

Registered number: 01669057

**SEGA EUROPE LIMITED**

**ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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<b>SEGA EUROPE LIMITED</b>
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**COMPANY INFORMATION**

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**DIRECTORS**

G Dale  
K Matsubara (resigned 31 July 2020)  
T Miyazaki  
D Ward  
T P Heaton (appointed 12 June 2020)

**COMPANY SECRETARY**

Nicola Ormród

**REGISTERED NUMBER**

01669057

**REGISTERED OFFICE**

27 Great West Road  
Brentford  
Middlesex  
TW8 9BW

<b>SEGA EUROPE LIMITED</b>
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**CONTENTS**

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	Page
<b>Strategic Report</b>	1 - 7
<b>Directors' Report</b>	8 - 9
<b>Directors' Responsibilities Statement</b>	10
<b>Independent Auditor's Report to the members of SEGA Europe Limited</b>	11 - 13
<b>Profit and Loss Account and Other Comprehensive Income</b>	14
<b>Balance Sheet</b>	15
<b>Statement of Changes in Equity</b>	16
<b>Notes to the Financial Statements</b>	17 - 39

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## SEGA EUROPE LIMITED

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### STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2020

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#### INTRODUCTION

The directors present their Annual Report, consisting of the Strategic Report and the Directors' Report, and the audited financial statements of SEGA Europe Limited ("the company") for the year ended 31 March 2020.

#### PRINCIPAL ACTIVITY, REVIEW OF BUSINESS AND FUTURE DEVELOPMENT

The company's principal activity is the marketing and distribution of interactive entertainment software in Europe and certain other territories.

Turnover increased by 50% from £107,680,000 to £161,576,000 for the year to 31 March 2020 due to new releases including a new historical era in the 'Total War series; 'Total War: Three Kingdoms' which sold over one million units worldwide in under a week from release. The speed in which the milestone was achieved is a record for the critically acclaimed strategy series. Concurrent playing figures during this period reached over 190,000, a record for the Total War series. This combined with its sales performance, marked Total War: THREE KINGDOMS one of the biggest launches on Steam in 2019.

In November, Football Manager 2020 was released across PC, Google Stadia, Nintendo Switch, iOS and Android selling over 3 million units across all devices. Mario & Sonic at the Olympic Games Tokyo 2020 was also released in November on the Nintendo Switch console. It is the sixth instalment of the series which features Mario, Nintendo's famous plumber, and Sega's Sonic the Hedgehog competing in Olympic sports. The title has sold over 900,000 units as at 31 March 2020.

To mark the 30<sup>th</sup> Anniversary of its original launch, SEGA celebrated the cultural impact of the console wars with the release of the SEGA Mega Drive Mini in September 2019. The 'Mini' is half the size of the original SEGA Mega Drive and comes pre-loaded with 40 titles from both first-party and third-party development teams. This is the first return to the hardware business after discontinuing the SEGA Dreamcast in 2001. The Mini was released to critical acclaim and is widely regarded as one of the best mini retro consoles with over 300,000 units sold since its release.

The continued success of Two Point Hospital saw the PC version surpass the 1 million sales milestone. The franchise launched on PlayStation 4, Xbox One, and Nintendo Switch consoles in February 2020 and also on Xbox Game Pass and Xbox Game Pass for PC to continue growth and reach new audiences.

Back catalogue sales also performed well with sales of The Creative Assembly's Total War™: WARHAMMER® II being particularly strong.

#### KEY PERFORMANCE INDICATORS (KPIs)

The company focuses on various KPIs for discussion within 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 for appraising the 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.

Overall operating profit for the year was £6,883,000 compared to an operating profit of £4,594,000 in 2019. The operating margin remained stable at 4.3%.

The profit for the year, after taxation, amounted to £5,779,000 (2019 - £4,336,000).

By 31 March 2020, the company had net assets of £25,961,000 (2019 - £20,182,000).

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## SEGA EUROPE LIMITED

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### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2020

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#### BUSINESS OUTLOOK

The UK's referendum decision to leave the EU, which occurred on 31 December 2020 has increased uncertainty. It is difficult to evaluate all of the potential implications on the company's operations and the wider economy, which could impact the reported performance and results of the company. Such challenges include the ability to attract key skilled workers to help build and grow the studios due to the reduced access to the 'talent pool' previously available as an EU Member State. The directors are monitoring the situation on an ongoing basis to identify issues which may impact the company.

