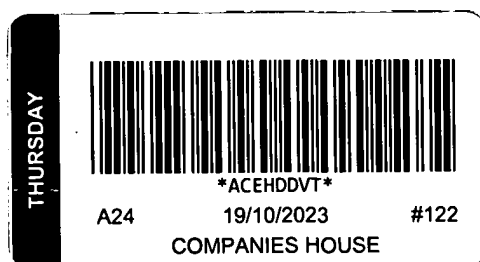


Directors Registered number: 01709830

ACTIVISION BLIZZARD UK LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022



ACTIVISION BLIZZARD UK LTD

COMPANY INFORMATION

Directors

Ian Dennis Mattingly
Christian Wurzinger (appointed 11 April 2022)
James Francis McMullin (appointed 15 September 2022)
Choon Ken Wee (appointed 15 September 2022)

Registered number

01709830

Registered office

The Ampersand Building
178 Wardour Street
London
W1F 8FY

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors 40
Clarendon Road
Watford
Hertfordshire
WD17 1JJ

ACTIVISION BLIZZARD UK LTD

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ACTIVISION BLIZZARD UK LTD

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Introduction

The directors present their annual report, comprising the Strategic Report and Directors' Report, and the audited financial statements of Activision Blizzard UK Ltd ("the Company") for the year ended 31 December 2022.

Business review

To align its business strategy of distributing digital games to its user base, the Company entered into End User Licensing Agreements (EULA) with players in Europe, Middle East, and Africa (EMEA) for both Activision and Blizzard products, effective 1 January 2022. This strategic move led to the Company recording Digital Revenue amounting to \$791,071,000 (2021 - \$0).

Consequently, as part of this strategic alignment, the Company reports a reduction in Revenue related to the provision of boxed product games to end users, which amounted to \$8,682,000 (2021 - \$95,046,000), as well as lower Royalties, which totalled \$3,762,000 (2021: \$881,890,000). This reduction in Royalties was primarily due to the conclusion of its licensing agreement with Activision Blizzard International B.V. in 2021.

The Company retained its rights under the "Buy-In" Licences, Cost Sharing Agreements (CSA) and Distribution Agreements that give it the right to exploit Activision and Blizzard Intellectual Property within the EMEA regions.

Throughout the year 2022, the Company maintained its distribution of various titles, including Diablo Immortal, Overwatch 2, Call of Duty: Modern Warfare II and World of Warcraft: Dragonflight.

In aligning its business strategy, earnings before interest, taxation, amortisation, depreciation, and impairment losses lowered to \$22,881,000 (2021: \$423,294,000) in part due to Revenue and Cost of Sales recognition and, due to higher administrative operational expenses \$1,435,463,000 (2021 - \$1,270,224,000) primarily within development costs from the group, marketing expenses and employee costs.

The net assets of the Company were \$7,156,505,000 (2021 - \$7,840,932,000) which was a decrease on the previous year and was primarily due to the amortisation and impairment of the Intangible Fixed Assets.

This impairment considered the performance of titles over the prior twelve months and the effect of strategic decisions to prioritise the core Call of Duty franchise and to revisit the actual performance of the acquired franchises relative to forecasts. See Note 3 for further information.

ACTIVISION BLIZZARD UK LTD

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022**Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to the usual risks of doing business domestically and abroad, which include foreign laws and regulations, varying consumer preferences across geographic regions, political unrest, disruptions or delays in cross-border shipments, and changes in economic conditions. The extent to which the Company is prepared to take risks with respect to doing business in the EMEA market is commensurate with the return expected. The Company takes certain control measures, as described below, to minimise these risks to the extent possible.

The business follows a franchise model and a significant portion of revenues have historically been derived from products based on a relatively small number of popular franchises. These products are responsible for a disproportionately high percentage of profits. The business is dependent on the success and availability of video game platforms manufactured by third parties, as well as the Company's ability to develop commercially successful products for these platforms. Also, the business is exposed to seasonality in the sale of our products, with the highest levels of consumer demand occurring during the year-end holiday buying season in the fourth quarter of the year.

Game development requires significant upfront investment with no guarantee of return. Development risk is therefore considered to be one of the key risks for the Company. Given the high cost of developing games and the uncertainty of games becoming a big success in the market, this is the key risk to Activision Blizzard. As the Company is the economic risk-taker and entrepreneurial owner of the right to exploit IP in the EMEA region, it bears a substantial portion of the costs of game development.

The business may be exposed to claims, suits, government investigations, audits and proceedings arising in the ordinary course of business, including actions with respect to intellectual property, competition and antitrust matters, privacy matters, tax matters, compliance, and commercial claims. In addition, negative consumer sentiment about the Company's business practices may result in inquiries or investigations from regulatory agencies and consumer groups, as well as litigation, which, regardless of their outcome, may be damaging to the Company's reputation. Also, the laws and regulations concerning data privacy are continually evolving. Failure to comply with these laws and regulations could harm the business.

Market risk exposures primarily include fluctuations in foreign currency exchange rates. To mitigate foreign currency risk resulting from foreign currency-denominated monetary assets, liabilities and earnings and foreign currency risk related to functional currency-equivalent cash flows, the Company periodically enters into currency derivative contracts, principally forward contracts, or utilise natural offsets through our balance sheet. These forward contracts generally have a maturity of less than one year. The counterparty for the currency derivative contracts is Activision Publishing Inc.

The Company's exposure to financial risks are explained further in the strategic report under financial risk management, foreign exchange risk, and liquidity and cash flow risk. In spite of these risks, the directors believe that the Company possesses the core competencies to continue to succeed in the video game market.

Financial key performance indicators

The Company as part of the Activision Blizzard Inc group does use various key financial performance indicators for discussion by the management team. These are based on the review of group results by business unit rather than by legal entity. Consequently, the Company's directors are of the opinion that analysing company results using KPI's is not useful for providing the relevant external stakeholder with an understanding of the business development, performance, or financial position beyond the information in this report and the financial statements herein.

ACTIVISION BLIZZARD UK LTD

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Financial Risk Management

The Company's operations expose it to a variety of financial risks that include the effects of changes in foreign exchange risk, credit risk, liquidity risk, interest rate risk and price risk.

Foreign exchange risk

The Company is exposed to movements in foreign exchange rates because of transactions with several customers and suppliers who operate in a currency that differs from the functional currency of the Company. The Company manages the foreign exchange rate risk associated with these transactions through balance sheet and cash flow hedging activities.

The ultimate parent undertaking, Activision Blizzard Inc, manages the foreign exchange rate risk associated with the group, as disclosed in the financial statements of that company. It manages the risk by using forward contracts and derivatives.

Credit risk

The Company has no significant concentrations of exposure to credit risk. The Company has implemented policies that require appropriate checks on potential new customers before sales commence and the amount of credit to any individual counterparty is subject to a limit which is reassessed regularly by the company's management. The Company also ensures that it has adequate credit insurance to further mitigate this risk.

Liquidity and cash flow risk

The Company manages the liquidity position with the objective of maintaining the ability to fund commitments and repay liabilities in accordance with their required terms. The financing of operations, including cash flow risk, is managed for the Company by its ultimate parent undertaking.

Interest rate risk

The Company upheld its Revolving Credit Facility agreement with Activision Blizzard Inc., under which it has interest-bearing assets, in the form of cash that generate an arm's length interest return.

ACTIVISION BLIZZARD UK LTD

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Statement by the Directors in relation to Performance of their Statutory Duties in accordance with Section 172(1) Companies Act 2006

This section sets out an overview of how the directors have fulfilled their duties under s172 of the Companies Act 2006. s172 requires that directors act in a way that is most likely to promote the success of the Company for the benefit of its members as a whole. The specific requirements of s172 are that directors have regard to:

- the likely long-term consequences of their decisions;
- the interests of the Company's employees;
- the need to maintain business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and environment;
- the desirability of maintaining a reputation for good business ethics; and
- the need to act fairly between members of the Company.

As with other large corporations, the Company delegates the day-to-day management of business strategy and other related policies to executives, but the directors review financial and operational performance and other stakeholder-related matters where relevant at board meetings over the course of the financial year. This is done through the consideration and discussion of such matters during meetings and the consideration of agenda items shared in advance. Moreover, the directors sit on numerous other boards within the wider corporate group, which gives them broad experience of decision making and consideration of the long-term impact of those decisions.

