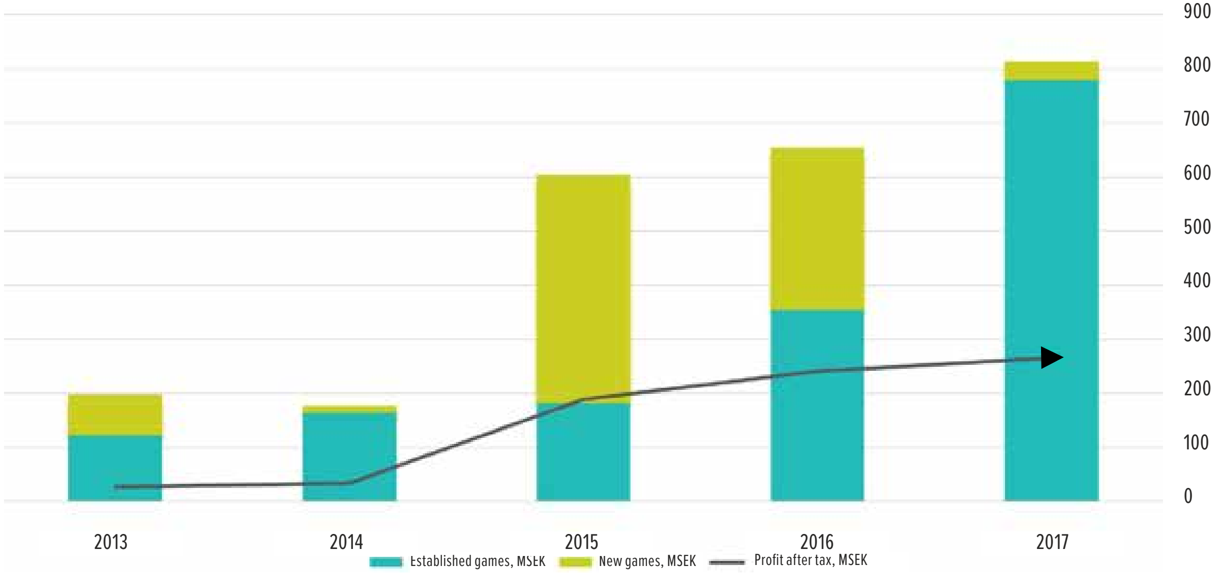
Financial development

Revenues amounted to SEK 813.8 (653.7) million, an increase of 24 % compared to the same period last year. During the year the the new game Steel Division: Normandy 44, developed by Eugen Systems was released. In addition, more than ten expansions has been released to existing titles during the year. Revenue for the year is primarily attributable to Stellaris, Cities: Skylines, Europa Universalis IV, Hearts of Iron IV, and Crusader Kings II.

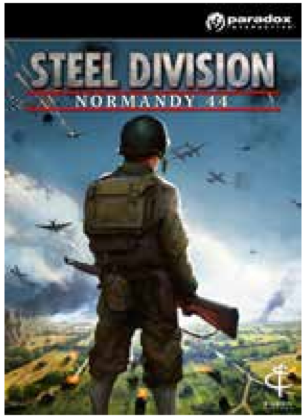
The breakdown of sales for new games and established games is illustrated in the graph, where new games are defined as games that have been released in the current year, and established games are revenues from base game, ports to base games and expansions to games released in previous years. A growing base of revenues from established games reduces revenue volatility and dependence on single releases. During the year, the proportion of sales attributable to established games amounted to 96 % (54 %).

Operating profit amounted to SEK 339.8 (308.0) million, an increase of 10 %. Profit before tax amounted to SEK 339.6 (308.0) million, and profit after tax amounted to SEK 264.9 (240.4) million.

FIVE-YEAR OVERVIEW



* A selection of Paradox releases



Portfolio

ACTIVE BRANDS

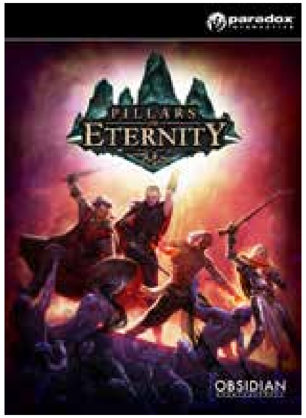
Paradox Interactive differs from many other companies in the industry in two ways:

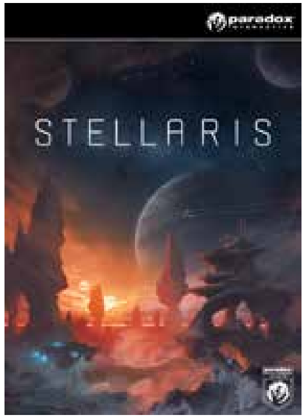
1. We have a high proportion of self-owned brands (Pillars of Eternity excepted).

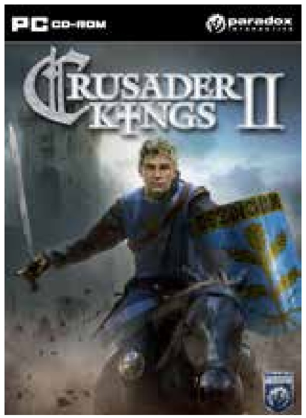
2. We have a wide range of brands in our portfolio.

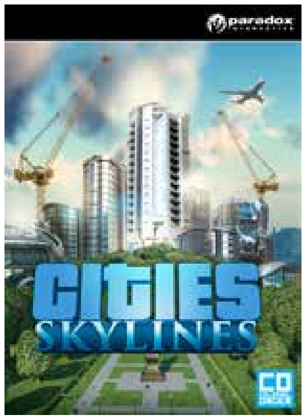
The above contributes to having a variety of games types, helping us to spread risks (vulnerability) and also allows us to work on long-term development and revenue streams.

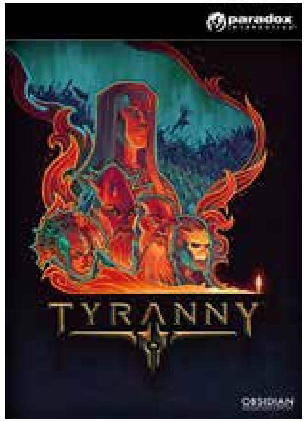
- **CITIES: SKYLINES**
- **CRUSADER KINGS**
- **EUROPA UNIVERSALIS**
- **HEARTS OF IRON**
- **KNIGHTS OF PEN & PAPER**
- **MAGICKA**
- **PILLARS OF ETERNITY**
- **STEEL DIVISION: NORMANDY 44**
- **STELLARIS**
- **SURVIVING MARS**
- **TYRANNY**
- **VICTORIA**











Releases during 2017

STEEL DIVISION: NORMANDY 44

DEVELOPER

EUGEN SYSTEMS

73 %

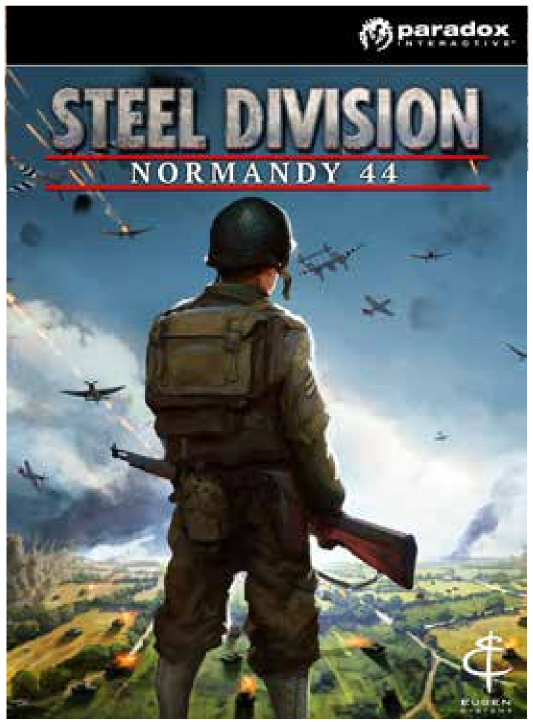
Steam user reviews

83 7,7

Metacritic score

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.



Expansions

EUROPA UNIVERSALIS IV

87	8.8	90%
Metacritic score		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 overs 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.

Releases during 2017: Mandate of Heaven, Third Rome, Cradle of Civilization.

Expansions

CRUSADER KINGS II

92%	
Steam user reviews	
82	8.7
Metacritic score	

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.

Releases during 2017: Monks & Mystics, Jade Dragon

Expansions

STELLARIS

Keep exploring the vast galaxy full of wonder!
Featuring a deeper strategic gameplay, an even richer and more diverse selection of alien races and emergent storytelling, Stellaris has kept it's 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.

