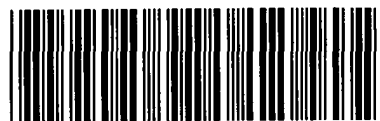

ACTIVISION BLIZZARD UK LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

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ACTIVISION BLIZZARD UK LTD

COMPANY INFORMATION

DIRECTORS	Paul Bland Ian Mattingly
REGISTERED NUMBER	01709830
REGISTERED OFFICE	Ditton Park Riding Court Road Datchet Slough Berkshire SL3 9LL
INDEPENDENT AUDITOR	PricewaterhouseCoopers LLP Chartered Accountants & Statutory Auditors 3 Forbury Place 23 Forbury Road Reading RG1 3JH

ACTIVISION BLIZZARD UK LTD

CONTENTS

	Page
Strategic Report	1 - 2
Directors' Report	3 - 4
Independent Auditors' Report	5 - 6
Statement of Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Notes to the Financial Statements	10 - 27

ACTIVISION BLIZZARD UK LTD

STRATEGIC REPORT For the Year Ended 31 December 2015

The directors present their Annual Report, comprising the Strategic Report and Directors' Report, and audited financial statements of Activision Blizzard UK Ltd ("the company") for the year ended 31 December 2015.

BUSINESS REVIEW

Business environment and current and future developments

The principal activity of the company is the publishing and sale of computer software and games.

The directors continued to be pleased with the continued success of the marketing and distribution as a Limited Risk Distributor ("LRD") of the products of the Activision Blizzard group ("the group"). Most notably there were new instalments in the Call of Duty series, Call of Duty: Black Ops III, the Skylanders series, Skylanders: Superchargers, and an expansion of the Destiny franchise, with Destiny: The Taken King. The group will continue to invest in these franchises and there will be new Call of Duty, Skylanders and Blizzard titles in 2016.

The Revenue of the company was £98,094,000 (2014 - £149,540,000), which was lower than the previous year partly due to the transfer of intercompany activities to another group company and the shift in sales from physical to digital, both of which resulted in revenue previously recorded in the company in 2015 being recognised in another group company, and the launch of the Destiny franchise with a significant new title in 2014.

The net assets of the company were £33,922,000 (2014 - £30,715,000) which was an increase on the previous year, as revenues and certain costs relating to the UK sales and marketing operations are mostly recharged to another group company. This net cost recharge is included in Cost of sales and in 2015 was £26,394,000 (2014 - £60,394,000). Costs incurred on behalf of the European group are mostly recharged with a cost-plus mark-up. This net credit recharge is included in Administration expenses and in 2015 was £27,891,000 (2014 - £21,436,000). Under the new LRD group agreement entered into during the year all inventories were sold at cost, £6,400,000, for cash, upon commencement of the new agreement on 1st May 2015.

During the year the company transitioned from UK GAAP to Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101") and has taken advantage of the disclosure exemptions allowed under this standard. The prior year comparatives have also been reviewed under the new standards. The company's parent undertaking, Activision Europe Limited was notified of this and did not object to the use of FRS 101 and there were no material recognition or measurement differences arising on the adoption of FRS 101. Further information on the impact can be found in Notes 2 and 23.

Principal risks and uncertainties

The ability of the business to generate returns depends on the continued development of video game products of a sufficiently high quality and appeal to maintain sales growth and market share. The company is also at risk from the timing, quality, popularity and availability of new console releases, and from competitive pressure applied by console developers who both licence the company's products and compete directly as publishers and developers themselves.

The company's exposure to financial risks is explained elsewhere in this report. In spite of these risks, the directors believe that the company possesses the core competencies to continue to succeed in the video game market.

Key Performance Indicators (KPIs)

The company focuses on various key financial performance indicators for discussion by the management team. Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding by the relevant external parties of the development, performance or position of the business further to the information included in this report and the financial information and notes contained in the body of the financial statements.

ACTIVISION BLIZZARD UK LTD

STRATEGIC REPORT (continued)

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 as a result of transactions with a number of customers and suppliers. The company's ultimate parent undertaking, Activision Blizzard, Inc., manages the foreign exchange 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 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 is managed for the group by the company's ultimate parent undertaking.

Interest rate risk

The company has interest bearing assets in the form of cash balances. Cash balances earn interest at floating rates.