Although the nature of the Company's business operations has a limited environmental impact, the Company continues to try and reduce its environmental footprint. The Company encourages virtual communication tools, which minimises the impact of business travel and implements recycling focused waste management initiatives at the office.

The Company engages with its communities to better understand their needs and identify support opportunities. It does this by: (i) encouraging employees to take community days; (ii) participating and promoting of community events; and (iii) partnerships (e.g. World Health Organisation #playingaparttogether campaign).

Due to the scope of our stakeholders, it is generally more effective for stakeholder engagement to take place at an operational or business unit level. By working with the wider corporate group, the Company is able to have a much greater positive effect on stakeholder matters than if the Company were to act alone.

ACTIVISION BLIZZARD UK LTD

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

The table below details the interests of our employees, how the Board has engaged with them and how such interactions influence decision making.

Employee interests	How we engage	Decision making impacts
<ul style="list-style-type: none"> • Learning and development • Health and safety, and safe working conditions • Diversity and inclusion • Human rights and modern slavery • Fair pay and benefits 	<ul style="list-style-type: none"> • Code of conduct • Quarterly questionnaires at company and team level • Annual all employee community days • Company Intranet (The Hub) • Workforce posters and communications • Way2Play Heros • Online training • In person training • Whistleblowing hotline • All staff emails • Rewards team • Wellbeing initiatives • Way2Play 	<ul style="list-style-type: none"> • Attention of directors to survey results • In all monthly meetings there is a section dedicated to company updates and to respond to employee questions/concerns • Regular company updates from group executives to all employees • Health and wellbeing initiatives, for example: access to the Employee Assistance Programme and free healthcare consultations • Work from home initiatives, for example: employee home office expense policy • Pay/benefit reviews

ACTIVISION BLIZZARD UK LTD

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

The table below details how the Board has engaged with our wider stakeholders and how such interactions influence decision making.

Stakeholder	How we engage	Decision making impacts
Suppliers	<ul style="list-style-type: none"> • Fair payment practices • Third Party Security Self-Assessments • Standardised Requests for Proposals • Participation in Know Your Customer processes • Adherence to term of supply • Conflict of interest reviews 	<ul style="list-style-type: none"> • Dependence on capability & performance of suppliers, e.g. small businesses, industry peers • Regular meetings with key Suppliers and key business stakeholders • Activision Blizzard Vendor Code of Conduct
Customers	<ul style="list-style-type: none"> • Customer events & competitions • Global customer brand tracking • Market research • Product testing • Surveys • Customer support channels • Quality Assurance Team • Online forms 	<ul style="list-style-type: none"> • Engaging with customers helps us to understand their needs and identify opportunities and challenges • Product updates in response to customer feedback
Governments	<ul style="list-style-type: none"> • Annual Report • SEC disclosures • Statistical surveys • SOX Compliance • Pending Microsoft Merger 	<ul style="list-style-type: none"> • Regulatory compliance

ACTIVISION BLIZZARD UK LTD

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Employee Involvement

The directors ensure that the employees are informed of any significant matters affecting them and places considerable value on the involvement of the employees within the wider business and its performance.

Employee involvement is achieved through Quarterly CEO calls; this gives the Management Team an opportunity to share the performance of the business, any plans for the future and the financial and economic factors affecting the Company's performance. As part of this call questions can be asked / recommendations made anonymously or publicly. Additionally, there is an annual employee engagement survey that is reviewed in depth and actions taken as a result of the feedback.

As part of the yearly appraisal, employees are awarded a discretionary bonus based on their personal objectives being met and the group's performance being in line with expected targets.

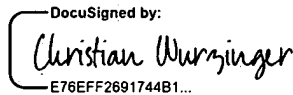
Employment of disabled persons

The Company has an anti-discrimination policy of which Disability discrimination is part of this which covers training, career development and promotion. The Company ensures hiring managers who are interview trained do not discriminate as part of the recruitment process. The Company ensures that they make reasonable or legally required accommodation for any disadvantage caused by the disability. The office can accommodate people with disabilities, e.g. the office is wheelchair accessible and the Company carries out individual risk assessments for anyone that could be vulnerable in some way, e.g. pregnancy. If an employee develops a disability while in employment by the Company, they are encouraged to raise this so the Company can consider what accommodation or support may be appropriate.

Statement by the Directors in relation to the Performance of their Statutory Duties in accordance with Section 172(1) Companies Act 2006

The directors' engagement and interaction with employees, shareholders and wider stakeholders is specifically covered in the Strategic Report on pages 4-7.

This report was approved by the board and signed on its behalf.

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Christian Wurzinger
Director

Date: 10/12/2023

ACTIVISION BLIZZARD UK LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their report and the financial statements for the year ended 31 December 2022.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

ACTIVISION BLIZZARD UK LTD**DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022****Statement of Corporate Governance**

The statement explains the Company's corporate governance arrangements as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018). The Company is a UK subsidiary of a large multinational group whose ultimate parent undertaking is incorporated in the United States and listed on NASDAQ. Activision Blizzard Inc. (NASDAQ: ATVI) is a member of the Fortune 500 and S&P 500. As one of the world's most successful standalone interactive entertainment and gaming corporations, Activision Blizzard delights hundreds of millions of monthly active users, with games such as Call of Duty®, Crash®, Spyro™, World of Warcraft®, Overwatch®, Hearthstone®, StarCraft®, Diablo®, Candy Crush™, Farm Heroes™, Bubble Witch™, and Pet Rescue™. Activision Blizzard is headquartered in Santa Monica, California, and has operations around the world. Activision Blizzard has established a corporate compliance program, which includes a Company code of conduct, the maintenance of accounting, financial and other controls, and the review of the adequacy of such controls. The directors of the Company have not adopted a separate code of corporate governance and instead adopt group-wide processes, policies and procedures shaped by Activision Blizzard and some of which are explained further below. Further details of the Activision Blizzard corporate governance procedures can be found at <https://investor.activision.com/corporate-governance>. The group has also published its 2022 annual environmental, social and governance report which can be found on the company website at <https://ourcommitments.activisionblizzard.com/esgreports>.

Purpose and leadership

The Board of Activision Blizzard Inc. reviews and approves the annual strategic, financial and operating plans, and long-range strategic issues are discussed as a matter of course at regular Board meetings. The primary responsibility of the Board is to oversee the affairs of Activision Blizzard Inc. for the benefit of stockholders. As discussed in the Section 172 statement, the strategy pursued by the directors of the Company follow these in the EMEA environment.

Board composition

Directors' details can be found on page 11 of the financial statements.

The Board includes the Chief Legal Officer & Chief Corporate Officer EMEA, the Chief Financial Officer EMEA, the Managing Director EMEA and Senior Vice President Head of Strategy. The board collectively have sufficient understanding of the Company's business and the environment in which it operates to meet the Company's operational and strategic needs.

Directors' responsibility

The directors advocate an ethical business environment that focuses on adherence to both the letter and the spirit of regulatory and legal regulations, and operations are conducted in such a manner. The directors are supported by group and the Company's own accounting, financial and legal teams. On 31 October 2022 Activision Blizzard rolled out a refreshed Code of Conduct to all employees, and applies to all employees, including officers and directors. In addition, there are a number of inclusion initiatives which apply throughout the group which are adhered to by the Company and supported by the directors. More information on the approach of Activision Blizzard can be found at activision.com

Opportunity and risk

The directors understand the Company's strategy, which is consistent with the group strategy. The directors identify and exploit opportunities and mitigate risks.

Remuneration

The directors do not set their own remuneration. Remuneration is set by the group human resources function and is designed to attract, retain, and reward the expertise required to pursue the strategy of the Company.

ACTIVISION BLIZZARD UK LTD

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Stakeholder relationships and engagement

The disclosures relating to Stakeholder relationships and engagement required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting)) Regulations 2018 can be found in the Strategic Report on pages 4-7.

Streamlined Energy and Carbon Reporting

The Company has considered the three groups (Scopes) identified in the Greenhouse Gas (GHG) Protocol. Scope 1 relates to direct emissions from building and transport operations released into the atmosphere. Scope 2 relates to indirect emissions released into the atmosphere associated with the consumption of purchased electricity. Scope 3 relates to emissions from sources not directly owned by the reporting Company, which for the Company represents business travel undertaken in employee-owned vehicles only.