Releases during 2017: Utopia, Synthetic Dawn

78 8.0
Metacritic score

84%
Steam user reviews

Expansions

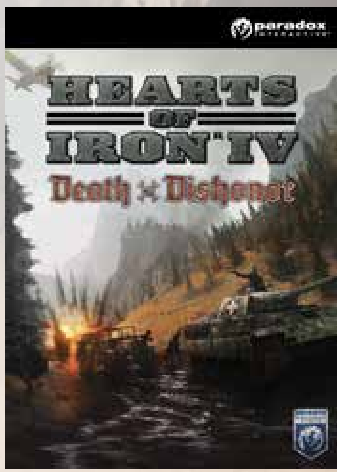
HEARTS OF IRON IV

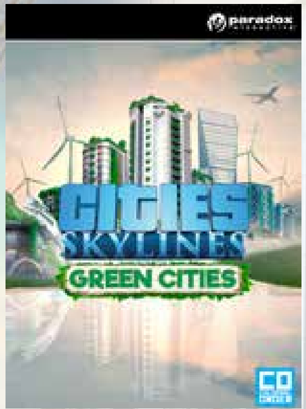
Victory is at your fingertips and your ability to lead your nation is your supreme weapon. The expansion to the strategy game Hearts of Iron IV lets you take command over more nations in World War II; the most engaging conflict in world history - and focuses on new challenges in the choice between conflict or alliance with your neighbors. 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

Release during 2017: Death or Dishonor

83%
Steam user reviews

83 7.0
Metacritic score





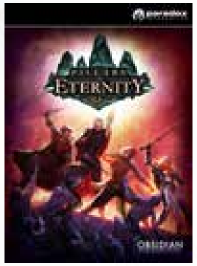
Expansions

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.

Releases during 2017: Mass Transit, Green Cities

85	8.9	91%
Metacritic score		Steam user reviews



Console

PILLARS OF ETERNITY

The ultimate role-playing experience has now come to PlayStation®4 and Xbox One! Pillars of Eternity is Obsidian Entertainments first class role-playing game that was made possible by over 70 000 Kickstarter backers. Spelet har nu uppgraderats för konsol av Paradox Arctic.

4,7
Xbox Live score

4.5
PlayStation Store Score

Console

CITIES: SKYLINES

Cities: Skylines is Paradox and Colossal Orders award winning and best selling management game that is now also available on Xbox One and PlayStation4. The console versionincludes the base game and the popular After Dark expansion, allowing players to plan and design for their cities' nightlife and tourist

3,4
Xbox Live score

4.5
PlayStation Store Score

Mobile

PRISON ARCHITECT: MOBILE

Escape from reality but not from your custom-made jail!
Prison Architect: Mobile challenges you to build and manage a maximum security prison, from laying out cell blocks and inmate facilities, to managing staff pay and prisoner morale. From layout to execution (literally, in some cases), you are the architect, the warden, and the enforcer.

4,6
App Store rating

3,6
Google Play rating

Coming Releases

SURVIVING MARS - RELEASED MARCH 15

Welcome Home! The time has come to stake your claim on the Red Planet and build the first functioning human colonies on Mars! All you need are supplies, oxygen, decades of training, experience with sandstorms, and a can-do attitude to discover the purpose of those weird black cubes that appeared out of nowhere. With a bit of sprucing up, this place is going to be awesome!

There will be challenges to overcome. Execute your strategy and improve your colony's chances of survival while unlocking the mysteries of this alien world. Are you ready? Mars is waiting for you.

BATTLETECH - RELEASE APRIL 2018

From original BATTLETECH/MechWarrior creator Jordan Weisman and the developers of the award-winning Shadowrun Returns series comes the next-generation of turn-based tactical 'Mech combat.

The year is 3025 and the galaxy is trapped in a cycle of perpetual war, fought by noble houses with enormous, mechanized combat vehicles called BattleMechs.

Take command of your own mercenary outfit of 'Mechs and the MechWarriors that pilot them, struggling to stay afloat as you find yourself drawn into a brutal interstellar civil war.

NOT ANNOUNCED RELEASES

Market

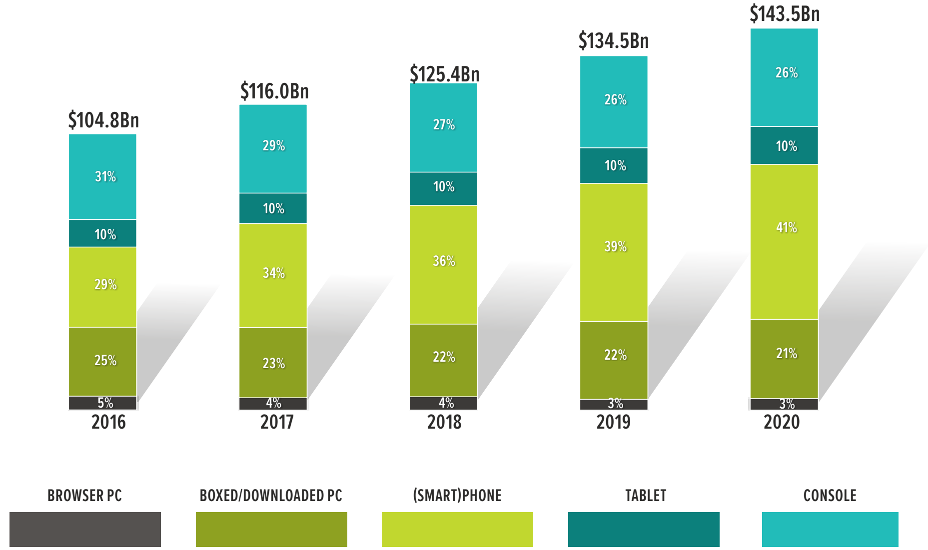
THE GLOBAL GAMING MARKET

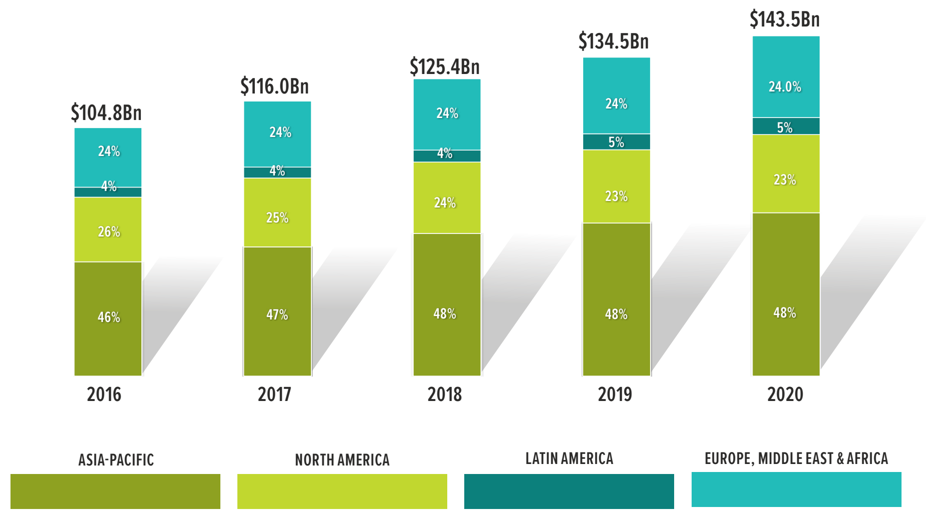
The global gaming market continues to grow. The analyst Newzoo estimates that the global global gaming market had a turnover of 116 MDUSD in 2017, which represents an increase of 66% over the last five years.

The market is estimated to grow by a yearly average of 8.2% to a total turnover of $ 143.5 billion in 2020. Most of this growth comes from smartphone revenue, whose revenue is expected to grow by an average of 17.2 % per year to $ 58.2 billion. Combined with tablet sales, the mobile segment will contribute to 50% of the revenue generated in the global gaming market in 2020. Console games will grow by an average of 3.4% to $ 36.6 billion while the PC segment is slightly slower 2.0% per year to $ 34.6 billion.

The fastest growing regions in the coming years are still estimated to be Southeast Asia and the rest of Asia, which accounts for an average growth rate of 24.7% and 27.7% per year by 2020.

SEGMENT AND REGION BREAKDOWN OF GLOBAL GAMES REVENUES TOWARD 2020



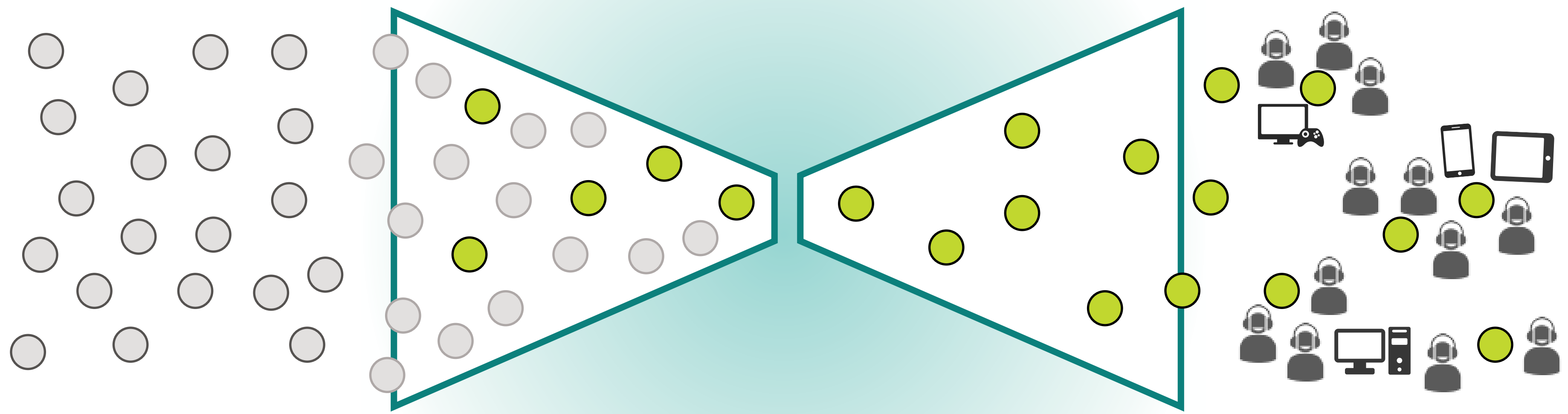


SOURCE: NEWZOO GLOBAL GAMES MARKET REPORT

THE GAME INDUSTY 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.