The company also takes part in the group's cash pooling system to ensure the optimum use of the group's overall financial resources. This system allows the company to both deposit cash surpluses with group treasury and borrow funds from group treasury in the form of short-term advances at variable interest rates based on LIBOR, EURIBOR or STIBOR depending on the currency deposited or advanced.

Price risk

The company has no significant concentrations of exposure to price risk. The company has implemented policies that require appropriate checks on potential significant price movements.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

Trade creditors at the year end represented 24.7 days (2014 - 27.2 days) of purchases. It is the company's policy in respect of all suppliers to agree payment terms in advance of the supply of goods and to adhere to those payment terms.

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



Paul Bland

Director

Date: 30/3/16

ACTIVISION BLIZZARD UK LTD

DIRECTORS' REPORT For the Year Ended 31 December 2015

The directors present their report and the audited financial statements of the company for the year ended 31 December 2015.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements of the company in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements of the company for each financial year. Under that law the directors have elected to prepare the financial statements of the company in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). Under company law the directors must not approve the financial statements of the company unless 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 these financial statements of the company, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of the financial statements; and
- prepare the financial statements of the company on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are 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 of the company comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £2,330,000 (2014 - £648,000).

During the year, the directors did not recommend the payment of a dividend (2014 - £Nil).

DIRECTORS

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Paul Bland
Ian Mattingly

QUALIFYING THIRD PARTY AND PENSION SCHEME INDEMNITY PROVISIONS

Qualifying third party indemnity insurance is provided for all directors of the company throughout their tenure under policies held by the company's ultimate parent undertaking, Activision Blizzard, Inc.

ACTIVISION BLIZZARD UK LTD

DIRECTORS' REPORT For the Year Ended 31 December 2015

POST BALANCE SHEET EVENTS

On 19 February 2016, the terms of the company's amounts owed to group undertakings amounting to £38,543,000 loan (Note 13) were revised. This amount is now repayable in seven years with interest charged at 0.3975% above the Bank of England base rate payable on a quarterly basis.

MATTERS COVERED IN THE STRATEGIC REPORT

Disclosure of the company's Business Review, Future Developments, Financial Risk Management and Policy and Practice on Payment of Creditors are provided in the Strategic Report.

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

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



Paul Bland
Director

Date: 30/3/16

ACTIVISION BLIZZARD UK LTD

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ACTIVISION BLIZZARD UK LTD

Report on the financial statements

Our opinion

In our opinion, Activision Blizzard UK Ltd's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2015;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

ACTIVISION BLIZZARD UK LTD

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ACTIVISION BLIZZARD UK LTD (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Katherine Stent (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

Date: 30/3/16

ACTIVISION BLIZZARD UK LTD

STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 31 December 2015

	Note	2015 £000	2014 £000
Revenue	2,4	98,094	149,540
Cost of sales		(56,730)	(107,295)
Gross profit		41,364	42,245
Distribution costs		(1,915)	(2,490)
Administrative expenses		(36,585)	(36,206)
Other expenses		(11)	-
Operating profit	5	2,853	3,549
Profit on ordinary activities before interest and income tax		2,853	3,549
Finance income	7	203	7
Finance expense	7	(371)	(470)
Finance costs - net	7	(168)	(463)
Profit on ordinary activities before income tax		2,685	3,086
Income tax expense on ordinary activities	8	(355)	(2,438)
Profit for the financial year		2,330	648
Other comprehensive income:			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		2,330	648

The notes on pages 10 to 27 form part of these financial statements.

ACTIVISION BLIZZARD UK LTD
Registered number:01709830

STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

	Note	2015 £000	2014 £000
Fixed assets			
Property, plant and equipment	9	1,848	472
		<u>1,848</u>	<u>472</u>
Current assets			
Inventory	10	-	4,878
Trade and other receivable	11	102,362	123,571
Cash and cash equivalent		11,480	5,499
		<u>113,842</u>	<u>133,948</u>
Creditors: Amounts falling due within one year	12	(42,726)	(65,185)
Net current assets		<u>71,116</u>	<u>68,763</u>
Total assets less current liabilities		<u>72,964</u>	<u>69,235</u>
Creditors: Amounts falling due after more than one year	13	(38,543)	(38,287)
Provisions for liabilities	14	(499)	(233)
Net assets		<u><u>33,922</u></u>	<u><u>30,715</u></u>
Equity			
Ordinary shares		10,521	10,521
Retained earnings		23,401	20,194
Total shareholders' funds		<u><u>33,922</u></u>	<u><u>30,715</u></u>

The financial statements on pages 7 to 27 were approved and authorised for issue by the board and were signed on its behalf by:



Paul Bland
Director

Date: 30/12/16

The notes on pages 10 to 27 are an integral part of these financial statements.