There are no results for Scope 1 as the Company does not own any transport and gas. It is the responsibility of the Company's building landlord and for which no cost is passed directly on to the Company. The results for Scope 2 are presented in the following table and relate to directly purchased electricity consumed within the Company's head office building, based on the landlord's meter readings. Scope 3 results represent fuel used in personal/hire cars on business use (fuel for which the Company reimburses its employees following claims for business mileage).

The methodology for the calculation of emissions follows the Department for Environment, Food and Rural Affairs Environmental Guidelines (2020) and uses the UK Government's greenhouse gas reporting conversion factors (2020) to quantify emissions.

Emissions source	2022	2021
Scope 1 - Gas (Kwh)	20,348	265,332
Scope 1 - Gas (KgCO ₂ e)	3,714	54,059
Scope 2 - Electricity (Kwh)	95,506	289,551
Scope 2 - Electricity (KgCO ₂ e)	18,469	67,506
Scope 3 - Petrol (KgCO ₂ e)	1,693	-
Intensity metrics		
Internal area (M ²)	1,008	1,136
Total emissions per unit (KgCO ₂ e/M ²)	24	106

The decrease in overall emissions during the year was due to the Company switching to a hybrid remote working model as well as moving to a shared office with Midas Player UK at Wardour Street with an emissions allocation split of 16% to Activision Blizzard UK for FY22.

ACTIVISION BLIZZARD UK LTD

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Results and dividends

The loss for the year, after taxation, amounted to \$699,405,000 (2021 - loss \$436,309,000). During the year the Company did not declare a dividend (2021 - \$Nil).

Directors

The directors of the Company who served during the year and up to the date of signing the financial statements were:

Ian Dennis Mattingly	Appointed 2 April 2010
Christian Wurzingler	Appointed 11 April 2022
James Francis McMullin	Appointed 15 September 2022
Choon Ken Wee	Appointed 15 September 2022
Anna Elisabet Malmhake	Resigned 23 February 2023
Paul Bland	Resigned 22 March 2022
Jessica Zestar-Postrk	Resigned 28 January 2022

Future developments

On January 18, 2022, Activision Blizzard entered into an Agreement and Plan of Merger (as may be amended, supplemented, or otherwise modified from time to time, the "Merger Agreement") with Microsoft Corporation. Subject to the terms and conditions of the Merger Agreement, Microsoft agreed to acquire the Company for \$95.00 per issued and outstanding share of Activision Blizzard common stock, par value \$0.000001 per share, in an all-cash transaction. On July 18, 2023, Activision Blizzard and Microsoft entered into a letter agreement to the Merger Agreement (the "Letter Agreement"), pursuant to which, among other things, each of Microsoft and Activision Blizzard waived any right to terminate the Merger Agreement other than (i) pursuant to mutual agreement or (ii) if the Merger has not been consummated prior to 11:59 p.m. Pacific time on October 18, 2023. For additional information related to the Merger Agreement, please refer to the Annual Financial Statements via Form 10-K for the year ended 31 December 2022 as filed by Activision Blizzard with the U.S. Securities and Exchange Commission (the "SEC") on 23 February 2023 and the Current Report on Form 8-K filed on July 19, 2023 regarding the Letter Agreement, and other relevant materials in connection with the proposed transaction with Microsoft that Activision Blizzard files with the SEC.

The Company continued to invest in its franchises throughout 2023.

Going concern

In preparing the Company's financial statements on a going concern basis, the Directors have considered the financial position and circumstances of the Company. There is a potential sale of the Activision Blizzard Inc group, of which the company is a subsidiary, to Microsoft. This could result in a change in ownership of the company within 12 months of the date of approval of these financial statements. Should a change in ownership occur, the directors are unable to assess or control all scenarios for the Company's future, including the intent and ability of Microsoft to operate and finance the Company.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company will continue to operate for the foreseeable future. The financial statements do not contain adjustments that would arise if the Company were unable to continue as a going concern.

Engagement with suppliers, customers, and others

The Company's engagement with suppliers, customers and others are cited in the Directors' statement of compliance and have a duty to promote the success of the Company in the Strategic Report as well as the financial statements of the ultimate parent company, Activision Blizzard Inc.

ACTIVISION BLIZZARD UK LTD

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Statement of corporate governance arrangements

The Company's corporate government arrangements are cited in the Directors' statement of compliance with a duty to promote the success of the Company in the Strategic Report as well as the financial statements of the ultimate parent company, Activision Blizzard Inc.

Qualifying third party and pension indemnity provisions

Under policies held by the Company's ultimate parent undertaking, Activision Blizzard Inc., qualifying third party indemnity insurance was in force during the financial year and until the date of approval of the financial statements for all directors of the Company throughout their tenure.

Matters covered in the Strategic Report

Disclosure of the Company's Business Review, Financial Risk Management and Policy and Practice on payment of Creditors are provided in the Strategic Report.

Political contributions

The directors are not aware of any contributions or expenditures by the Company related to political campaigns, candidates, or political organisations during the reporting period.

ACTIVISION BLIZZARD UK LTD

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information; and

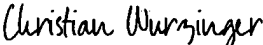
KPIs

The consideration of KPI's is not shown because it is shown in the Strategic Report instead under s414C(11).

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

DocuSigned by:

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Christian Wurzinger
Director

Date: 10/12/2023

ACTIVISION BLIZZARD UK LTD

Independent auditors' report to the members of Activision Blizzard UK Ltd

Report on the audit of the financial statements

Opinion

In our opinion, Activision Blizzard UK Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2022; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2.3 to the financial statements concerning the company's ability to continue as a going concern. There is a potential sale of the Activision Blizzard Inc. Group, of which the company is a subsidiary. This could result in a change in ownership of the entity within 12 months of the date of approval of these financial statements. Should a change in ownership occur, the directors are unable to assess or control all scenarios for the company's future, including the intent and ability of the potential purchaser to operate and finance the company. These conditions, along with the other matters explained in note 2.3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

ACTIVISION BLIZZARD UK LTD

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management latest forecast and confirming that the company is expected to continue to generate positive cash flows throughout this period.
- Assessing the company's forecast with references to our understanding of the company and the outlook for the company and the wider industry, with no issues being identified in the key assumptions applied.
- Considering whether there were any factors outside of the company's forecast that would contradict the continued use of the going concern basis of accounting, with no such factors other than the potential sale of the Group.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material

ACTIVISION BLIZZARD UK LTD

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 financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to workplace and employment regulations and data protection, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Company Act 2006 and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and potential management bias in the selection and application of significant accounting judgements and estimates. Audit procedures performed by the engagement team included:

- Enquiries with management and those charged with governance to understand any actual or potential litigation and claims, and any instances of non-compliance with laws and regulations and fraud.
- Reviewing minutes of meetings of management and the board of directors.
- Identifying and testing journal entries, in particular journal entries posted with unusual account combinations, these were defined as credits to revenue with a debit to an unexpected account and credits to cash with a debit to an unexpected account;
- Assessment of assumptions made by management in determining significant accounting estimates and judgements. In particular we assessed the significant accounting estimates and judgements in relation to revenue recognition and the valuation of intangible balances. We have tested significant accounting estimates and judgements to supporting documentation, considering alternative information where available along with considering the appropriateness of the related disclosures in the financial statements.
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

ACTIVISION BLIZZARD UK LTD

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Katherine Birch-Evans

Katherine Birch-Evans (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
12 October 2023

ACTIVISION BLIZZARD UK LTD

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

		2022	2021
	Note	\$000	\$000
Revenue	4	803,515	976,936
Cost of sales		(73,281)	(19,444)
Gross profit		730,234	957,492
Distribution costs		(3,576)	(2,693)
Administrative expenses		(1,435,463)	(1,270,224)
Impairment of intangible assets		(97,696)	(135,303)
Other operating income/(expenses)		29,647	7,588
Operating loss	5	(776,854)	(443,140)
Interest receivable and similar income	9	21,166	1,935
Interest payable and similar expenses	10	(2,109)	(372)
Loss before tax		(757,797)	(441,577)
Tax on loss	11	58,392	5,268
Loss for the financial year		(699,405)	(436,309)
Other Comprehensive income/(expense):			
Items that may be reclassified to profit or loss:			
Movement in cash flow hedges	24	2,560	44,830
Total Comprehensive income/(expense) for the year		(696,845)	(391,479)

The notes on pages 22 to 54 form part of these financial statements.