DEVELOPERS → **PUBLISHERS** → **DISTRIBUTORS** → **PLAYERS**



Developers: Vast amout of developers with games want access to gamers but need help to differentiate themselves from the competition and bring their games to market

Publishers: Strong publishers with proper knowledse, marketing skills and large communities: 1) Screen, 2) finance, 3) market and 4) continue developing games.

Distributors: Distributors rely on publishers to provide the most attractive games to launch in the market place through their infrastructure.

Players: 2,09 billion gamers world wide*

- Steam Monthly Active Players (69 million)
- Paradox Monthly Active Users (over 2 million)
- Registered Paradox accounts (7,5 million)

*) Source: Newzoo global games market report

PARADOX IN THE VALUE CHAIN AND EXEMPLES OF OUR PARTNERS

Financial Statements

TABLE OF CONTENTS

Administration Report

The Board and the CEO of Paradox Interactive AB (publ), 556667-4759, hereby present the annual report for the financial year 2017.

INFORMATION ABOUT THE OPERATIONS

Paradox 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 100 titles and Paradox Interactive owns the most important brands, including Stellaris, Europa Universalis, Hearts of Iron, Crusader Kings, Cities: Skylines, Magicka and Age of Wonders. From the start over ten years ago, the company has published its games all over the world, initially through physical distribution using partners, but beginning in 2006 has primarily distributed 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, over 2 million gamers play a Paradox game each month and the number of Paradox registered users exceeds seven million.

The parent company is based in Stockholm.

SIGNIFICANT EVENTS DURING THE YEAR

One new game was released during the year - Steel Division: Normandy 44, developed by Eugen Systems. The company has also released Cities: Skylines and Pillars of Eternity to console, as well as several expansions to existing titles. The share of sales made by internally developed games continues to be high, which contributes to continued strong margins since no royalty is paid to third parties for these.

On July 1, the development studio Triumph Holdings BV was acquired.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

On January 2, 2018, 33% of the shares were acquired in the Seattle-based development studio Hardsuit Labs. Purchase price was USD 2.0 million and Paradox has an option to increase its ownership in the future. Payment has been made in cash and no additional purchase price is added.

On March 15 2018 the new game Surviving Mars, developed by Haemimont Games, was released for PC and console.

EXPECTED FUTURE DEVELOPMENT

In 2018 a continued good profitability is expected. Battletech which is previously announced is scheduled to be released in 2018. A number of unannounced games will be launched as well as several different expansions to other titles. There is also an expectation that collaborations will be launched around the brands of the subsidiary White Wolf Publishing.

REVENUES AND PROFIT

Revenues amounted to SEK 813.8 (653.7) million, an increase of 24 % compared to the same period last year. During the year, the new game Steel Division: Normandy 44 was released by Eugen Systems. More than ten expansions were released to existing titles during the period. Revenues for the year are mainly attributable to Stellaris, Cities: Skylines, Europa Universalis IV, Hearts of Iron IV and Crusader Kings II.

Direct costs amounted to SEK 280.8 (224.7) million, primarily attributable to game development and royalties. Royalties have increased compared with the comparative period due to an increased share of games sold from third party development, and royalties to third party rights holders of IP. 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 development of SEK 18.0 (23.9) million relating to write-downs of not yet announced projects both internally and externally developed, where the projects have been cancelled.

Selling expenses amounted to SEK 65.1 (40.7) million. Selling expenses increased slightly as a result of increased investments in events, advertising, sales and marketing.

Administrative expenses for the period amounted to SEK 106.7 (85.8) 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.

Other income amounted to SEK 1.2 (6.6) million, and other expenses to SEK 22.6 (1.0) million, of which the majority relates to exchange rate differences. The negative development is primarily driven by a weaker 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 339.8 (308.0) million, an increase of 10 %.

Profit before tax amounted to SEK 339.6 (308.0) million, and profit after tax amounted to SEK 264.9 (240.4) million.

FINANCIAL POSITION

Capitalised development expenditure amounted to SEK 247.3 (137.5) million at the end of the period. Investment in game projects amounted to SEK 220.7 (129.4) million, and amortization of launched game projects amounted to SEK 109.0 (SEK 68.8) million.

Licenses, trademarks and similar rights amounted to SEK 78.2 (54.6) million. The increase compared to the comparative period is attributable to acquired brands from the acquisition of Triumph.

By the end of the period property and equipment amounted to SEK 10.8 (14.0) million.

Accounts receivable amounted to SEK 72.8 (71.4) million by the end of the period, mainly attributable to sales on Steam during the last month of the period.

Cash and short term placements amounted to SEK 320.1 (246.9) million.

Shareholders' equity amounts to SEK 599.9 (439.9) 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 79.0 (79.8) million. Royalty reserves to third party developers has increased compared to the comparative period. Reserves for personnel related expenses has also increased compared to the comparative period due to an increase in the number of employees throughout the organization, while reserves for variable employee compensation have decreased.

CASH FLOW

Cash flow from operating activities amounted to SEK 435.4 (287.7) million, primarily attributable to operating profit. Cash flow from investing activities amounted to SEK -256.1 (-129.9) million, of which the majority relates to investments in game projects. Cash flow from financing activities was SEK -105.6 (-70.8) million, due to dividends to shareholders.

DEPRECIATION, AMORTISATION AND WRITE-DOWNS

Amortisation of capitalised development expenditure amounted to SEK 109.0 (68.6) million, the increase was attributable to the amortization of launched game projects. Write-down of capitalised development expenditure amounted to SEK 18.0 (23.9) million relating to relating to write-downs of not yet announced projects both internally and externally developed, where the projects have been cancelled. Amortisation of the company's brands amounted to SEK 8.6 (6.6) million. Depreciation of property plant and equipment amounted to SEK 3.8 (3.8) million. Amortisation and write-downs related to capitalised development expenditure is included in direct costs in the income statement, and amortization/depreciation on the company's brands and property plant and equipment are included in administrative expenses.

PARENT COMPANY

The parent company consists of the publishing branch, and in addition the parent company also provides administrational services to it's 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. Parent company revenues amounted to SEK 812.2 (652.1) million. Operating profit amounted to SEK 352.1 (317.1) million. Profit before tax amounted to SEK 257.7 (232.9) million. Profit after tax amounted to SEK 200.8 (181.4) million. Shares in group companies amounts to SEK 41.1 (0.2) million, following the acquisition of Triumph Holdings BV on July 7, 2017.

SICNIFICANT 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.

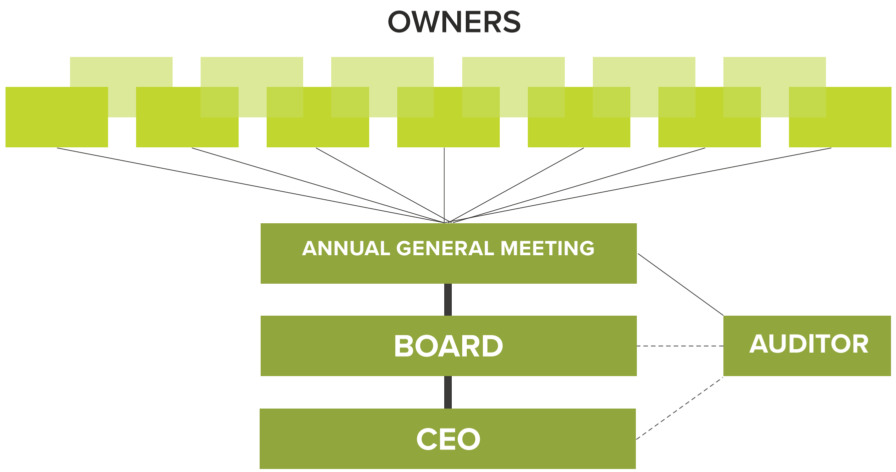
Exchange rate fluctuations

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 36 Financial risk management.

CORPORATE GOVERNANCE REPORT

Paradox is a Swedish public limited liability company and is governed based on Swedish law and internal rules and regulations. The code is applicable for Swedish companies with shares listed on a regulated market in Sweden. Nasdaq First North Premier is not a regulated market, why Paradox is applying the code on a voluntary basis. Companies must not comply with all rules in the code, and has the option to apply alternative solutions believed to better fit their purposes, as long as any discrepancies are reported and the alternative solution is described and reasons behind it explained (the principle of ”comply or explain”) in the corporate governance report. The report is contained in the administration report and has been reviewed by the auditor. The audit is reported in the audit report on page 60.

CORPORATE GOVERNANCE MODEL



Important external regulations

- The Companies Act
- Accounting legislation, Bookkeeping Act, Annual Accounts Act
- Nasdaq First North Nordic – Rulebook
- The Swedish Code of Corporate Governance (the Code)

Important internal regulations

- Articles of association
- Rules of procedure for the Board of Directors
- Insider policy
- Communication policy
- IT-policy
- Finance policy

Corporate governance foundation

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

SHARES AND SHAREHOLDERS

The share capital of Paradox Interactive AB (publ) consists of the same class. Total number of shares amounts to 105,600,000 shares, where one share carries one vote at general meetings. The number of shareholders was 12,271 as of 31st December 2017. The largest shareholder at the end of 2017 were Wester Invest AB (Fredrik Wester) with 33.4 percent of the share capital, Investment AB Spiltan by 24.8 percent and Lerit Förvaltning AB (Peter Lindell) with 9.0 percent.