The coronavirus ("Covid-19") pandemic spread rapidly in early 2020, causing major disruptions to businesses and economic activities around the world. The company has taken a number of health and safety measures to monitor and reduce the effects of the Covid-19 pandemic on our staff, including working from home and social distancing.

The company's principle activity is marketing and distribution of interactive entertainment software, and as such a significant proportion of our work can be performed remotely. The company has moved to remote working arrangements which are running smoothly, to ensure the safety of our staff and to enable our business to operate with minimal impact.

Software revenues have enjoyed a short-term boost from the current situation including "lockdown". All console sales are up year-on-year as users stay at home more which goes against the historical console lifecycle trend. However, there still remain a number of unknowns which will require the current situation to be continually monitored before the medium to long term impact can be understood.

On 10 November 2020 Microsoft released their 'next generation consoles' the Xbox Series X and Series S whilst Sony also released their own next-generation PlayStation 5 or "PS5" on 12 November 2020. Key features across both devices are expected to include the ability to allow subscribers to stream content, backwards compatibility and cloud functionality\*.

Management believe worldwide software sales are expected to grow in the medium term with mobile and subscription-based business models being the main growth drivers. Cloud gaming revenues have already outperformed original projections with the highest year-on-year growth rates across all hardware formats.

From a longer-term market perspective, the business environment of the games industry is undergoing dynamic change around the world. In particular, currently, in light of expectations of rapid growth in the market on the back of advances in 5G, cloud, and other technologies, global tech companies with deep pockets are successively getting into the market with Google Stadia and Amazon Luna game streaming services impacting on the traditional model with new tools and technologies. Epic Games is consolidating rapidly with an aggressive user acquisition strategy. As a content provider, this continues to give SEGA various channels to grow and the opportunity to reach new audiences in new markets which previously may have been subject to barriers to entry.

\* Eurogamer 6 November 2020

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<b>SEGA EUROPE LIMITED</b>
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**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2020**

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**SECTION 172(1) STATEMENT**

The company's long-term strategy is to maintain its current revenue streams and to identify additional revenue stream opportunities. Monitoring of the revenue streams by the directors is undertaken on an ongoing basis to identify threats to the current revenue streams and to action strategic changes where necessary.

The company is committed to providing a high level of service to its customers in order to maintain the current revenue streams and regular discussions take place with them to ensure the service requirements of clients are met. Relationships with customers are seen as an essential part of providing high service levels. The following paragraphs summarise how the Directors' fulfil their duties:

**Our Values**

Launched in June 2015, with the support of our staff, we have aimed to live our Company Purpose and Values and make them part of the culture of the company. We have aspired to create innovative, creative experiences for our talented SEGA team and have fun along the way. #SEGAlife.

**Our People**

The company is committed to being a responsible business. Consultation with employees continues at all levels, with the aim of ensuring employee views are taken into consideration when decisions are made that are likely to affect their interests. Our behaviour is aligned with the expectations of our people, clients, investors, communities and society as a whole. People are at the heart of our organisation. Communication with all employees continues through the various SEGA Value Groups, Company "Shout Outs", and the intranet website which is updated regularly with company and industry news.

For our business to succeed, we encourage our people's performance and develop their talent, while ensuring we operate as efficiently as possible. We must also ensure we share our Company Purpose and Values that inform and guide our behaviour so we achieve our goals in the right way.

The Company is committed to the recruitment and retention of talented people, and therefore offers a competitive compensation and benefits package. It believes in rewarding performance and consequently SEGA operates a cash bonus plan that rewards all employees for the success of the Company and their own personal performance.

**Business Relationships**

Our strategy prioritises organic growth to existing clients and bringing new clients into the group. To do this, we need to develop and maintain strong client relationships. We value all of our partners and have multi-year contracts with our key suppliers and long-term relationships in place with CSR related organisations.

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## SEGA EUROPE LIMITED

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### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2020

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#### Community and Environment

The company's approach is to use our position of strength to create positive change for the people and communities with which we interact. SEGA has a number of active values groups including, but not limited to LGBTQ+, BAME, Disability and Mental Health networks which look to raise awareness and educate about the experiences and challenges a diverse work force may face.

SEGA Europe has expanded upon the work done by Sports Interactive to deliver recyclable packaging across its entire PC portfolio following their eco-friendly packaging initiative for #FM20. We want to leverage our expertise and enable colleagues to support the communities around us.