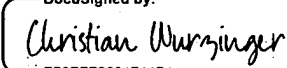
ACTIVISION BLIZZARD UK LTD

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

		2022	2021
		\$000	\$000
Fixed assets	Note		
Intangible assets	13	5,854,858	6,653,936
Tangible assets	14, 15	7,359	65
Fixed asset investments	16	35,304	34,939
		<u>5,897,521</u>	<u>6,688,940</u>
Current assets			
Stocks	17	2,731	2,066
Debtors: Amounts falling due within one year	18	2,767,056	1,141,749
Other investments	19	-	130,749
Cash at bank and in hand	20	1,139	2,182
Creditors: Amounts falling due within one year	21	(818,556)	(66,234)
Net current assets		<u>1,952,370</u>	<u>1,210,512</u>
Total assets less current liabilities		<u>7,849,891</u>	<u>7,899,452</u>
Creditors: Amounts falling due after more than one year	22	(692,761)	(57,679)
Provision for liabilities	26	(625)	(841)
Net assets		<u>7,156,505</u>	<u>7,840,932</u>
Capital and reserves			
Called up share capital	27	1,324,525	1,324,525
Share premium account	28	7,192,593	7,192,593
Foreign exchange reserve	28	(1,421)	(1,421)
Other reserves	28	23,017	20,457
Profit and loss account	28	(1,382,209)	(695,222)
Total equity		<u>7,156,505</u>	<u>7,840,932</u>

10/12/2023

The financial statements on pages 18 to 54 were approved by the Board of Directors on _____ and signed on its behalf by:

DocuSigned by:

 E76EFF2691744B1...
 Christian Wurzing
 Director

ACTIVISION BLIZZARD UK LTD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Called up Share Capital \$000	Share Premium Account \$000	Foreign Exchange Reserve \$000	Other Reserves \$000	Profit and Loss Account \$000	Total Equity \$000
At 1 January 2022	1,324,525	7,192,593	(1,421)	20,457	(695,222)	7,840,932
Loss for the Year	-	-	-	-	(699,405)	(699,405)
Movement in Cash flow Hedges (Note 24)	-	-	-	2,560	-	2,560
Total comprehensive (expense)/ income for the year	-	-	-	2,560	(699,405)	(696,845)
Equity-settled share-based payments (Note 29)	-	-	-	-	12,418	12,418
At 31 December 2022	1,324,525	7,192,593	(1,421)	23,017	(1,382,209)	7,156,505

The notes on pages 22 to 54 form part of these financial statements

ACTIVISION BLIZZARD UK LTD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Called up Share Capital \$000	Share Premium Account \$000	Foreign Exchange Reserve \$000	Other Reserves \$000	Profit and Loss Account \$000	Total Equity \$000
At 1 January 2021	1,324,525	7,192,593	(1,421)	(24,373)	(263,684)	8,227,640
Loss for the Year	-	-	-	-	(436,309)	(436,309)
Movement in Cash flow Hedges (Note 24)	-	-	-	44,830	-	44,830
Total comprehensive (expense)/ income for the year	-	-	-	44,830	(436,309)	(391,479)
Equity-settled share based payments (Note 29)	-	-	-	-	4,771	4,771
At 31 December 2021	1,324,525	7,192,593	(1,421)	20,457	(695,222)	7,840,932

The notes on pages 22 to 54 form part of these financial statements.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. General information

The Company is a private company limited by shares and is incorporated and is registered in England and Wales, the United Kingdom. The address of the registered office is The Ampersand Building, 178 Wardour Street, London, W1F 8FY.

Starting on 1 January 2022, the Company became party to the End User Licensing Agreements (EULA) with players in Europe, Middle East, and Africa (EMEA) for Activision and Blizzard products which was previously held by Activision Blizzard International B.V. in the Netherlands.

2. Accounting policies**2.1 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006. Unless stated otherwise the accounting policies have been applied consistently, other than where new policies have been adopted.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see Note 3).

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. For the year ended 31 December 2022, the Company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. This is due to the subsidiary undertakings being included by full consolidation in the financial statements of Activision Blizzard Inc., a company registered in the United States, and whose financial statements are publicly available. Please refer to Note 16 for a list of the subsidiary undertakings and Note 32 for instructions on how to obtain the consolidated financial statements.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - Paragraph 118(e) of IAS38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**2. Accounting policies (continued)****2.3 Going concern**

In preparing the Company's financial statements on a going concern basis, the Directors have considered the financial position and circumstances of the Company. There is a potential sale of the Activision Blizzard Inc group, of which the company is a subsidiary, to Microsoft. This could result in a change in ownership of the company within 12 months of the date of approval of these financial statements. Should a change in ownership occur, the directors are unable to assess or control all scenarios for the Company's future, including the intent and ability of Microsoft to operate and finance the Company.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company will continue to operate for the foreseeable future. The financial statements do not contain adjustments that would arise if the Company were unable to continue as a going concern.

2.4 Foreign currency translation Functional and presentation currency

The Company's functional and presentational currency is USD.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

2.5 Revenue

The Company generates revenue primarily through the sale of our interactive entertainment content and services, principally for the console, PC, and mobile platforms, as well as through the licensing of our intellectual property. Its products span various genres, including first- and third-person action/adventure, role-playing and strategy.

Digital Sales**Subscription Revenue**

Subscription revenues are primarily derived from World of Warcraft, a game that is playable through Blizzard's servers on a subscription basis.

Revenues associated with the sale of subscriptions via packaged software and prepaid subscription cards, as well as prepaid subscriptions sales, are deferred until the subscription service is activated by the consumer and recognised rateably over the subscription period.

Value added service revenues associated with subscriptions are recognised when sold to the consumer and available for download and use (generally, immediately available). The subscription revenue which is not expected to be recognised as revenue in the next financial year is presented in the balance sheet as a non-current liability.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)**2.5 Revenue (continued)****Software Licensing Revenue**

Software Licensing Revenue relates to the distribution and hosting of certain games by licensees in their respective territories. The Company receives royalties from the licensees as a result. The Company recognises any upfront licensing fee received over the term of the contracts.

Game Download Revenue and Add-on Revenue

Third-party licensees distribute Activision Blizzard games in their respective countries under licence agreements with Activision Blizzard. The Company receives royalties from the licensees as a result. Game Download Revenue relates to full-game downloads. Add-on Revenue relates to all other in-game purchases.

As soon as the game content is available for download or otherwise available for use, revenue is recognised in full, if all other performance obligations have been completed, or based on usage by the end user when the Company has continuing service obligations.

Sales to Distributors**Intercompany Distribution Revenue**

Intercompany Distribution Revenue is sales related to 'boxed products' to its subsidiaries. Income from product sales is recognised as soon as all substantial rights and risks relating to the title to the goods are transferred to the customer.

Other Distribution Revenue

Distribution Revenue is sales related to 'boxed products' to third party distributors and retailers. Income from product sales is recognised as soon as all substantial rights and risks relating to the title to the goods are transferred to the customer. Revenue from product sales is recognised after deducting the estimated allowance for returns and price protection.

2.6 Leases**The Company as a lessee**

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Since the interest rates implicit in the Company's leases cannot be readily determined, lease payments are discounted using the Company's incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (Continued)**2.6 Leases (continued)**

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives.

The lease liability is included in 'Creditors' on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in Note 2.15.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has used this practical expedient.

2.7 Interest Income & Finance costs

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**2. Accounting policies (continued)****2.8 Pensions****Defined contribution pension plan**

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

2.9 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are considered by adjusting the number of equity instruments expected to vest at each Statement of Financial Position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Statement of Comprehensive Income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the Statement of Comprehensive Income is charged with fair value of goods and services received.