ACTIVISION BLIZZARD UK LTD

**STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2015**

	Ordinary shares £000	Retained earnings £000	Total shareholders' funds £000
Balance as at 1 January 2014	10,521	18,614	29,135
Comprehensive income for the year			
Profit for the financial year and other comprehensive income	-	648	648
Other movements			
Credit relating to equity-settled share based payments	-	932	932
Total transactions with owners recognised directly in equity	-	932	932
Balance as at 31 December 2014	<u>10,521</u>	<u>20,194</u>	<u>30,715</u>
Balance as at 1 January 2015	10,521	20,194	30,715
Comprehensive income for the year			
Profit for the financial year and other comprehensive income	-	2,330	2,330
Other movements			
Credit relating to equity-settled share based payments	-	877	877
Total transactions with owners recognised directly in equity	-	877	877
Balance as at 31 December 2015	<u>10,521</u>	<u>23,401</u>	<u>33,922</u>

As set out in Note 2.1 this is the first year the company has presented its results under FRS 101. The last financial statements were presented under UK GAAP for the year ended 31 December 2014. The date of transition to FRS 101 was 1 January 2014. The transition had no impact on the previously reported financial position and performance of the company as outlined in Note 23.

The notes on pages 10 to 27 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

1. GENERAL INFORMATION

Activision Blizzard UK Ltd ("the company") publishes and sells computer software and games. The company is a private company and is incorporated and domiciled in the United Kingdom. The address of its registered office is Ditton Park Riding Court Road, Datchet, Slough, Berkshire, SL3 9LL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared under the historical costs convention and in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101") and the Companies Act 2006.

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

This is the first year that the company has presented its results under FRS 101. The last financial statements under UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 101 was 1 January 2014. An explanation of how transition to FRS 101 has affected the reported financial position and performance is given in Note 23.

2.2 GOING CONCERN

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the directors have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 FINANCIAL REPORTING STANDARD 101 - REDUCED DISCLOSURE EXEMPTIONS

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise price of share options, and how the fair value of goods or services received was determined)
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of paragraph 73(e) of IAS 16 Property, Plant and Equipment (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows),
 - 16 (statement of compliance with all IFRS),
 - 56 (deferred tax asset presented as non-current asset),
 - 111 (cash flow statement information), and
 - 134 to 136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 and 18(a) of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

2.4 REVENUE

Revenue is recognised upon the transfer of title and risk of loss to our customers. In certain circumstances product returns may be permitted or price protection granted on unsold merchandise. Price protection, when granted and applicable, allows customers a credit for any price reduction made and is calculated in respect of goods which remain unsold by the customer at that time.

Revenue represents the amounts (excluding value added tax) derived from the provision of goods and services to customers net of estimated allowances for returns and price protection. Estimates are made of potential future product returns and price protection relating to current period revenue based on historical experience, customer inventory levels and changes in demand and acceptance of products by the end customers.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is 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 so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Leasehold land and buildings	-	life of lease
Fixtures, fittings, tools and equipment	-	2-3 years

On disposal of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the financial statements and the net amount, less any proceeds, is taken to the Statement of Comprehensive Income.

2.6 INVENTORIES

Inventories 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 first in, first out basis. The cost of finished goods include labour and attributable overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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

2.7 TRADE AND OTHER RECEIVABLES

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.8 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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 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.

2.10 FINANCE COSTS

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.

2.11 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

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.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income within Other expenses.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 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

The company classifies all of its financial assets as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within Administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The company classifies all of its financial liabilities as liabilities at amortised cost.

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Statement of Financial Position.

2.13 SHARE BASED PAYMENTS

The ultimate parent company, Activision Blizzard, Inc., has issued equity settled share-based awards (also referred to as "share options" herein) to certain employees of Activision Blizzard UK Ltd. The charge relating to these awards in respect of employees of the company has been reflected in these financial statements in accordance with IFRS 2 'Share Based Payments' although they do not relate to the shares of the company. A fair value for the equity settled share awards is measured at the date of grant, and this is recognised as a charge to the Statement of Comprehensive Income over the vesting period. The ultimate parent company measures the fair value using the binomial-lattice model.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 EMPLOYEE BENEFITS

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 payments 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.