#### Shareholders

SEGA Europe Limited is a wholly owned subsidiary of SEGA Corporation and the ultimate parent company and controlling party is SEGA Sammy Holdings Inc, a company incorporated in Japan. The Board of the ultimate parent entity is committed to openly engaging with the shareholders, as they recognise the importance of a continuing effective dialogue, whether with major institutional investors, private or employee shareholders. As a group, it is important to us that shareholders understand our strategy and objectives, so these must be explained clearly, feedback heard and any issues or questions raised properly considered. High standards of business conduct are maintained by the company to maintain its reputation in its business sector. The directors regularly review the activities of the company to ensure it meets its stakeholder obligations.

**SEGA EUROPE LIMITED**

**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2020**

**STREAMLINED ENERGY AND CARBON REPORTING**

The below table and supporting narrative summarise the Streamlined Energy and Carbon Reporting (SECR) disclosure in line with the requirements for a "large" unquoted company, as per The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Current reporting year	April 2019 - March 2020
Location(s) covered by scope	UK
Emissions from combustion of gas (tCO <sub>2</sub> e) (Scope 1)	802
Emissions from purchase of electricity (tCO <sub>2</sub> e) (Scope 2)	1,094
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (tCO <sub>2</sub> e) (Scope 3)	20
<b>Total gross emissions based on above (tCO<sub>2</sub>e)</b>	<b>1,916</b>
Energy consumption used to calculate emissions from combustion of gas (kWh)	4,363,438
Energy consumption used to calculate emissions from purchased electricity (kWh)	4,280,345
Energy consumption used to calculate emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (kWh)	84,318
<b>Total energy consumption based on above (kWh)</b>	<b>8,728,101</b>
Intensity ratio: tCO <sub>2</sub> e (gross Scope 1, 2 + 3) per full-time equivalents	1.88

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**SEGA EUROPE LIMITED**

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**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2020**

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### **Methodology**

Anthesis has calculated the above greenhouse gas emissions estimates to cover all material sources of emissions for which SEGA Europe Ltd is responsible. The methodology used was that of the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition, 2015). Responsibility for emissions sources was determined using the operational control approach. All emissions sources required under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 are included.

This calculation covers all of SEGA Europe Ltd's UK operations that are consolidated in the financial statement, the offices leased to conduct these operations and business travel carried out in employee owned vehicles and rental vehicles. Raw data in the form of invoices, landlord recharges and spreadsheets held by Finance has been collected from SEGA Europe Ltd's portfolio. Where data was not available, energy consumption was calculated using pro-rata extrapolation of available data. Pro-rata extrapolation was deemed as appropriate as it was only required to fill small data gaps for two sites, making up around 10% of the total energy for those sites. Energy was converted to greenhouse gas estimates using the UK Government's GHG Conversion Factors for Company Reporting 2019.

### **Energy Efficiency Action**

SEGA Europe Ltd have taken no action between 1st April 2019 and 31st March 2020 to improve energy efficiency across their portfolio.

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The company operates in a constantly evolving and highly competitive market. Our business is therefore subject to many risks and uncertainties which may affect our future financial performance.. Principal risks and uncertainties in the current environment are:

#### **Reliance on third party platforms**

56.6% of our gross revenues were generated through third-party digital delivery platforms such as Steam, Epic, PlayStation Network, Microsoft Xbox Live, and other third-party services. Connectivity issues could prevent customers from accessing third-party digital delivery platforms and adversely affect our ability to successfully market and sell our products.

We also derive significant revenues from the sale of products made for video game platforms manufactured by third parties such as the Nintendo Switch, Sony's Playstation and Microsoft's Xbox. The success of our business is subject to the continued popularity of these platforms and our ability to develop a balanced portfolio of commercially successful games across all formats.

## SEGA EUROPE LIMITED

### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2020

#### Competitors

Our business is dependent upon our ability to develop, market and distribute world-class titles, which require increasing budgets for development and marketing. We are therefore reliant on our development studios to craft detailed and authentic gaming experiences, giving loyal fans worlds in which to immerse themselves.

The availability of significant financial resources has become a major competitive factor in developing and marketing software games. Some of our competitors have greater financial, technical, personnel, and other resources than we do and are able to finance larger development and marketing budgets.

We also rely on third party software developers for the development of some of our titles. Software developers who have developed titles for us in the past under 'work for hire' arrangements may not be available to develop software for us in the future as they look to develop their own internally generated IP.