2.10 National Insurance on share options

To the extent that the share price at the reporting date is greater than the exercise price on options granted under unapproved schemes after 19 May 2000, provision for any National Insurance contributions has been made based on the prevailing rate of National Insurance. The provision is accrued over the performance period attaching to the award.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)**2.11 Current and deferred taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.12 Intangible assets

The intangible assets relate to EMEA IP rights acquired in 2019. At the time of acquisition individual categories of IP assets were identified that satisfied both the definition of an Intangible asset and the recognition criteria as promulgated under IAS 38; those asset categories are set out below. Effective FY 2022, Management reviewed the cash generating units ("CGUs") and concluded that the game franchises represent the lowest level at which asset values are monitored for internal management purposes. Consistent with this conclusion, the CGUs were determined to be primarily the game franchises, at which level impairment of intangible assets would be performed. At the acquisition date, the intangible assets were measured at fair value less costs to sell at the gaming franchise level. If a CGU is determined to be impaired, that impairment is allocated across the individual categories of IP assets that make up the gaming franchise.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Costs capitalised comprise amounts paid to other group companies to purchase intangible assets.

The following categories of IP assets across its gaming franchises were identified for Activision Blizzard UK Ltd and which it utilises in its Activision and Blizzard operating segments:

Copyrighted IP

A bundle of IP that includes the trademarks, characters, and storylines that are employed in each of the Activision Blizzard franchises. The rights to existing products within a franchise, which utilise the Copyrighted IP, are over time expected to be replaced by new versions of the franchises or products.

Game Engine

A framework of core software code and/or tools that are used to build game titles within a specific franchise.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)**2.12 Current and deferred taxation (continued)****Titles**

The individual game titles within each franchise. The Company's Titles can be broken down into three distinct subcategories of identified IP assets: (1) Existing Titles; and (2) Titles in Progress and (3) Future Titles within existing franchises.

Software Code

The existing software code that has already been developed for individual game titles.

Cost Sharing Agreement

Legally binding agreements that govern the pooling of resources for the purposes of further developing and enhancing the Activision Blizzard IP.

Corporate Trademarks

The Activision and Blizzard corporate trademarks are well-known and highly recognisable throughout the entertainment industry.

Given continued investment in the trademarks by the Company combined with the assumption that the Company will remain an active player in the entertainment industry, the corporate trademarks are expected to have an indefinite RUL. The Activision and Blizzard trademarks are legally protected by relevant trademark filings in each of the geographic markets in which the Company operates.

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. For further information see Note 5 amortisation and impairment of intangible assets and Note 13 intangible asset amortisation.

The estimated useful lives as at 1 October 2019 were as follows:

Copyrights	-	10-15 years
Game engine	-	4-10 years
Future titles	-	10-15 years
Existing titles	-	2-10 years
Titles in progress	-	1-5 years
Software code	-	2-10 years
Cost Sharing Agreement	-	25 years
Corporate trademarks	-	Indefinite

2.13 Annual impairment reviews

Corporate trademarks have an indefinite useful life and are subject to an annual impairment review.

All the intangible assets are assessed annually to determine if there are any impairment indicators, and if indicators are noted they are tested. For further information see Intangible assets in Note 3 Judgements in applying accounting policies and key sources of estimation uncertainty.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**2. Accounting policies (continued)****2.14 Tangible assets**

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Long-term leasehold property	- life of lease
Fixtures and fittings	- 2-3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.15 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted Company shares, whose market value can be reliably determined, are remeasured to market value at each reporting date. Gains and losses on remeasurement are recognised in the Statement of Comprehensive Income for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

Investments in listed company shares are remeasured to market value at each reporting date. Gains and losses on remeasurement are recognised in profit or loss for the period.

2.16 Other investments

Through group intercompany the Company invests in USD denominated US Government National Treasury Bills and US Government National Treasury Bonds. All fair value and foreign exchange gains or losses and interest receivable thereon are recharged by another group company, net of a management fee.

2.17 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.18 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

ACTIVISION BLIZZARD UK LTD**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022****2. Accounting policies (continued)****2.19 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.20 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.21 Provisions for liabilities

Provisions are recognised where the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and the amount has been reliably estimated.

2.22 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets and financial liabilities are initially measured at fair value.

Financial assets

All recognised financial assets are subsequently measured in their entirety at either fair value or amortised cost, depending on the classification of the financial assets.

Fair value through profit or loss

Certain of the Company's financial assets are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses being recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

At amortised cost

Financial assets that are not measured at fair value, which principally comprises short term debtors, are subsequently measured at amortised cost using the effective interest method. This is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate a shorter period, to the amortised cost of a financial liability.

Impairment of financial assets

The Company recognises lifetime ECL for trade receivables and amounts due on contracts with customers. The expected credit losses on these financial assets are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial asset.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**2. Accounting policies (continued)****2.22 Financial instruments (continued)****Financial liabilities****Fair value through profit or loss**

Financial liabilities are classified as at fair value through profit or loss, when the financial liability is held for trading, or is designated as at fair value through profit or loss. This designation may be made if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or the financial liability forms part of a group of financial instruments which is managed and its performance is evaluated on a fair value basis, or the financial liability forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at fair value through profit or loss. Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

At amortised cost

Financial liabilities which are neither contingent consideration of an acquirer in a business combination, held for trading, nor designated as at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. This is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate a shorter period, to the amortised cost of a financial liability.

Revolving credit facility

The Company has entered into a revolving credit facility with another group company. This financial instrument is included in Amounts owed by group undertakings.

2.23 Hedge accounting

The Company uses foreign currency forward contracts as a risk management tool to mitigate cash flow foreign currency exchange risk associated with its revenues denominated in euros. These financial derivatives are utilised for hedging purposes and their fair values are assessed at each reporting date.

Cash flow hedges, fluctuation in fair value amounts are transferred from the Other reserves category to the profit or loss. This reclassification occurs in the same reporting period, or periods, during which the anticipated future cash flows, which were hedged, impact the profit or loss. The corresponding profit or loss is recorded within the Other operating expenses.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing the financial statements, management has to make judgements on how to apply the Company's accounting policies and make estimates about the future. The critical judgements that have been made in arriving at the amounts recognised in the financial statements and the key areas of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in the next financial year, are discussed below:

Revenue recognition**Significant Judgement around Revenue Arrangements with Multiple Deliverables**

The Company contracts with customers often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgement.

Significant judgement is required to determine whether this licence of our intellectual property should be considered distinct and accounted for separately, or not distinct and accounted for together with the online functionality provided and recognised over time. Generally, for titles in which the software licence is functional without the online functionality and a significant component of gameplay is available offline, we believe we have separate performance obligations for the licence of the intellectual property and the online functionality.

Significant judgement is also required to determine the standalone selling price for each distinct performance obligation and to determine whether there is a discount that needs to be allocated based on the relative standalone selling price of the various products and services. To estimate the standalone selling price, we generally consider market data, including our pricing strategies for the product being evaluated and other similar products it may offer, competitor pricing to the extent data is available, and the replayability design of both the offline and online components of its games. In limited instances, it may also utilise an expected cost approach to determine whether the estimated selling price yields an appropriate profit margin.

Estimated Service Period

The Company considers a variety of data points when determining the estimated service period for players of our games, including the weighted average number of days between players' unique purchase or first day played online, and the time at which players become inactive and cease engaging with our content for a period of time. The Company also consider known online trends such as the cadence of content delivery in our games, the service periods of our previously released games, and, to the extent publicly available, the service periods of our competitors' games that are similar in nature to ours. We believe this provides a reasonable depiction of the transfer of services to its customers, as it is the best representation of the time period during which our customers play our games. Determining the estimated service period is subjective and requires significant management judgement. The estimated service periods for players of its current games are less than 12 months.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Revenue recognition (continued)

Agent-Principle Relationship Model

Another of the judgements in relation to revenue recognition is the judgement of whether the Company is acting as principal or agent in transactions with customers. In making its judgement, management considers the detailed terms of sales transactions with customers in order to determine whether the Company is performing as the principal. This includes consideration of the Company's responsibility for marketing and sales within the EMEA region, the level of inventory risk and credit risk taken by the Company and the level of discretion the Company has in establishing the pricing of its goods.

Management continues to monitor the primary indicators used to assess the 'agent/principal' presentation of our revenue against our general contractual terms and conditions including detailed analysis of how terms and conditions are applied in practice, the weighting applied to the agent/principal indicators and evaluation of emerging practice. Management has concluded that whilst this remains a finely balanced judgement, no change to the presentation of revenues is required and revenue for these items will continue to be presented gross where the underlying facts and circumstances remain the same.