ANNUAL GENERAL MEETING

The general meeting is the highest decision-making body in which shareholders exercise their influence over the company. The Annual General Meeting is held annually within six months of the financial year. Time and place of the Annual General Meeting are published at the latest in connection with third quarterly report. Each shareholder has also, independent of number of shares, the right to have a matter addressed at a general meeting on a request to be submitted to the Board in good time so that the matter can be included in the notice of meeting.

Notice to the Annual General Meeting and Extraordinary General Meeting where a change in the articles of association is to be resolved, must be made not earlier than six weeks and not later than four weeks ahead of the general meeting. Notice to other extraordinary general meetings must be made not earlier than six weeks and not later than two weeks ahead of the general meeting. Notice of a general meeting shall be made by an announcement in the Official Gazette (Sw. Post- och Inrikes Tidningar) and by making the notice available on the company’s website. The company shall advertise in Svenska Dagbladet that notice has been made.

Shareholders wishing to participate in a general meeting must be entered in a transcript or other publication of the complete share register covering the status five days ahead of the general meetings, and give notice of attendance to the company no later than the day specified in the notice of the general meeting. This day may not be a Sunday, other public holiday, Saturday, Midsummer Eve, Christmas Eve or New Year's Eve and must not be earlier than the fifth weekday prior to the general meeting.

Shareholders or proxies may be accompanied by not more than two assistants, but only if the shareholder notifies the company of the number of assistants in the manner stated in the preceding paragraph.

At the Annual General Meeting the following matters shall be addressed:

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

Annual General Meeting 2017

The Annual General Meeting 2017 was held on 5 May in Stockholm. At the meeting 67% percent of the votes and thus the same proportion of shares were presented. Board and Management were present at the meeting. The following decisions were taken:

Håkan Sjunnesson was elected to chair the meeting. The balance sheet and income statement for the parent company and the Group were adopted. Dividend to shareholders of SEK 1 per share was approved. The Board and the President were discharged from liability for the financial year. The meeting decided that the Board shall consist of five members with no alternates. The AGM decided that the remuneration shall be 180,000 SEK / year to Board members not active in the company and 360,000 SEK / year as chairman. The meeting decided to choose Håkan Sjunnesson as chairman; Fredrik Wester, Peter Lindell, Ebba Ljungerud and Cecilia Beck-Friis as members. Resolution on principles for the Nomination Committee was established. The AGM decided to elect Grant Thornton, with Chief Auditor Stefan Hultstrand.

Annual General Meeting 2018

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

Attendance on the Annual General Meeting

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

NOMINATION COMMITTEE

The Annual General Meeting decides how the nominations committee shall be appointed. The Chairman of the Board of Directors will contact the three largest shareholders in terms of votes on September 30, 2017. The three largest shareholders will elect one representative each to form the nomination committee along with the Chairman. If any of these shareholders wants to waive their right to elect a representative, their right is transferred to the shareholder who, after these shareholders, has the largest share ownership. The members of the nomination committee appoint its Chairman. However, the Chairman of the Board of Directors will not chair the nomination committee. The composition of the Nomination Committee shall be announced as soon as it is appointed, and no later than six months before the AGM. In case there is a change in the ownership structure after the nomination committee has been composed, such as one or several shareholders that have appointed members to the Nomination Committee is no longer one of the three largest shareholders, the nomination committee may be changed in accordance therewith if the nomination committee deems that it is necessary. The Committee's task shall be to prepare proposals to the general meeting regarding Chairman of the Annual General Meeting, number of Board members, remuneration to the Board and the auditor, the composition of the Board, the Chairman of the Board, rules for the Nomination Committee for the following year, and the election of the auditor.

Nomination committee ahead of the Annual General Meeting 2018

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

Members of the Nominating committee

- Per Håkan Börjesson, chairman (appointed by Investment AB Spiltan)
- Andras Vajlok (appointed by Westerinvest AB)
- Christoffer Häggblom (appointed by Lerit Förvaltning AB)
- Håkan Sjunnesson (Chairman of the Board)

The composition of the Committee does not meet code requirements for independent members in accordance with paragraph 2.3. Andras Vajlok, former CFO, is a member of the Nomination Committee, which is also a discrepancy under paragraph 2.3. As the company has a narrow circle of owners consisting primarily of Investment AB Spiltan and Wester Invest AB (Fredrik Wester) it is considered reasonable that these owners must be members of the committee.

BOARD OF DIRECTORS

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

Work of the Board of Directors

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

Composition of the Board

According to the articles of association of Paradox, the board elected at the AGM must comprise at least three and not more than six members. The Chairman of the board is elected at the AGM and has a particular responsibility to lead the work of the board and ensure that its activities are well organized and conducted in an efficient way. The Board consists of five elected members since the Annual General Meeting 2017. The Board consists of two women and three men. Since the Annual General Meeting 2017, the Board consists of the following elected members; Chairman Håkan Sjunnesson, Fredrik Wester, Peter Lindell, Ebba Ljungerud and Cecilia Beck-Friis. The Board composition during the year met the requirements of the Code regarding independent directors. This means that the majority of the elected Board members are independent of the company and its management. The majority of the directors are also independent in relation to major shareholders.

Duties of the Board of Directors

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

Chairman of the Board

The Chairman of the Board is appointed by the Annual General Meeting. The Chairman's role is to organize and lead the work so that it is run efficiently and that the Board fulfills its obligations. Håkan Sjunnesson was appointed Chairman of the Board at the AGM 2017.

Rules of Procedure and Board meetings

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

Board work in 2017

The Board's rules of procedure describes the items to be found on the agenda at each meeting, the statutory board meeting, as well as the items to be found on one or more of the board meetings during the year. In 2017, the Board held ten meetings, including a statutory meeting, and four for the establishment of interim or year-end reports. Ordinary Board meetings normally contains information from the CEO, including information related to the operational position and significant events for the Group, as well as financial statements for the period. Key points in the board meetings in 2017 have been questions about investment strategies, acquisitions, interim and annual reports, dividend proposal, etc.

Composition of the Board and attendance in 2017

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

Evaluation of the Board of Directors and CEO

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

Remuneration to the Board

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

Board meetings 2017

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

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

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

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

June 27, 2017 – Regular Meeting
Reviewing fixed points.

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

August 17, 2017 - Regular Meeting
Reviewing fixed points.

October 16, 2017 - Regular Meeting
Reviewing fixed points.

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

December 18, 2017 – Regular Meeting
Reviewing fixed points.

BOARD COMMITTEES

Audit committee

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

Remuneration committee

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

AUDIT

The auditor shall review the annual report and accounts, and the work conducted by the CEO and board. Following the end of each financial year, the auditor presents a review report and a group audit report to the AGM. According to the articles of association of Paradox, the company shall appoint a maximum of two auditors with or without a maximum of two deputies or a registered audit company. At the AGM 2017 Grant Thornton was appointed as the auditor of Paradox, with Stefan Hultstrand as chief auditor.

CEO AND SENIOR MANAGEMENT

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

Important matters addressed by the CEO and senior management in 2017 included:

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

REMUNERATION TO CEO AND SENIOR MANAGEMENT

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

Profit sharing program

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

Guidelines determined by the AGM 2017

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

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

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

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

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

Guidelines determined by the Board and proposed to the AGM 2018

To the Annual General Meeting 2018, the Board proposes that the above guidelines, with some adjustments will be re-adopted. The Board's final proposal for guidelines is set out in the notice of AGM.

STYRELSE

Håkan Sjunnesson

Position: Chairman of the Board, elected in 2010.
Born: 1956
Education:
M.Sc. in Business and Economics from the Stockholm School of Economics.
Previous assignments: Investment Manager Investment AB Spiltan, Managing Partner Nordic Countries Monitor Group, Vice President & Country Manager Gemini Consulting, Manager Accenture.
Other current assignments: Chairman of the Board in Coolstuff AB, Qvalia Group AB, Emerse Sverige AB and Aktivbo A. Member of the Board in Dalex i Stockholm AB, Digilär AB, NuvoAir AB and StoreVision Group AB.
Shareholding in the company:
3,595,454 shares - Through Company.
Independence: Independent in relation to the Company and senior management. Not independent in relation to major shareholders, employee of Investment AB Spiltan.

Peter Lindell

Position: Member of the Board, elected in 2014.
Born: 1954
Education: M.Sc. in Industrial Engineering and Management from Linköping University.
Previous assignments: Large number of assignments in Rite Internet Ventures Holding AB and the companies in which Rite Internet Ventures Holding AB invested.
Other current assignments: Chairman of the Board in Frank Dandy AB, Rite Internet Ventures Holding AB, Acervo AB, StoreVision Group AB and Rite Ventures Förvaltning AB. Member of the Board in Lednil AB, Packfront Software Solutions AB, Cidro Holding AB, Berinor B.V. och Stiftelsen Good Sport Foundation. Styrelsesuppleant i Aktiebolaget Baccarat, Livsstil & Hälsa E. Norén AB, and Rite Ventures Finland AB.
Shareholding in the company:
9,535,359 shares - Through Company.
Independence: Independent in relation to the Company and senior management. Not independent in relation to major shareholders, owner of Lerit Förvaltning AB.