2.15 HOLIDAY PAY ACCRUAL

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

2.16 NATIONAL INSURANCE ON SHARE AWARDS

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

2.17 INTEREST INCOME

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

2.18 OPERATING LEASES: LESSEE

Rentals paid under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 CURRENT AND DEFERRED INCOME TAX

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that a change is attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity. In this case, the tax 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 at the balance sheet date in the countries where the company operates and generates income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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:

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and physical condition of the assets. See Note 9 for the carrying amount of property, plant and equipment, and Note 2.5 for the useful economic lives for each class of assets.

Impairment of trade and other receivables

The company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. See Note 11 for the net carrying amount of the receivables.

Allowance for returns

In calculating revenue for the year the company makes an allowance for the expected returns from sales in the year. When assessing the allowance for returns, management considers historical experience, customer inventory levels and changes in demand and acceptance of products by end customers. See Note 4 for an analysis of revenue for the year.

Allowance for price protection

In calculating revenue for the year the company makes an allowance for the expected price reduction to customers in the future. When assessing the allowance for price protection, management considers historical experience, customer inventory levels and changes in demand and acceptance of products by end customers.

4. REVENUE

The whole of the revenue is attributable to the company's principal activity.

Analysis of revenue by country of destination:

	2015 £000	2014 £000
United Kingdom	84,276	135,702
Rest of Europe	13,818	13,838
	<u>98,094</u>	<u>149,540</u>

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

5. OPERATING PROFIT

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

	2015	2014
	£000	£000
Wages and salaries	12,823	11,578
Social security costs	2,091	1,833
Other pension costs (Note 18)	726	688
Share based payments (Note 20)	877	932
	16,517	15,031
Staff costs		
Depreciation of property, plant and equipment (Note 9)	476	419
Loss on disposal of property, plant and equipment	2	1
Operating lease charges	349	528
Exchange differences	11	47
Impairment of trade receivables	(114)	99
Cost of inventories recognised as an expense	33,751	44,569
Impairment of inventory (included in 'cost of sales')	(3,416)	2,331
Audit fees payable to the company's auditor	146	132
Non-audit fees payable to the company's auditor for tax compliance services	84	183
All other assurance services payable to the company's auditor	17	-

6. EMPLOYEES AND DIRECTORS

EMPLOYEES

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

	2015	2014
	No.	No.
By activity:		
Management and administration	94	85
Sales and marketing	49	49
	143	134

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

6. EMPLOYEES AND DIRECTORS (continued)

DIRECTORS

The directors' emoluments were as follows:

	2015 £000	2014 £000
Directors' emoluments	1,044	873
Company contributions to defined contribution pension schemes	40	39
	<u>1,084</u>	<u>912</u>

During the year retirement benefits were accruing to 2 directors (2014 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £599,000 (2014 - £488,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £23,000 (2014 - £22,000).

The highest earning director exercised £Nil (2014 - £Nil) share options during the year.

During the year no directors received shares under the long term incentive schemes (2014 -1). No (2014 - 1) director exercised share options during the year.

7. INTEREST INCOME AND EXPENSE

	2015 £000	2014 £000
Finance income		
Interest receivable from group companies	203	-
Bank interest receivable	-	7
Finance expense		
Loans from group companies	(371)	(470)
Net finance cost	<u>(168)</u>	<u>(463)</u>

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

8. INCOME TAX

	2015 £000	2014 £000
Current tax:		
UK corporation tax on profits for the year	809	923
Adjustments in respect of previous periods	14	1,490
Total current tax	823	2,413
Deferred tax:		
Origination and reversal of timing differences (Note 15)	(468)	25
Tax on profit on ordinary activities	355	2,438

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2014 - *higher than*) the standard rate of corporation tax in the UK for the year ended 31 December 2015 of 20.25% (2014 - 21.5%). The differences are explained below:

	2015 £000	2014 £000
Profit on ordinary activities before tax	2,685	3,086
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014 - 21.5%)	544	663
Effects of:		
Expenses not deductible for tax purposes	44	60
Capital allowances for year in excess of depreciation	(29)	(4)
Adjustments to tax charge in respect of prior periods	14	1,490
Timing differences relating to share option expense	(396)	29
Disallowable share option expense	178	200
Total tax charge for the year	355	2,438

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

8. INCOME TAX (continued)

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

Other than the deferred tax assets shown in Note 15, there were no factors that may affect future tax charges.