Intangible assets

For the annual period ending 1 October 2022, the Company reviewed the carrying amounts of its intangible assets, which relate to the EMEA IP rights acquired as of 1 October 2019, to determine whether there was any indication that those assets suffered an impairment loss. No material changes were identified for the period from 1 October 2022 to 31 December 2022. For those assets for which the recoverable amount was determined to be less than its carrying amount, the carrying amount of the asset was reduced to its recoverable amount and an impairment loss was recognised in the Statement of Comprehensive Income. Individual categories of IP assets were identified that satisfied both the definition of an intangible asset and the recognition criteria as promulgated under IAS 38.

Impairment losses

Following the Company's annual impairment review, the impairment charges recognised in the Statement of Comprehensive Income are stated below.

	2022	2021
	\$000	\$000
Copyrighted IP	11,002	53,915
Game Engine	638	5,006
Future Titles	71,455	-
Existing Titles	10,803	44,522
Titles in Progress	-	20,180
Software Code	3,798	11,680
Total	97,696	135,303

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Impairment Testing

For purposes of impairment testing a valuation was conducted for each of the Activision and Blizzard franchises held by the Company. The overall franchise value represents the total value of all contributions from the identified intangible assets employed by the Company for each franchise. Management compared the results of the valuation analysis on a franchise basis to the aggregate value of all the intangible assets for each franchise in order to determine whether an impairment was necessary.

The valuation methodology applied was consistent with the methodology as utilised at the time of the acquisition; specifically, management determined the asset value by measuring the residual income attributable to the subject intangible assets employed by each franchise after deducting returns to all other contributory functions and assets. The valuation was performed using empirical market data, macroeconomic and industry evidence, and the underlying fundamental trends for the subject enterprise. The valuation analysis incorporated certain key assumptions detailed below.

i.) Estimated future cash flows

Management utilised internal revenue and income projections in determining the estimated future cash flows when valuing the intangible assets for purposes of impairment testing. Cash flows are projected for 3 years using management's approved financial budgets. The key assumption in developing the internal forecasts is estimated growth rates for each franchise which are based on historical data, various internal estimates and certain external sources, and are based on assumptions that are consistent with the plans and estimates management uses to manage the underlying business. Management believes the internal forecast to be the most reliable and best available information at the impairment testing date upon which to test the value of the intangible assets.

ii.) Discount rates

Discount rates for the impairment testing were derived using the most recent market data as at the impairment testing date, while relying on the same methodology as was applied for the initial valuation. The discount rates applied to the impairment testing are provided below:

Discount rate	%	Intangible asset values comprised of:
Consolidated	10	-
Routine	8	-
IP	11	Copyrights; Future titles; Trademarks; Cost Sharing Agreement
In progress IP	9	Titles in progress
Existing IP	7	Game engine, Existing titles; Software code

Useful lives of intangible assets

The annual amortisation charge for the intangible assets is sensitive to changes in the estimated useful economic lives of the assets. The determined useful economic lifespan for each identifiable acquired asset rely on management's best estimate, taking into consideration the available information. See Note 13 for the carrying amount of the intangible assets and Note 2.13 for the useful economic lives for each class of assets.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

4. Revenue

An analysis of revenue by class of business is as follows:

	2022	2021
	\$000	\$000
Digital Sales	791,071	-
Sales to distributors	8,682	88,205
LRD	-	6,841
Royalties	3,762	881,890
	803,515	976,936

Analysis of revenue by country of destination:

	2022	2021
	\$000	\$000
United Kingdom	134,565	34,754
Europe, Middle East, and Africa	668,950	942,182
	803,515	976,936

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	Deferred Revenue
	\$000
Balance as at 01 January 2022	-
Movement	551,222
Balance as at 31 December 2022	551,222

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. Operating Loss

The operating (loss)/profit is stated after charging/(crediting):

	2022	2021
	\$000	\$000
Cost Sharing Agreement expense	269,301	295,773
Depreciation of tangible fixed assets	657	8
Amortisation of intangible assets	701,382	731,123
Impairment of intangible assets	97,696	135,303
Expense from group recharges	311,968	169,065
Exchange differences	(29,647)	(7,588)
Distribution Cost	3,576	2,693
Other administrative expenses	13,930	15,072
Employee costs	50,380	35,298
Defined contribution pension cost	1,475	1,803
Marketing expenses	86,370	20,777
Cost of stocks recognised as an expense	21,107	20,750
	1,528,195	1,420,077

6. Auditor's remuneration

	2022	2021
	\$000	\$000
Fees payable to the Company's auditors and their associates for the audit of the Company's annual financial statements	370	306

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2022	2021
	\$000	\$000
Wages and salaries	33,434	24,684
Social security costs	8,386	3,673
Other pension costs	1,475	1,803
Share based payments	8,559	4,771
	51,854	34,931

The average monthly number of employees, including the directors, during the year was as follows:

	2022 No.	2021 No.
Management and administration	102	121
Sales and marketing	95	33
	197	154

The number of employees expanded annually due to align with the strategic vision of the Company and evolving operations as detailed in the Business Review section of the Directors' Report.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

8. Directors' remuneration

	2022	2021
	\$000	\$000
Directors' emoluments	5,739	3,400
Company contributions to defined contribution pension schemes	34	31
	5,773	3,431

During the year the above emoluments were paid to 4 directors (2021 – 3) 1 of which in respect of loss of office (2021-0). The emoluments of other directors are not paid to them in their capacity as directors of the Company and are payable for services wholly attributable to other group companies.

The highest paid director received remuneration of \$2,052,351 (2021 - \$1,415,010), of which \$1,280,110 in the form of exercised share options. Furthermore, the Company paid compensation of \$341,556 (2021 - \$Nil) to a past director in respect to loss of office.

During the year retirement benefits were accruing to 1 directors (2021 - 2 in respect of defined contribution pension schemes.

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to \$Nil (2021 - \$Nil).

During the year 4 directors received shares under the long-term incentive schemes (2021 - 3).

9. Interest receivable and similar income

	2022	2021
	\$000	\$000
Loans to group undertakings	2,460	51
Return on investments	18,706	1,884
	21,166	1,935

10. Interest payable and similar expenses

	2022	2021
	\$000	\$000
Loans from group undertakings	2,109	372
	2,109	372

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11. Tax on (loss)/profit

	2022	2021
	\$000	\$000
Withholding Tax	40	-
Corporate Tax	-	-
Deferred Tax	(58,432)	(5,268)
Estimated vs Accounted Deferred Tax	-	-
Total Tax on (Loss)/Profit	(58,392)	(5,268)

Factors affecting tax charge for the year

	2022	2021
	\$000	\$000
(Loss)/profit before tax	(757,797)	(441,577)
(Loss)/profit before tax x standard rate of CT of 19% (2021 - 19%):	(143,981)	(83,900)
Change in rate on c/f losses	(1,321)	-
Disallowable share option expense	1,774	1,677
Share acquisition relief	(1,819)	(1,054)
Intangible assets	(1,832)	(6,185)
Fixed assets	(1,704)	147
Share options	(1,289)	495
Group relief surrendered	91,740	83,552
Total tax charge/ (credit) for the year	(58,432)	(5,268)

Income tax relating to components of Other Comprehensive Income in 2022 is \$NIL (2021 \$NIL).

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11. Tax on (loss)/profit (continued)

Factors that may affect future tax charges

Other than the deferred tax assets shown in Note 25, there were no factors that may affect future tax charges.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. As the proposal to increase the rate to 25% has been substantively enacted at the balance sheet date, its effects are included in these financial statements.