Ebba Ljungerud

Position: Member of the Board, elected in 2014.
Appointed as CEO from August 2018.
Born: 1972
Education: M.Sc. in Business and Economics from Lund University.
Previous assignments: Extensive experience of consumer-related industries such as insurance, media and e-commerce. For the past seven years, she has worked for Kindred Group PLC (formerly Unibet Group PLC) in various senior positions. Her current role is Chief Commercial Officer for the group.
Shareholding in the company: 12,200 shares - Direct ownership.
Independence: Independent in relation to the Company. Independent in relation to major shareholders.

Fredrik Wester

Position: CEO, Member of the Board, elected in 2010.
Born: 1974
Education: International Civil Economics Program, Business School of Gothenburg 1993-1998, International Business Studies at Hokkaido Tokai Daigaku, Sapporo, Japan 1997-98.
Other current assignments: Chairman of the Board of Sahara Silversmycken and Chairman and CEO of WesterInvest AB, Chairman of the Board in Kichi Invest. Board member of Epidemic Sound and Asedo
Shareholding in the company:
35,235,937 shares - Through Company.
Independence: Independent in relation to the Company and senior management. Not independent in relation to major shareholders.

Cecilia Beck-Friis

Befattning: Member of the Board, elected in 2016.
Born: 1973
Education: Duke University, Bonnier Executive Management Program, Stockholm School of Economics, IFL Executive Education.
Previous assignments: : Former Vice President TV4, CDO Bonnier Broadcasting, CEO Rayvr.
Other current assignments: CEO Hemnet. Board member of Net Insight AB and board member of Acando.
Shareholding in the company: 5,000 shares - Direct ownership.
Independence:Independent in relation to the Company and senior management. Not independent in relation to major shareholders.

LEDANDE BEFATTNINGSHAVARE

Fredrik Wester

Vänligen se beskrivning i avsnittet Styrelse.

Susana Meza Graham

Position:
Chief Operating Officer, COO, since 2014.
Born: 1976
Education: Fil. kand in marketing, Stockholm University.
Previous assignments: Susana has more than 10 years of experience of marketing and games, and was previously CMO at EVP Publishing and CMO and PR Manager at Paradox.
Other current assignments: Board member Advenimus AB.
Shareholding in the company:
1,000,000 shares – Through company.

John Hargelid

Position: Chief Information Officer, CIO since 2014.
Born: 1981
Education:
M.Sc. in Media Tech, Royal Institute of Technology, Stockholm 2005.
Previous assignments: Started on product / publishing in 2012, and later joined the management responsible for building technology and analysis operations. 12+ years of experience from leading roles at Paradox Interactive, Accenture, Wooga & EA Dice, focusing on digital direct sales and user-centered services.
Shareholding in the company: 291,337 shares – Direct ownership

Mattias Lilja

Position: Chief Product Officer since 2018.
Born: 1972
Education: Degree in physiotherapy from Uppsala University.
Previous assignments: Development secretary Child psychiatry Uppsala, Producer Paradox Interactive, Executive Vice President of Studios Paradox Interactive.
Other current assignments: Chairman of the Board of Cassius Creative AB and Nya Järnringen AB.
Shareholding in the company: 68,000 shares – Through company.

Alexander Bricca

Position: Chief Financial Officer, CFO since 2018.
Born: 1976
Education: Business Law Master's Degree and Business Administration, Linköping University, 2000
Previous assignments: CFO Viaplay AB, CFO Voddler Group AB, Investment Manager Deseven Capital AB, Business Attorney Bricca Affärsjuridik AB, Corporate Jurist ECI Net AB.
Other current assignments: Board member Stillfront Group AB (publ) t o m Annual General Meeting 2018, Deputy Board Deputy Coldwood Interactive AB t o m Annual General Meeting 2018.
Shareholding in the company: –

INTERNAL CONTROL

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

Information and communication

The company follows a formulated policy regarding internal and external communications, confirmed at the statutory board meeting May 5 2017. Policies and guidelines are considered essential to ensure accurate accounting, reporting and disclosure. Financial communication takes place through; the annual report, interim reports, press releases and on the Company's website www.paradoxinteractive.com.

SUSTAINABILITY REPORT

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

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

BUSINESS MODEL

Paradox operates primarily on the computer and video game market as a developer and publisher. Through its subsidiary White Wolf Entertainment AB, Paradox owns a comprehensive IP portfolio related to the fantasy world World of Darkness, which is primarily used to license rights to third parties that want to develop games and other media based on this fantasy world. In its role as developer, Paradox has contractual relationships with a number of external consultants who provide specific services related to the development of games, such as the artwork design. In addition, Paradox has contractual relationships with distributors for the sale of its games to end users. Paradox also sells directly to end users through its proprietary web platform. In the role of publisher, in addition to the aforementioned agreements, Paradox also has agreements with game developers for the development and distribution of games. As a holder of IP rights, both within the context of White Wolf’s operations and in its other operations, Paradox has entered into a number of license agreements in which third parties have developed products such as card games and merchandise based on Paradox’s IP rights.

RESPECT FOR HUMAN RIGHTS

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

Paradox supports human rights as agreed internationally and works toward incorporating them in all agreements through its policy requiring that all contractual counterparties comply with applicable laws and regulations, for example in relation to labor legislation. Contractual agreements with counterparties are reviewed regularly to ensure that they are updated, if necessary, to include updated clauses on human rights and other legislation. During the year, all such reviews either confirmed that these provisions were in place or resulted in the inclusion of the relevant provisions. Paradox has also engaged in charity work that aims to promote human rights, such as the right to life and to education, through cooperation with distribution partners. These partners give portions of their total revenue from game sales to children’s hospitals and other similar initiatives, and sponsor schools by providing games designed to teach history or urban planning. Internally Paradox works primarily to ensure that employees’ rights are respected, such as by offering favorable conditions for parental leave as well as the opportunity for employees to determine their work hours.

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

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

To ensure that Paradox counterparties are not complicit in human rights abuses, our contracts with counterparties contain the requirement that they must follow all applicable laws. In addition, Paradox places significant emphasis on the professional reputation of the counterparties in order to avoid collaboration with partners that do not apply acceptable conditions. As for the major counterparties, primarily in game development, Paradox strives to visit these counterparties prior to concluding any agreements in order to ensure that acceptable conditions are in place.

WORKING CONDITIONS AND EMPLOYEES

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

Paradox has not entered into a collective agreement because, based on the results of an employee survey, employees decided that there were more advantages to not having such an agreement. This arrangement is common in our industry because this type of agreement is not considered well suited to meet the needs of the industry, such as the need for flexibility. However, Paradox makes clear that it does not put up any obstacles to employee engagement, in labor unions or otherwise, and each year the company conducts an employee survey so that the employees can get the chance to comment on any changes they believe need to be made. These employee surveys are followed up by management and have resulted in concrete actions, such as stress management initiatives. If employees were to express a wish that Paradox sign a collective agreement, the Group would be open to discussions. Furthermore, Paradox has appointed safety representatives and union representatives with whom continuous dialogue is held. Counterparties to Paradox have a contractual obligation to follow all applicable laws, including freedom of association.

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

Paradox conducts business only in countries where employees have good protection and where forced labor in the industry is virtually nonexistent. This is not, therefore, something that Paradox has focused on. Given the countries where Paradox’s counterparties operate, forced labor may be present. To avoid cooperating with parties that do not attempt to eliminate forced labor, Paradox relies on contractual obligations compelling the counterparties to comply with relevant labor legislation and the professional reputation of the counterparties.

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

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

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

Paradox has a gender equality policy, a health and safety policy, and a harassment policy, which all serve to ensure that the risk of discrimination is minimized. These policies are managed and monitored by the group's human resources function, through measures such as management training. Also, all employees are free to leave feedback or register complaints anonymously, either directly to the HR department or in the annual employee survey. An interesting parameter to note in the game industry is that the majority of all employees are men. Paradox takes proactive steps to encourage women's interest in the industry, for example by participating in initiatives such as "Women in games." In this context, it should be underscored that two of the five members of Paradox Interactive AB's Board are women.

ENVIRONMENT

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

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

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

As mentioned above, Paradox has implemented initiatives to further minimize the physical aspect of the business by selling approximately 95% of its games in digital form and holding the majority of all external meetings via Skype instead of in person, thereby minimizing travel. When trips are taken, to for example game conventions, Paradox keeps the number of travelers to a minimum, which reduces the environmental impact. Furthermore, Paradox works to minimize the use of paper through the implementation of an e-signature system for agreements and by working in Google Drive instead of printing paper, to the extent possible.

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

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

COMBATING CORRUPTION

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

Because Paradox does not consider corruption to be widespread in the game industry, it does not dedicate too significant resources to anti-corruption efforts. However, employees are aware that no form of corruption is acceptable, and to ensure that no small scale corruption occurs, Paradox has a policy stating that all gifts given to a Paradox employee by a counterparty must be shared with the entire company so that no one individual benefits from such gifts.

As regards expenses and payments, these must be approved by the employee's manager and by the finance department. This way, Paradox gains control of which payments are made by employees using Paradox funds and thereby prevents the risk of bribes or similar. Paradox has a zero-tolerance policy against corruption, and no suspected cases of corruption have been identified.