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly the company's profits for its accounting period are taxed at a blended rate of 20.25%.

In addition to the changes in corporation tax disclosed above, further changes to the UK corporation tax system were announced in the July 2015 UK budget statement. These include proposals to reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. These further changes had not been substantively enacted at the balance sheet date and therefore are not reflected in these financial statements.

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost			
At 1 January 2015	1,875	1,203	3,078
Additions	1,186	668	1,854
Disposals	(1,841)	(254)	(2,095)
At 31 December 2015	1,220	1,617	2,837
Depreciation			
At 1 January 2015	1,780	826	2,606
Charge for the year	182	294	476
Disposals	(1,839)	(254)	(2,093)
At 31 December 2015	123	866	989
Net book value			
At 31 December 2015	1,097	751	1,848
<i>At 31 December 2014</i>	<i>95</i>	<i>377</i>	<i>472</i>

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

10. INVENTORIES

	2015 £000	2014 £000
Finished goods and goods for resale	-	4,878
	<u>-</u>	<u>4,878</u>
	<u>-</u>	<u>4,878</u>

The difference between purchase price or production cost of inventories and their replacement cost is not material.

Inventories are stated after provisions for impairment of £Nil (2014 - £3,416,000).

On 1 May 2015 all inventories were sold to another group company.

11. TRADE AND OTHER RECEIVABLES

	2015 £000	2014 £000
Trade receivables	18,068	28,053
Amounts owed by group undertakings	83,094	93,298
Other receivables	-	2
Prepayments and accrued income	148	1,634
Deferred taxation (Note 15)	1,052	584
	<u>102,362</u>	<u>123,571</u>

Deferred taxation of £1,052,000 (2014 - £584,000) is due after more than one year.

Amounts owed by group undertakings are unsecured, repayable on demand and, except as detailed below, interest free.

Included in Amounts owed by group undertakings is £83,059,000 (2014 - £84,175,000) which has been deposited with group treasury by the company under a group cash pooling system. At 31 December 2015, the balance was denominated in a combination of British Pounds, United States of America Dollars and Euros and bore interest at either 1% over one month LIBOR for British Pound and United States of America Dollar denominated amounts or at 1% over one month EURIBOR for Euro denominated amounts.

Trade receivables are stated after provisions for impairment of £Nil (2014 - £Nil).

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

12. CREDITORS: Amounts falling due within one year

	2015	2014
	£000	£000
Creditors	5,324	7,011
Amounts owed to group undertakings	1,015	5,960
Corporation tax	383	386
Taxation and social security	3,443	13,781
Accruals and deferred income	32,561	38,047
	42,726	65,185

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

13. CREDITORS: Amounts falling due after more than one year

	2015	2014
	£000	£000
Amounts owed to group undertakings	38,543	38,287
	38,543	38,287

Included in Amounts owed to group undertakings is £38,543,000 (2014 - £38,287,000) on which interest is charged on the principal amount at the rate of Euro Overnight Index Average plus 1% at the end of each consecutive period of three months. The interest charged in 2015 was £371,000 (2014 - £470,000). The principal and interest are due for repayment by 2016. On 19 February 2016, the loan terms were renegotiated. See Note 21.

14. PROVISIONS FOR LIABILITIES

	2015	2014
	£000	£000
Provision for social security on share awards granted	499	233
	499	233

The provision for social security on share awards granted crystallises on exercise of the share awards which may take place during a period of up to 10 years from the date of grant (see Note 20 for further details).

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

15. DEFERRED TAX ASSET

	2015 £000	2014 £000
Opening deferred tax asset	584	609
Charged/(credited) to the income statement	468	(25)
At end of year	1,052	584

The deferred tax asset is made up as follows:

	2015 £000	2014 £000
Accelerated capital allowances	229	200
Timing differences relating to share option expense	823	384
	1,052	584

There are no unrecognised deferred tax assets (2014 - £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.

£960,000 (2014 - £504,000) of the deferred tax asset is due after more than twelve months.