12. Dividends

	2022	2021
	\$000	\$000
Dividends paid	-	-
Dividends paid	-	-

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2022

13. Intangible assets

The Intangible assets of the Company are made up as follows:

	Copyrights \$000	Game Engine \$000	Future titles \$000	Existing titles \$000	Titles in Progress \$000	Software Code \$000	Trade Marks \$000	Cost Sharing Agreement \$000	Total \$000
Cost or Valuation									
At 1 January 2022	1,467,356	196,170	2,345,957	610,151	913,258	153,592	302,602	2,820,914	8,810,000
Disposals	-	-	-	-	-	-	-	-	-
At 31 December 2022	1,467,356	196,170	2,345,957	610,151	913,258	153,592	302,602	2,820,914	8,810,000
Amortisation									
At 1 January 2022	401,541	97,688	406,453	250,541	678,777	68,054	-	253,010	2,156,064
Disposals	-	-	-	-	-	-	-	-	-
Impairment Charge (Note 3)	11,002	638	71,455	10,803	-	3,798	-	-	97,696
Charge for the Year	103,945	30,911	182,203	50,727	207,470	12,418	-	113,708	701,382
At 31 December 2022	516,488	129,237	660,111	312,071	886,247	84,270	-	366,718	2,955,142
Net Book Value									
At 31 December 2022	950,868	66,933	1,685,846	298,080	27,011	69,322	302,602	2,454,196	5,854,858
At 31 December 2021	1,065,815	98,482	1,939,504	359,610	234,481	85,538	302,602	2,567,904	6,653,936

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

14. Tangible assets

	Fixtures and Fittings	Total
	\$000	\$000
Cost or Valuation		
At 1 January 2022	73	73
Addition	6,948	6,948
Disposals	-	-
At 31 December 2022	7,021	7,021
Depreciation		
At 1 January 2022	(8)	(8)
Charge for the year on owned assets	(657)	(657)
Disposals	-	-
At 31 December 2022	(665)	(665)
Net Book Value		
At 31 December 2022	6,356	6,356
At 31 December 2021	65	65

The Company's fixed asset holdings increase mainly due to servers and network equipment required for Equinix Data Centres in England and the Netherlands.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

15. Right-of-use assets

An Internal Borrowing Rate of 3.71% has been applied to the lease liabilities recognised in the Statement of Financial Position at the date of initial application. The Company has a lease contract for the data centres.

(i) Amounts recognised in the Statement of Financial Position :

	2022	2021
	\$000	\$000
Lease liabilities		
Current	(410)	-
Non-Current	(593)	-
	<u>(1,003)</u>	<u>-</u>

Additions to the right-of-use assets during the 2022 financial year were \$1,003,000 (2021: \$Nil).

The addition to the right-of-use assets during the year 2022 took place at the end of the period in Dec-22, any related expenses are to be recorded in the following year.

(ii) Amounts recognised in the Income Statement: \$Nil.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

16. Fixed asset investments

Investments in subsidiary companies	2022	2021
Cost or valuation	\$000	\$000
At 1 January	34,939	-
Additions	365	34,939
At 31 December	35,304	34,939

Subsidiary undertaking

The following was a subsidiary undertaking of the Company:

Name	Registered office	Class of shares	Holding
Digital Legends Entertainment S.L.	Carrer del Bruc 50, 2nd floor 08010 Barcelona, Spain	Ordinary	100%

Digital Legends Entertainment S.L. was purchased to increase the Activision Blizzard Inc group's software development capacity and thus the revenue generated by future titles, from which the Company is expected to benefit.

During the year, the company made an additional investment of \$365,000 on the initial purchase consideration of which \$184,636 was contribution to cover deferred payments to shareholders.

17. Stocks

	2022	2021
	\$000	\$000
Raw materials and consumables	341	605
Finished goods and goods for sale	2,390	1,461
	2,731	2,066

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

18. Debtors: amounts falling due within one year

	2022	2021
	\$000	\$000
Trade debtors	217,715	26,402
Amounts owed by group undertakings	2,414,080	1,062,487
Amounts owed by group undertakings - EUR forward contracts (Note 24)	4,666	20,456
Corporation tax	3,796	4,248
Prepayments and accrued income	1,029	466
Deferred cost of goods sold	39,648	-
Deferred taxation	86,122	27,690
	2,767,056	1,141,749

As at 31 December 2022, the amounts owed by group undertaking were primarily held by Activision Publishing Inc \$2,324,035,000 (2021 - \$978,241,000) by means of a revolving credit facility. This balance was denominated in a combination of British Pounds, United States of America Dollars and Euros.

19. Other investments

	2022	2021
	\$000	\$000
Other Investments	-	130,749
	-	130,749

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

20. Cash at bank and in hand

	2022	2021
	\$000	\$000
Cash at bank and in hand	1,139	2,182
	1,139	2,182

21. Creditors: amounts falling due within one year

	2022	2021
	\$000	\$000
Trade creditors	10,988	2,963
Amounts owed to group undertakings	107,885	41,931
Other taxation and social security	1,567	2,786
Lease liabilities	410	-
Deferred consideration	2,082	-
Accruals	144,402	18,554
Deferred revenue	551,222	-
	818,556	66,234

Amounts owed to group undertakings are unsecured, interest free and repayable of demand.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

22. Creditors: Amounts falling due after more than one year

	2022	2021
	\$000	\$000
Amounts owed to group undertakings	692,168	54,325
Lease Liabilities	593	-
Deferred consideration	-	3,354
	692,761	57,679

Included in Amounts owed to group undertakings is \$650,000,000 from Midasplayer.com Limited (2021 - \$Nil) on which interest is charged on the principal amount at a rate of 1.2250% above the Bank of England base rate on a quarterly basis. The interest charged in 2022 was \$1,055,004.17 (2021 - \$Nil). The outstanding amount is due for repayment by the end of 2024.

Included in Amounts owed to group undertakings is \$42,167,955.48 from Combined Distribution Holdings Limited (2021 - \$54,325,000) on which interest is charged on the principal amount at a rate of 0.3975% above the Bank of England base rate on a quarterly basis. The interest charged in 2022 was \$848,960.71 (2021 - \$265,000). The outstanding amount is due for repayment by February 2023.

23. Deferred consideration

	2022	2021
	\$000	\$000
At 1 January 2022	4,318	-
Additions	-	4,318
Payments	(2,236)	
At 31 December 2022	2,082	4,318

Deferred consideration relates to the Company's purchase of its investment in Digital Legends Entertainment S.L. and is expected to be paid within 1 year. The amount payable is dependent on certain conditions relating to the retention of employees by Digital Legends Entertainment S.L., which are expected to be met.

The Deferred consideration balance in FY21 formed part of Note 22 as the amounts fell due after one year. In FY22 the deferred consideration balance falls due within one year and hence now forms part of Note 21.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

24. Financial Instruments

	2022	2021
	\$000	\$000
Financial assets		
Financial assets measured at fair value through profit or loss	-	130,749
Financial assets that are debt instruments measured at amortised cost	2,632,934	1,091,071
Forward currency contracts assets	6,681	20,456
	<u>2,639,615</u>	<u>1,242,276</u>
 Forward currency contracts liabilities	 (2,015)	 -
Financial liabilities measured at amortised cost	(1,424,570)	(121,127)
	<u>(1,426,585)</u>	<u>(121,127)</u>

Financial assets measured at fair value through profit or loss comprise Current asset investments.

Financial assets that are debt instruments measured at amortised cost comprise Cash and cash equivalents, Trade debtors and Amounts owed by group undertakings.

Financial liabilities measured at amortised cost comprise Trade creditors, Amounts owed to group undertakings, Lease liabilities and Accruals and deferred revenue.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**24. Financial instruments (continued)****Derivative financial instruments - Forward foreign currency contracts**

The Company enters into forward foreign currency contracts that involve the future exchange and delivery of one currency for the receipt of a different currency, at a specified future date, with the amounts of each currency agreed upon at inception of the contract. These are standard "plain vanilla" forward contracts. The Company enters into forward foreign currency contracts with an affiliate that enters into "mirroring" forward foreign currency contracts with external large commercial and investment banks. The terms and conditions of these internal, inter-affiliate contracts, and all external derivatives dealings with these financial counterparties, are subject to separate, bilateral International Swap Dealers Association (ISDA) Master Agreements executed with each financial counterparty. The amount and timing of future cash flows are determined at inception of each agreement.

The valuation of a forward foreign currency contract involves a calculation that utilises the hedge contract terms (maturity date, currency pair, forward contract rate) and the prevailing forward exchange rate corresponding to that currency pair and maturity rate as determined by market data quoted from independent data sources, for the relevant date of valuation. There are actively quoted and observable inputs for these instruments available from market rate data providers. Valuations are not based on significant market assumptions but instead are based on observable market data that can be corroborated by external market data. The fair values are within Level 2 of the fair value hierarchy.

At 31 December 2022 the outstanding contracts all mature within 12 months (2021: *within 12 months*). The Company is committed to buy and pay a fixed USD amount of €378,000,000 (2021: €317,000,000) and £Nil (2021: £Nil) respectively. The contracts to pay a fixed USD amount of EUR have been designated as cash flow hedges, whereas the contracts to pay a fixed USD amount of GBP are being treated as standard derivative contracts.