FIVE-YEAR SUMMARY (GROUP)

	2017	2016	2015	2014	2013
Revenues, KSEK	813,785	653,743	604,053	177,052	197,855
Profit before tax KSEK	339,583	308,622	241,966	43,712	33,569
Profit after tax, KSEK	264,941	240,439	188,834	33,610	27,043
Operating margin	42%	47%	40%	25%	17%
Profit margin	33%	37%	31%	19%	14%
Equity/assets ratio	77%	76%	66%	70%	59%
Equity per share before and after dilution, SEK*	5.68	4.17	2.56	1.07	0.57
Earnings per share before and after dilution, SEK*	2.51	2.28	1.79	0.33	0.27
Dividend per share before and after dilution, SEK*	1.00	1.00	0.67	0.30	0.00
Number of shares by the end of the period before and after dilution*	105,600,000	105,600,000	105,600,000	105,600,000	100,000,000
Average number of shares before and after dilution*	105,600,000	105,600,000	105,600,000	102,846,667	100,000,000
Average number of employees	243	194	168	137	88

*Key figures calculated after split of shares 1000:1 that occurred in March 2016.
For definition of key figures, see note 34.

FIVE-YEAR SUMMARY (PARENT COMPANY)

	2017	2016	2015	2014	2013
Revenues, KSEK	812,209	652,093	603,691	177,052	198,635
Result after financial items, KSEK	352,137	317,703	243,521	43,704	33,495
Profit after tax, KSEK	200,800	181,395	141,583	26,379	20,368
Operating margin	43%	49%	40%	25%	17%
Profit margin	25%	28%	23%	15%	10%
Equity/assets ratio	78%	77%	69%	70%	56%
Equity per share before and after dilution, SEK*	3.86	2.96	1.91	0.87	0.42
Earnings per share before and after dilution, SEK*	1.90	1.72	1.34	0.26	0.20
Dividend per share before and after dilution, SEK*	1.00	1.00	0.67	0.30	0.00
Number of shares by the end of the period before and after dilution*	105,600,000	105,600,000	105,600,000	105,600,000	100,000,000
Average number of shares before and after dilution*	105,600,000	105,600,000	105,600,000	102,846,667	100,000,000
Average number of employees	103	89	83	58	39

*Key figures calculated after split of shares 1000:1 that occurred in March 2016.
For definition of key figures, see note 34.

THE SHARE, OWNERSHIP, DIVIDEND POLICY AND ALLOCATION OF PROFITS

The Share
According to the Articles of Association, the share capital shall be not less than SEK 500 000 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.

Ownership
At the end of 2016 Paradox Interactive AB's largest shareholders are Wester Invest AB 33.4% (Fredrik Wester), Investment AB Spiltan 24.8% and Lerit AB (Peter Lindell) 9.0%.

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	-48,259,707
Profit for the year	200,799,989
	180,534,682

The Board of Directors proposes

Distribution to shareholders SEK 1.00 per share	105,600,000
Retained earnings be carried forward	74,934,682
	180,534,682

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.

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 2017-01-01 2017-12-31	GROUP 2016-01-01 2016-12-31	PARENT COMPANY 2017-01-01 2017-12-31	PARENT COMPANY 2016-01-01 2016-12-31
Revenues	5	813,785	653,743	812,209	652,093
Direct costs	7, 8	-280,845	-224,729	-282,277	-224,121
Gross profit		**532,940**	**429,015**	**529,932**	**427,972**
Selling expenses	7, 8	-65,092	-40,770	-64,016	-40,402
Administrative expenses	6, 7, 8, 9, 18	-106,662	-85,837	-92,802	-76,002
Other income		1,231	6,566	1,116	6,451
Other expenses		-22,600	-966	-22,119	-924
Operating profit	10	**339,817**	**308,008**	**352,111**	**317,094**
Financial income	11	26	681	26	659
Financial expense	12	-260	-67	0	-50
Profit after financial items		**339,583**	**308,622**	**352,137**	**317,703**
Appropriations	13			-94,406	-84,819
Income tax expense	14	-74,642	-68,182	-56,931	-51,490
Profit for the year and total comp income for the year		**264,941**	**240,439**	**200,800**	**181,395**
Attributable to:					
Parent company shareholders		264,941	240,439		
Earnings per share attributable to parent company shareholders (SEK):					
- before and after dilution	37	2.51	2.28		
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified to profit or loss	13				
Translation differences	14	662	–		
Total comprehensive income for the period		**265,603**	**240,439**		

BALANCE SHEET

KSEK	Note	GROUP 2017-12-31	GROUP 2016-12-31	PARENT COMPANY 2017-12-31	PARENT COMPANY 2016-12-31
ASSETS					
Non-current assets					
Intangible fixed assets					
Capitalised development	15	247,328	137,531	231,401	137,531
Licenses, brands and similar rights	16	78,183	54,596	181	579
Tangible fixed assets					
Property and equipment	17	10,807	13,987	10,468	13,987
Financial assets					
Shares in subsidiaries	20	–	–	41,091	190
Receivables from group companies	31	–	–	50,301	50,301
Other long term assets	21	3,462	3,402	3,462	3,402
Total non-current assets		**339,779**	**209,516**	**336,903**	**205,990**
Omsättningstillgångar					
Current assets					
Account receivable	23	72,822	71,390	72,524	71,046
Tax assets		347	3,244	1,267	3,586
Other receivables		26,548	28,932	24,464	28,231
Prepaid expenses and accrued revenues	22	22,673	22,598	22,588	22,573
Total current assets		**122,391**	**126,165**	**120,843**	**125,436**
Other short term placements	19	–	–	–	–
Cash and cash equivalents	24	320,100	246,906	304,516	242,306
Total current assets		**442,491**	**373,071**	**425,359**	**367,741**
TOTAL ASSETS		**782,270**	**582,587**	**762,262**	**573,732**

BALANCE SHEET (cont.)

KSEK	Note	GROUP 2017-12-31	GROUP 2016-12-31	PARNENT COMPANY 2017-12-31	PARNENT COMPANY 2016-12-31
EQUITY AND LIABILITIES					
Equity	25				
Restricted equity					
Share capital		528	528	528	528
Reserves		662	–	–	–
Capitalised development reserve				226,340	93,268
Non-restricted equity					
Share premium reserve		27,994	27,994	27,994	27,994
Retained earnings		305,791	170,952	-48,260	9,017
Profit for the year		264,941	240,439	200,800	181,395
Total equity		**599,917**	**439,913**	**407,403**	**312,203**
Untaxed reserves	26			**243,448**	**163,642**
Long term liabilities					
Deferred tax liabilities	27	65,080	36,001	–	–
Other liabilities	28	11,432	11,432	–	–
Total long term liabilities		**76,512**	**47,434**	**–**	**–**
Current liabilities					
Accounts payable		22,147	12,311	21,854	12,214
Liabilities to group companies	31	–	–	17,292	11,583
Current tax liabilities		–	–	–	–
Other liabilities		4,692	3,135	1,177	934
Accrued expenses and prepaid revenues	29	79,001	79,794	71,089	73,155
Total curent liabilities		**105,840**	**95,240**	**111,412**	**97,887**
Total liabilities		**182,352**	**142,674**	**111,412**	**97,887**
TOTAL EQUITY AND LIABILITIES		**782,270**	**582,587**	**762,262**	**573,732**

CHANGE IN GROUP EQUITY

	Note	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
At the beggining 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		**–**	**–**	**–**	**-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**	**–**	**411,391**	**439,914**
At the beginning of the period 2017-01-01		528	27,994	–	411,391	439,914
Dividend		–	–	–	-105,600	-105,600
Shareholder's transactions		**–**	**–**	**–**	**-105,600**	**-105,600**
Profit for the year and total income for the period		–	–	662	264,941	265,603
At the end of the period 2017-12-31	**25**	**528**	**27,994**	**662**	**570,732**	**599,917**

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

CHANGES IN EQUITY, PARENT COMPANY

	Note	Share capital	Capitalised development reserve	Share premium reserve	Retained earnings	Profit for the year	Total equity
Opening balance 2016-01-01		106	–	27,994	31,867	141,583	201,550
Bonus issue		422	–	–	-422	–	–
Dividend		–	–	–	-70,752	–	-70,752
Transfer of precious 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**
Opening balance 2017-01-01		528	93,268	27,994	9,017	181,395	312,203
Dividend		–	–	–	-105,600	–	-105,600
Transfer of precious year's result		–	–	–	181,395	-181,395	–
Transfer to capitalised development reserve		–	133,072	–	-133,072	–	–
Profit for the year		–	–	–	–	200,800	200,800
Closing balance 2017-12-31	**25**	**528**	**226,340**	**27,994**	**-48,260**	**200,800**	**407,403**