16. FINANCIAL INSTRUMENTS

	2015 £000	2014 £000
Financial assets		
Financial assets measured at amortised cost	101,162	121,353
	101,162	121,353
Financial liabilities		
Financial liabilities measured at amortised cost	(77,443)	(89,305)
	(77,443)	(89,305)

Financial assets measured at amortised cost comprise trade receivables, amounts owed by group undertakings and other receivables.

Financial liabilities measured at amortised cost comprise trade creditors, amounts due to group undertakings and accruals and deferred income.

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 31 December 2015

17. SHARE CAPITAL

Ordinary shares of £1 each:

	2015 No.	2015 £000
Allotted and fully paid		
At 1 January	10,521,031	10,521
Issued during the year	-	-
At 31 December	10,521,031	10,521

18. POST-EMPLOYMENT BENEFITS

Defined Contribution Scheme

The company operates a defined contribution 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 £726,000 (2014 - £688,000). There were outstanding contributions of £Nil (2014 - £Nil) payable to the fund at the balance sheet date.

19. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2015 the Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2015 £000	2014 £000
Not later than 1 year	14	528
Later than 1 year and not later than 5 years	1,477	-
Later than 5 years	2,035	-
Total	3,526	528

20. SHARE BASED PAYMENTS

In this note '\$' is used to denote United States of America Dollars.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

20. SHARE BASED PAYMENTS (continued)

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 incentive share options is not to be less than the fair market value of Activision Blizzard's common stock at the date of grant, and in the case of non-qualified options, the exercise price must exceed or be equal to 85% of the fair market value of Activision Blizzard's common stock at the date of grant. Options typically become exercisable in installments 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 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. Restricted shares are issued and outstanding upon grant; however, restricted share holders are restricted from selling the shares until they vest. 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 2015, the aggregate intrinsic value of the non-vested restricted share rights was approximately \$4,535,000 (£3,063,000) (2014 - \$3,658,000 (£2,352,000)) with a weighted average remaining contractual term of 1.97 (2014 - 1.68) years.

Share Options Outstanding

Out of the 282,636 (2014 - 279,699) outstanding options, 132,749 (2014 - 114,036) options were exercisable. Options exercised in 2015 resulted in 60,468 (2014 - 52,655) shares being issued at a weighted average price of \$12.79 (2014 - \$12.37) each. The related weighted average share price during the year for share options exercised over the year was \$27.94 (2014 - \$20.68) per share.

The total charge for the year, excluding NI charges, relating to share based remuneration included in these financial statements was £877,000 (2014 - £932,000), all of which related to equity-settled share based payment transactions. After deferred tax the total charge was £492,000 (2014 - £954,000).

ACTIVISION BLIZZARD UK LTD

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2015

20. SHARE BASED PAYMENTS (continued)

Share options outstanding in respect of the company's employees at 31 December 2015 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)
\$9.18 - \$10.38	9.61	6,880	1.69
\$10.47 - \$10.47	10.47	2,700	2.88
\$10.66 - \$10.66	10.66	26,560	6.86
\$10.91 - \$10.91	10.91	1,300	5.18
\$11.54 - \$11.54	11.54	10,000	3.86
\$11.88 - \$11.88	11.88	16,100	4.85
\$12.98 - \$12.98	12.98	22,160	5.86
\$17.72 - \$17.72	17.72	35,035	7.87
\$20.10 - \$20.10	20.10	90,350	8.87
\$34.59 - \$34.59	34.59	71,551	9.87
	20.87	282,636	7.92

21. POST BALANCE SHEET EVENTS

On 19 February 2016, the terms of the company's amounts owed to group undertakings amounting to £38,543,000 loan (Note 13) were revised. This amount is now repayable in seven years with interest charged at 0.3975% above the Bank of England base rate payable on a quarterly basis.

22. CONTROLLING PARTIES

The immediate parent undertaking is Activision Europe Limited, a company incorporated in England and Wales.

The ultimate parent undertaking and controlling party is Activision Blizzard, Inc. Activision Blizzard, Inc., is also the parent undertaking of the largest and smallest group in which the results of the company are consolidated. 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., 3100 Ocean Park Boulevard, Santa Monica, California, 90405, USA. Activision Blizzard, Inc. is incorporated in the USA.

23. FIRST TIME ADOPTION OF FRS 101

The policies applied under the company's previous accounting framework are not materially different to FRS 101 and have not impacted on Equity or the Statement of Comprehensive Income. Therefore no reconciliations from the date of transition have been presented.