Changes in the fair value of the hedging instrument are initially recognised in Other Comprehensive Income (OCI). In 2022 there were gains of \$42,899,000 (2021: \$56,853,000) initially booked to OCI of which a Gain \$40,339,000 (2021: \$12,024,000) was realised and transferred to the profit and loss account.

The gains and losses on the forward contracts to purchase a fixed USD amount of GBP are recognised in the profit and loss account when the forward foreign currency contracts are realised.

The gains on the standard forward contracts are recognised in the profit and loss account and in the year were \$Nil (2021: \$2,281,000).

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

25. Deferred taxation**25. Deferred taxation**

	2022	2021
	\$000	\$000
At beginning of year	27,690	22,422
Credited to profit or loss	58,432	5,268
At end of year	86,122	27,690

The deferred tax asset is made up as follows:

	2022	2021
	\$000	\$000
Accelerated capital allowances	1,727	185
Timing differences related to share option expense	3,021	1,733
Intangible assets	33,735	25,772
Carried forward Loss	47,639	-
	86,122	27,690

There are no unrecognised deferred tax assets in 2022 (2021 - \$Nil).

The directors consider that the Company will have sufficient future taxable profits as a result of which the above deferred tax asset will be recovered.

\$33,735,000 (2021 - \$27,690,000) of the deferred tax asset is due after more than twelve months.

26. Provisions for liabilities**Provision for social security on awards granted**

	2022	2021
	\$000	\$000
At 1 January	841	1,422
Charged to profit or loss	(215)	(581)
Utilised in year	(1)	-
At 31 December	625	841

The provision for social security on share awards crystallises on exercise of the share awards which may take place during a period of up to 10 years from the date of the grant (see Note 29 for further details).

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

27. Called Up Share capital

	2022	2021
	\$000	\$000
Authorised		
7,238,700,000 (2021 – 7,238,700,000) Ordinary shares of £1.00 each	9,000,000	9,000,000
Allotted, called up and fully paid		
1,077,679,135 (2021 – 1,077,679,135) Ordinary shares of £1.00 each	1,324,525	1,324,525

28. Reserves**Share premium account**

The share premium accounts in the excess of consideration received over nominal value for Ordinary shares issued.

Foreign exchange reserve

The Foreign exchange reserve is the cumulative gains and losses on GBP functional transactions presented in USD. The Company's functional currency changed from GBP to USD on 1 October 2019.

Other reserves

Other reserves is made up of unrealised losses on cash flow hedges.

Profit and loss account

The Profit and loss account is the cumulative total comprehensive income.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

29. Share based payments

The share award plans (also referred to as "share options" herein) detailed below relate to options held by employees of the Company in the shares of the ultimate parent undertaking, Activision Blizzard Inc. ("Activision Blizzard"), which is a listed company in the United States of America.

Activision Blizzard has a share-based compensation programme that provides its Board of Directors discretion in creating employee equity incentives. This programme includes incentive and non-statutory share options and restricted share awards granted under various plans, the majority of which are shareholder approved. Share options are generally time-based, vesting on each annual anniversary of the grant date over periods of three to five years and expire ten years from the grant date, with some options containing performance clauses which would accelerate the vesting into earlier annual periods.

Share Incentive Plans ("the Plans")

Activision Blizzard sponsors several share option plans for the benefit of directors, officers, consultants, and other employees of group companies.

Under the terms of the Plans, the exercise price for awards issued is determined at the discretion of the Board of Directors of Activision Blizzard (or the Compensation Committee of the Board of Directors, which administers the Plans), and under the terms of the Plans, the exercise price for share options is not to be less than the fair market value of Activision Blizzard's common stock at the date of grant. Options typically become exercisable in instalments over a period of three to five years and must be exercised within 10 years of the date of grant.

Restricted Share Units and Restricted Shares

Activision Blizzard grants restricted share units and restricted shares (collectively referred to as "restricted share rights") under the Plans to employees around the world. Restricted share units entitle the holders thereof to receive shares of Activision Blizzard's common stock at the end of a specified period of time or otherwise upon a specified occurrence. Upon vesting of restricted share rights, Activision Blizzard may withhold shares otherwise deliverable to satisfy tax withholding requirements.

Restricted share rights are subject to forfeiture and transfer restrictions. Vesting for restricted share rights is contingent upon the holders' continued employment with Activision Blizzard or one of its subsidiaries and may be subject to other conditions. If the vesting conditions are not met, unvested restricted share rights will be forfeited.

At 31 December 2022, the aggregate intrinsic value of the non-vested restricted share rights was approximately \$20,385,000 (2021 - \$14,530,000) with a weighted average remaining contractual term of 1.35 (2021 - 1.83) years.

Share Options Outstanding

Out of the 161,282 (2021 - 179,478) outstanding options, 129,752 (2021 - 94,859) options were exercisable. Options exercised in 2022 resulted in 14,979 (2021 - 34,176) shares being issued at a weighted average price of \$49.68 (2021 - \$50.15) each. The related weighted average share price during the year for share options exercised over the year was \$77.18 (2021 - \$84.03) per share.

The total charge for the year, excluding NI charges, relating to share based remuneration included in these financial statements was \$8,559,000 (2021 - \$4,771,000), all of which related to equity-settled share-based payment transactions. After deferred tax the total charge was \$7,270,000 (2021 - \$5,266,000). The bonus paid out in restricted stock units (RSUs) were recorded in Equity at \$3,859,000 (2021 - \$Nil).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

29. Share based payments (continued)

Share options outstanding in respect of the Company's employees at 31 December 2022 had the exercise prices and remaining lives detailed below:

Range of exercise prices	Weighted average exercise price \$	Number of shares	Weighted average contractual life remaining (years)
\$20.10 - \$34.59	28.75	16,129	2.47
\$37.15 - \$41.09	39.59	19,940	3.66
\$52.52 - \$52.52	52.52	26,634	6.86
\$53.89 - \$53.89	53.89	15,724	5.87
\$60.87 - \$60.87	60.87	9,938	4.85
\$70.57 - \$70.57	70.57	10,601	5.60
\$76.40 - \$76.40	76.40	15,214	7.84
\$82.58 - \$82.58	82.58	32,917	7.94
\$92.50 - \$92.50	92.50	7,735	8.19
\$93.03 - \$93.03	93.03	6,450	8.35
	62.30	161,282	6.16

30. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to \$1,475,000 (2021 - \$1,803,000).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**31. Post balance sheet events**

On January 18, 2022, Activision Blizzard entered into an Agreement and Plan of Merger (as may be amended, supplemented, or otherwise modified from time to time, the "Merger Agreement") with Microsoft Corporation. Subject to the terms and conditions of the Merger Agreement, Microsoft agreed to acquire the Company for \$95.00 per issued and outstanding share of Activision Blizzard common stock, par value \$0.000001 per share, in an all-cash transaction. On July 18, 2023, Activision Blizzard and Microsoft entered into a letter agreement to the Merger Agreement (the "Letter Agreement"), pursuant to which, among other things, each of Microsoft and Activision Blizzard waived any right to terminate the Merger Agreement other than (i) pursuant to mutual agreement or (ii) if the Merger has not been consummated prior to 11:59 p.m. Pacific time on October 18, 2023. For additional information related to the Merger Agreement, please refer to the Annual Financial Statements via Form 10-K for the year ended 31 December 2022 as filed by Activision Blizzard with the U.S. Securities and Exchange Commission (the "SEC") on 23 February 2023 and the Current Report on Form 8-K filed on July 19, 2023 regarding the Letter Agreement, and other relevant materials in connection with the proposed transaction with Microsoft that Activision Blizzard files with the SEC.

32. Controlling party

The immediate parent undertaking is Activision Blizzard Holdings BV, a company incorporated in the Netherlands.

Activision Blizzard Inc serves as the ultimate parent and controlling entity, and it also holds the status of being the parent organisation for consolidated company financial results. The consolidated financial statements of Activision Blizzard Inc, which include the results of the Company, are available to the public and may be obtained from Activision Blizzard Inc, 2701 Olympic Boulevard Building B, Santa Monica, California, 90404, USA. Activision Blizzard Inc is incorporated in the USA.