CASH FLOW STATEMENT

KSEK	Note	GROUP 2017-01-01 2017-12-31	GROUP 2016-01-01 2016-12-31	PARENT COMPANY 2017-01-01 2017-12-31	PARENT COMPANY 2016-01-01 2016-12-31
Operating profit		339,817	308,008	352,111	317,094
Adjustment for items not included in cash flow	33	139,075	103,645	131,250	97,472
Interest received		15	139	14	102
Interest paid		-260	-83	–	-50
Tax paid		-55,150	-69,110	-54,612	-69,024
Cash flow from current operations before changes in working capital		423,497	342,599	428,763	345,594
Changes in working capital					
Change in current receivables		2,310	-38,218	2,289	-37,751
Change in current liabilities		9,604	-16,646	-1,091	-20,311
Cash flow from current operations		**435,411**	**287,735**	**429,961**	**287,532**
Investing activities					
Investments in subsidiaries	35	–	–	-40,900	60
Acquisition of intangible assets		-220,736	-129,404	-220,866	-129,404
Investments in subsidiaries, after deduction of acquired liquid funds	35	-35,004	–	–	–
Acquisition of tangible assets		-325	-516	-325	-516
Acquisition of financial assets		-60	–	-60	–
Loans to subsidiaries		–	–	–	–
Cash flow from investing activities		**-256,124**	**-129,920**	**-262,151**	**-129,860**
Financing activities					
Paid dividend		-105,600	-70,752	-105,600	-70,752
Cash flow from financing activities		**-105,600**	**-70,752**	**-105,600**	**-70,752**
Cash flow for the year		**73,687**	**87,063**	**62,210**	**86,919**
Cash and cash equivalents at the beginning of the year		246,906	159,844	242,306	155,386
Exchange rate effect		-493	–	–	–
Cash and cash equivalents at the end of the year	**24**	**320,100**	**246,906**	**304,516**	**242,306**

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, 2017 (including comparative figures) was approved for publication by the Board of Directors on March 26, 2018 (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

CHANGE IN ACCOUNTING POLICIES

Standards, amendments and interpretations effective for 2017

No new, amended or revised standards and interpretations that came into effect in 2017 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 assessed the impact of IFRS 9. Current assessment is that with the current principles and operations will not affect the Group. The total effect resulting from the first application of IFRS 9 amounts to / is estimated to amount to SEK 0 thousand.

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 assessed the impact of IFRS 15. Current assessment is that with the current principles and operations will not affect the Group. The total effect resulting from the first application of IFRS 15 amounts to / is estimated to amount to SEK 0 thousand.

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. Assessment of the Group's leases is ongoing. 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, Sony, Microsoft, Plug in 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 has been deducted, before the money reaches Paradox. The assessment is that Paradox is an agent and the distributor a principal, 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. In cases where sales are made by pre-order, revenue is accrued to the release day. In cases where sales are made by expansion passes, revenue is accrued based on the underlying expansion releases included in the expansion pass, based on the value of each expansion.

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, as well as royalties to third party owners of IP.

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 by 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 useful 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, cancelled 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 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 income".

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 amortizable 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	
	2017	2016	2017	2016
USA	724,217	583,906	720,643	579,781
Sweden	8,361	7,151	12,459	9,625
Rest of Europe	68,147	61,151	66,047	61,151
Rest of the World	13,060	1,536	13,060	1,536
Total	**813,785**	**653,743**	**812,209**	**652,093**

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 2017 SEK 615.8 million, or 76 % (85 %) 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	
	2017	2016	2017	2016
PC	726,763	643,104	723,876	643,104
Console	76,444	3,137	76,444	3,137
Mobile	5,108	3,055	4,903	3,055
Others	5,470	4,448	6,986	2,797
Total	**813,785**	**653,743**	**812,209**	**652,093**

NOTE 6 REMUNERATION TO THE AUDITOR

The expensed compensation amounts to:	Group 2017	Group 2016	Parent company 2017	Parent company 2016
Grant Thornton Sweden AB				
- audit	328	300	328	300
- audit related assignments	–	150	–	150
- other services	110	125	110	125
Total	**438**	**575**	**438**	**575**

NOTE 7 AVERAGE NUMBER OF EMPLOYEES, ETC.

Average number of employees

	2017		2016	
	Number	Of whom men	Number	Of whom men
Parent company				
Sweden	103	75	89	66
Subsidiaries				
Sweden	133	109	105	87
Netherlands	7	7	–	–
Total for the Group	**243**	**191**	**194**	**153**

Directors and senior executives

	2017		2016	
	Number	Of whom men	Number	Of whom men
Group				
Board of Directors	9	7	9	7
CEO and other senior executives	9	7	9	7
Parent company				
Board of Directors	5	3	5	3
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 2017	Group 2016	Parent company 2017	Parent company 2016
Salaries - Board of Directors and senior management	9,734	9,734	7,870	8,059
Salaries - other employees	109,248	92,744	46,921	41,682
Pensions - Board of Directors and senior management	367	367	324	269
Pensions - other employees	4,562	3,358	1,958	1,764
Other social costs	36,351	30,813	18,042	16,346
Total	**160,262**	**137,016**	**75,115**	**68,120**

The Board of Directors

To the Board is paid in accordance with decision by the AGM. Decided Board fees amount to SEK 900 (900) thousand. Chairman of the Board receives SEK 360 (360) thousand and board members receive SEK 180 (180) 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 615 (1,234) thousand, as well as pension costs about SEK 28 (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:

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

2016 Board and senior executives	Salaries	Variable compensa-tion	Other benefits	Pensions	Total
Chairman of the Board Håkan Sjunnesson	360	–	–	–	360
Board member Peter Lindell	180	–	–	–	180
Board member Lars Klingstedt	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**

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	
	2017	2016	2017	2016
Capitalised development	11,827	8,092	11,827	8,092
Personnel costs	-169,580	-142,276	-83,438	-72,932
This year's depreciations	-121,027	-79,154	-113,203	-72,981
Write-downs for the year	-18,036	-23,933	-18,036	-23,933
Other expenses	-155,783	-114,064	-236,245	-178,771
Total	**-452,599**	**-351,335**	**-439,095**	**-340,525**

NOTE 11 FINANCIAL INCOME

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Interest income	15	99	14	77
Change in value of short term placements	–	340	–	340
Gain in sale of shares	12	242	12	242
Total	**27**	**681**	**26**	**659**
Of which interest income from group companies			–	–

NOTE 12 FINANCIAL COST

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Interest expense	-260	-41	–	-24
Change in value of short term placements	–	-26	–	-26
Total	**-260**	**-67**	**–**	**-50**
Of which interest expense to group companies			–	–

NOTE 13 APPROPRIATIONS

	PARENT COMPANY	
	2017	2016
Group contributions	-14,600	-9,150
Reversal of tax allocation	5,194	1,831
Transfer to tax allocation	-85,000	-77,500
Total	**-94,406**	**-84,819**

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	
	2017	2016	2017	2016
Profit before tax	339,583	308,622	257,731	232,884
Tax according to applicable tax rate, 22%	-74,708	-67,897	-56,701	-51,235
Tax attributable to prior years	88	-26	88	-26
Adjustment differences foreign tax rates	276	–	–	–
Non-taxable income	82	83	3	82
Non-deductible items	-379	-342	-321	-312
Recognized tax expense	**-74,642**	**-68,182**	**-56,931**	**-51,490**
Specification of recognized tax expense:				
Current tax				
On net profit	-45,650	-51,509	-57,008	-51,464
Adjustment on prior year tax	88	-26	78	-26
Deferred tax expense				
Change in untaxed reserves	-29,079	-16,647	–	–
Tax reported in the income statement	**-74,642**	**-68,182**	**-56,931**	**-51,490**

NOTE 15 CAPITALISED DEVELOPMENT

Changes in the carrying values of capitalised development:

	GROUP		PARENT COMPANY	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Opening accumulated cost	303,916	174,512	303,916	174,512
Purchase through acquisition	15,469	–	–	–
Activated development cost	220,866	129,404	220,866	129,404
Exchange rate differences	458	–	–	–
Closing accumulated cost	540,709	303,916	524,782	303,916
Opening depreciation	-106,391	-37,611	-106,391	-37,611
Amortization for the year	-108,960	-68,780	-108,960	-68,780
Closing accumulated amortization	-215,351	-106,391	-215,351	-106,391
Opening accumulated write-downs	-59,994	-36,061	-59,994	-36,061
Write-downs for the year	-18,036	-23,933	-18,036	-23,933
Closing accumulated write-downs	-78,030	-59,994	-78,030	-59,994
Closing residual value	**247,328**	**137,531**	**231,401**	**137,531**

In addition to capitalised development the Group expensed costs related to research and development of SEK 72 246 (39 490) thousand as "Direct costs".

An impairment of SEK 18 036 (23 933) 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. In addition, one internally developed project has been written down during the year since a decision was made to cancel the project.

