

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

	At December 31, 2018	At December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,225	\$ 4,713
Accounts receivable, net of allowances of \$190 and \$279, at December 31, 2018 and December 31, 2017, respectively	1,035	918
Inventories, net	43	46
Software development	264	367
Other current assets	539	476
Total current assets	6,106	6,520
Software development	65	86
Property and equipment, net	282	294
Deferred income taxes, net	403	459
Other assets	482	440
Intangible assets, net	735	1,106
Goodwill	9,762	9,763
Total assets	\$ 17,835	\$ 18,668
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 253	\$ 323
Deferred revenues	1,493	1,929
Accrued expenses and other liabilities	896	1,411
Total current liabilities	2,642	3,663
Long-term debt, net	2,671	4,390
Deferred income taxes, net	18	21
Other liabilities	1,147	1,132
Total liabilities	6,478	9,206
Commitments and contingencies (Note 22)		
Shareholders' equity:		
Common stock, \$0.000001 par value, 2,400,000,000 shares authorized, 1,192,093,991 and 1,186,181,666 shares issued at December 31, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	10,963	10,747
Less: Treasury stock, at cost, 428,676,471 shares at December 31, 2018 and December 31, 2017	(5,563)	(5,563)
Retained earnings	6,558	4,916
Accumulated other comprehensive loss	(601)	(638)
Total shareholders' equity	11,357	9,462
Total liabilities and shareholders' equity	\$ 17,835	\$ 18,668

The accompanying notes are an integral part of these Consolidated Financial Statements.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in millions, except per share data)

	For the Years Ended December 31,		
	2018	2017	2016
Net revenues			
Product sales	\$ 2,255	\$ 2,110	\$ 2,196
Subscription, licensing, and other revenues	5,245	4,907	4,412
Total net revenues (Note 2)	7,500	7,017	6,608
Costs and expenses			
Cost of revenues—product sales:			
Product costs	719	733	741
Software royalties, amortization, and intellectual property licenses	371	300	331
Cost of revenues—subscription, licensing, and other revenues:			
Game operations and distribution costs	1,028	984	851
Software royalties, amortization, and intellectual property licenses	399	484	471
Product development	1,101	1,069	958
Sales and marketing	1,062	1,378	1,210
General and administrative	832	760	634
Total costs and expenses	5,512	5,708	5,196
Operating income	1,988	1,309	1,412
Interest and other expense (income), net (Note 17)	71	146	214
Loss on extinguishment of debt	40	12	92
Income before income tax expense	1,877	1,151	1,106
Income tax expense	64	878	140
Net income	<u>\$ 1,813</u>	<u>\$ 273</u>	<u>\$ 966</u>
Earnings per common share			
Basic	\$ 2.38	\$ 0.36	\$ 1.30
Diluted	\$ 2.35	\$ 0.36	\$ 1.28
Weighted-average number of shares outstanding			
Basic	762	754	740
Diluted	771	766	754

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

	For the Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$ 1,813	\$ 273	\$ 966
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	20	(181)	(9)
Provision for inventories	6	33	42
Depreciation and amortization	509	888	829
Amortization of capitalized software development costs and intellectual property licenses (1)	489	311	321
Loss on extinguishment of debt (Note 13)	40	12	92
Amortization of debt discount and financing costs	6	12	21
Share-based compensation expense (2)	209	176	147
Other	1	28	4
Changes in operating assets and liabilities, net of effect from business acquisitions:			
Accounts receivable, net	(114)	(165)	84
Inventories	(5)	(26)	32
Software development and intellectual property licenses	(372)	(301)	(362)
Other assets	(51)	(97)	(10)
Deferred revenues	(122)	220	(35)
Accounts payable	(65)	85	(50)
Accrued expenses and other liabilities	(574)	945	83
Net cash provided by operating activities	1,790	2,213	2,155
Cash flows from investing activities:			
Proceeds from maturities of available-for-sale investments	116	80	—
Purchases of available-for-sale investments	(209)	(135)	—
Acquisition of business, net of cash acquired (see Note 23)	—	—	(4,586)
Capital expenditures	(131)	(155)	(136)
Other investing activities	(6)	3	(7)
Net cash used in investing activities	(230)	(207)	(4,729)
Cash flows from financing activities:			
Proceeds from issuance of common stock to employees	99	178	106
Tax payment related to net share settlements on restricted stock units	(94)	(56)	(115)
Dividends paid	(259)	(226)	(195)
Proceeds from debt issuances, net of discounts	—	3,741	6,878
Repayment of long-term debt	(1,740)	(4,251)	(6,104)
Premium payment for early redemption of note (Note 13)	(25)	—	(63)
Other financing activities	(1)	(10)	(7)
Net cash (used in) provided by financing activities	(2,020)	(624)	500
Effect of foreign exchange rate changes on cash and cash equivalents	(31)	76	(56)
Net increase (decrease) in cash and cash equivalents and restricted cash	(491)	1,458	(2,130)
Cash and cash equivalents and restricted cash at beginning of period	4,720	3,262	5,392
Cash and cash equivalents and restricted cash at end of period	\$ 4,229	\$ 4,720	\$ 3,262

(1) Excludes deferral and amortization of share-based compensation expense.

(2) Includes the net effects of capitalization, deferral, and amortization of share-based compensation expense.

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