All amortisation and write-downs 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	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Opening accumulated cost	67,560	67,560	5,827	5,827
Purchase through acquisition	30,833	–		
Exchange rate differences	912	–	–	–
Closing accumulated cost	99,305	67,560	5,827	5,827
Opening accumulated amortisation	-12,964	-6,345	-5,248	-4,802
Amortisation for the year	-8,158	-6,619	-398	-446
Outgoing accumulated amortisation	-21,122	-12,964	-5,646	-5,248
Closing residual value	**78,183**	**54,596**	**181**	**579**

NOTE 17 PROPERTY, PLANT AND EQUIPMENT

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

	GROUP		PARENT COMPANY	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Opening accumulated cost	21,308	20,792	21,308	20,792
Purchase through acquisition	381	–		
Acquisitions	325	516	325	516
Valutakursdifferenser	38	–	–	–
Outgoing accumulated cost	22,052	21,308	21,633	21,308
Ingoing accumulated depreciations	-7,321	-3,565	-7,321	-3,566
Depreciations for the year	-3,924	-3,756	-3,844	-3,755
Outgoing accumulated depreciations	-11,245	-7,321	-11,165	-7,321
Closing residual value	**10,807**	**13,987**	**10,468**	**13,987**

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
2017-12-31	14,868	25,119	0	39,987
2016-12-31	13,780	26,826	0	40,606

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:

2017-12-31	Loans and accounts receivable	Fair value through profit or loss	Financial liabilities amortised cost	Non-financial items	Total
Capitalised development	–	–	–	247,328	247,328
Licenses, brands	–	–	–	78,183	78,183
Property, plant and equipment	–	–	–	10,807	10,807
Other long term receivables	3,462	–	–	–	3,462
Accounts receivables	72,822	–	–	–	72,822
Tax assets	–	–	–	347	347
Other current assets	26,548	–	–	–	26,548
Prepaid expenses	–	–	–	22,673	22,673
Other short term placements	–	–	–	–	–
Cash and cash equivalents	320,100	–	–	–	320,100
Total assets	**422,932**	**–**	**–**	**359,337**	**782,270**
Deferred tax liabilities	–	–	–	65,080	65,080
Other long term liabilities	–	–	11,432	–	11,432
Accounts payable	–	–	22,147	–	22,147
Current tax liabilities	–	–	–	–	–
Other liabilities	–	–	4,692	–	4,692
Accrued expenses and prepaid revenue	–	–	65,871	13,130	79,001
Total liabilities	**–**	**–**	**104,143**	**78,210**	**182,352**

2016-12-31	Loans and accounts receivable	Fair value through profit or loss	Financial liabilities amortised 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 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 liabilities	**–**	**–**	**93,542**	**49,131**	**142,674**

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

The Group includes the following direct holdings in subsidiaries:

Name	Base	Operations	Number of shares	Share	Book value
Triumph Holding BV	Delft, Netherlands	Development	18,000	100%	40,900
Paradox Development Studio AB	Stockholm	Development	100,000	100%	90
Paradox North AB	Stockholm	Development	1,000	100%	50
White Wolf Publishing AB	Stockholm	Licensing	1,000	100%	50

Changes during the year:

	PARENT COMPANY	
	2017-12-31	2016-12-31
Opening accumulated cost	190	240
Acquisition White Wolf Publishing AB	40,900	–
Fusion Paradox South AB	–	-50
Outgoing accumulated cost	**41,091**	**190**

NOTE 21 OTHER LONG TERM ASSETS

	GROUP		PARENT COMPANY	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Opening accumulated cost	3,402	3,402	3,402	3,402
Deposits	60	–	60	–
Outgoing accumulated cost	**3,462**	**3,402**	**3,462**	**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	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Prepaid rental costs	3,718	3,434	3,718	3,434
Prepaid royalty costs	6,615	17,681	6,615	17,681
Other prepaid costs	4,270	1,483	4,185	1,458
Accrued revenue	8,070	–	8,070	–
Total	**22,673**	**22,598**	**22,588**	**22,573**

NOTE 23 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	GROUP		PARENT COMPANY	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Accounts receivable gross	72,822	71,390	72,524	71,046
Provision for doubtful receivables	–	–	–	–
Total	**72,822**	**71,390**	**72,524**	**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".

NOTE 24 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	GROUP		PARENT COMPANY	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Balances with banks	320,100	246,906	304,516	242,306
Total	**320,100**	**246,906**	**304,516**	**242,306**

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.

	PARENT COMPANY	
	2017-12-31	2016-12-31
Subscribed and paid shares:		
At the beginning of the year	528,000	105,600
Bonus issue	–	422,400
Total at the end of the year	**528,000**	**528,000**

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	
	2017-12-31	2016-12-31
Untaxed reserves:		
fiscal year 2011	–	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	77,500
fiscal year 2017	85,000	–
Total	**243,448**	**163,642**

NOTE 27 DEFERRED TAX LIABILITIES

Deferred taxes arising from temporary differences are summarized as follows:

	GROUP		PARENT COMPANY	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Opening balance	36,001	19,354	–	–
Change in untaxed reserves	17,557	16,647	–	–
Intangible assets from acquisitions	11,521	–		
Closing balance	**65,080**	**36,001**	–	–

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

NOTE 28 OTHER LONG TERM LIABILITIES

Other long term liabilities consist of the following:

	GROUP		PARENT COMPANY	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
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	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Accrued personnel costs	41,482	49,402	18,936	23,606
Accrued royalty costs	24,947	18,377	26,649	18,377
Accrued game development costs	–	411	13,324	19,588
Prepaid revenues	9,597	6,841	9,597	6,841
Other accrued costs	2,975	5,174	2,583	4,743
Total	**79,001**	**79,794**	**71,089**	**73,155**

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	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Assets pledged				
Business mortgage	28,600	28,600	28,600	28,600
Contingent liabilities	**Inga**	**Inga**	**Inga**	**Inga**

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 29 892 (30,759) thousand, of which SEK 12,600 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 5,887 (2,474) thousand and purchases to SEK 89,819 (61,168) 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 (0) 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

On January 2, 2018 33% of the shares were acquired in the Seattle-based development studio Hardsuit Labs. Purchase price was USD 2.0 million and Paradox has an option to increase its ownership in the future. No other 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	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Depreciation of non-financial items	121,027	79,154	113,203	72,981
Write-downs of non financial items	18,036	23,933	18,036	23,933
Change in fair value of financial items	12	558	12	558
Total adjustments	**139,075**	**103,645**	**131,250**	**97,472**

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 ACQUISITIONS

On July 7, 2017, 100% of the shares were acquired in Triumph Holding BV, a company with wholly owned subsidiaries, Triumph Studios BV and Triumph Productions BV, based in the Netherlands.
The acquisition will add several well-known brands to Paradox Interactive's IP portfolio. It will also increase Paradox market share as well as self-development capacity for upcoming games. The cash flow effect of the acquisition at Group level is SEK -35,604 thousand where SEK -626 thousand related to expensed acquisition costs reported under administrative expenses.

The selling shareholders have the right to receive a performance-based earn-out based on future earnings until December 2025, up to a maximum of EUR 21,000 thousand. The earn-out is conditional on the seller's continued employment in the company and is reported as a salary expense when it arises.

If Triumph had been acquired on January 1, 2017, the acquisition had contributed revenues of SEK 5 501 thousand and a positive result of SEK 375 thousand. Triumph contributed to revenue of SEK 5,219 thousand and profit of SEK 2,305 thousand from the date of acquisition until December 31, 2017.

	2017
Purchase price:	
Cash consideration	40,181
	40,181
Reported amounts on identifiable net assets	
Licenses, brands and similar rights	31,074
Capitalised development	15,591
Cash and cash equivalents	5,271
Other assets	1,739
Deferred tax	-11,666
Other liabilities	-1,827
	40,181

NOTE 36 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 2017 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:

KORTFRISTIG EXPONERING	USD	GBP	EUR
2017-12-31			
Financial assets	65,480	651	4,665
Financial liabilities	-3,557	-793	-8,925
Total exposure	**61,923**	**-142**	**-4,260**
2016-12-31			
Financial assets	66,937	985	2,948
Financial liabilities	-1,985	–	-7,466
Total exposure	**64,952**	**985**	**-4,518**

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
2017-12-31	-4,830	11	332
2016-12-31	-5,066	-77	352

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
2017-12-31	4,830	-11	-332
2016-12-31	5,066	77	-352

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 fulfil 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:

	2017-12-31	2016-12-31
Types of financial assets - carrying amounts		
Cash and cash equivalents	320,100	246,906
Accounts receivable and other assets	103,180	106,969
Total	**423,280**	**353,876**

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:

	2017-12-31	2016-12-31
Overdue:		
Less than three months	212	1,325
More than three months but not more that six months	100	100
More than six months but not more than twelve months	–	–
More than a year	–	–
Total	**312**	**1,425**

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 analyse 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:

2017-12-31	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	105,840	–	–	–
Total	**105,840**	–	**11,432**	–

This compares with maturities in previous reporting periods, the Group's financial liabilities that are not derivatives, 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**	–

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 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, i.e. no adjustments of the result needed to be made during the period.

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

Number of shares	2017	2016
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 2017, Paradox Interactive paid out dividends of SEK 105,600 (70,752) thousand to its shareholders. This corresponds to a dividend of SEK 1.00 per share (0.67 per share).

In 2018, 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 2017. 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 2017 (including comparatives) were approved by the Board on 26 March 2018.

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 2018-03-26

Håkan Sjunnesson
Chairman of the Board

Fredrik Wester
CEO

Peter Lindell

Cecilia Beck-Friis

Ebba Ljungerud

My audit report was submitted on March 26, 2018
Grant Thornton Sweden AB

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

We have audited the annual accounts and consolidated accounts of Paradox Interactive AB (publ) for the year 2017, except for the corporate governance statement and the statutory sustainability report on pages 23-29 and 30-31 respectively. The annual accounts and consolidated accounts of the company are included on pages 20-61 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2017 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 2017 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 and the statutory sustainability report on pages 23-29 and 30-31 respectively. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Basis for Opinions

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

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

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-19 and 23-29. The Board of Directors and the Managing Director are responsible for the other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

In preparing the annual accounts and consolidated accounts, the Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the

AUDITOR'S REPORT (cont)

disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Paradox Interactive AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' 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 23-29 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.

The auditor's statement of the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 30-31, and that it is prepared in accordance with the Annual Accounts Act.

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

A statutory sustainability report has been prepared.

Stockholm 26 March 2018

Grant Thornton Sweden AB

Stefan Hultstrand
Authorized Public Accountant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12