#### Covid-19

The coronavirus ("Covid-19") pandemic spread rapidly in early 2020, causing major disruptions to businesses and economic activities around the world. The company has taken a number of health and safety measures to monitor and reduce the effects of the Covid-19 pandemic on our staff, including working from home and social distancing. Potential risks imposed to the company by the Covid-19 pandemic include:

- Reduced efficiency due to the home working environment and changes in communication channels leading to delays in the development life cycle;
- Cyber-attacks as pandemic has seen an unprecedented rise in phishing and ransomware specifically targeting organisations' IT infrastructure increasing the risk of business disruption, information and financial loss; and
- Potential slowdown in recruitment activity.

At the time of writing (March 2021) the company's IT systems have proved to be sufficiently robust to enable remote working across the company and wider SEGA organisation. Whilst there was some initial disruption and loss of efficiency during the switch to home working, the company has taken a number of steps to ensure all staff have the appropriate equipment and resources to perform their daily duties. The loss of face time has been mitigated through the use of proprietary business communication platforms which facilitate workspace chat and video conferencing.

#### IT security

A breach of IT security could result in major business disruption and reputational damage to the company as well as an operational and financial cost. The company has an experienced and dedicated IT team, incorporating a cyber security function. The IT team send regular communications throughout the company raising awareness of the latest phishing and malware attacks.

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

*John Ward*

08206150CFC9582300E742EB92B11BCE contractworks.

**D Ward**  
Director

Date: 31 March 2021

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<b>SEGA EUROPE LIMITED</b>
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**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 MARCH 2020**

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The directors present their report and the financial statements for the year ended 31 March 2020.

**DIVIDENDS**

The profit for the year, after taxation, amounted to £5,779,000 (2019 - £4,336,000).

The directors approved and paid a dividend of £Nil (2019 - £Nil) in the year.

**DIRECTORS**

The directors who served during the year were as follows:

G Dale  
K Matsubara (resigned 31 July 2020)  
T Miyazaki  
D Ward

**FINANCIAL INSTRUMENTS**

The company has significant foreign currency trading inflows and outflows. The company's policy in managing this financial currency risk is to ensure the mix of overall foreign currency cash flows are of comparable value thereby minimising the company's exposure to currency risk. During the financial year ended 31 March 2019 the company made a foreign exchange cost of £155,000 (2019 - loss of £745,000) principally due to the Euro and US Dollar fluctuating against the British Pound.

**ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS**

SEGA Group have a small number of key licencing agreements which allow us to distribute physical boxed product and digital downloadable content on Nintendo Switch, Sony PlayStation and Microsoft Xbox consoles as well as mobile content and services through Apple iOS and Google Android. Building strong relationships with these partners will ensure the long-term success of SEGA as they have significant control over the approval and distribution of the products and services that we market and distribute for their consoles, systems and devices.

With all suppliers and customers, it is important to the company to ensure both parties work quickly to resolve issues, continually look for ways to improve operations and help each other to reap benefits from the relationship. This is achieved by the company through effective, open two way communication. A mutual appreciation and willingness to consider the needs and opinions of the other party clears the ground for the company to work with suppliers and customers in ways which maximise the interests of both parties.

**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 the director is aware, there is no relevant audit information of which the auditor is unaware, and
- the 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 auditor is aware of that information.

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**SEGA EUROPE LIMITED**

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**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2020**

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**GOING CONCERN**

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors are satisfied that the Balance Sheet remains strong and the company remains well financed with considerable cash. During 2020 the company has continued to generate positive cash inflows from operations. The Directors have prepared an assessment of forecast cash flow for a period of 12 months from the date of approval of these financial statements. These forecasts reflect the current and anticipated impact of COVID-19 on the operations and its financial resources and include a severe but plausible downside scenario. They indicate that the company will have sufficient funds to meet its liabilities as they fall due for that period and will continue to generate positive operating cash flows to fund both operations and financing requirements of the company.

Consequently, the Directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

**POST BALANCE SHEET EVENTS**

There was a group restructure after the year end, however, there was no impact on the Balance Sheet position or Profit and Loss account for the year-ended 31 March 2020. In the post year end period, as part of the restructuring, the company issued 6 ordinary shares on 1 April 2020 at a premium of some £68,794,000 and a further 2 ordinary shares on 5 November 2020 at a premium of some £4,151,000.

There have been no other significant events affecting the company since the year end.

**AUDITOR**

Under section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to have been reappointed as auditor and will therefore continue in office.

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

*John Ward*

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**D Ward**  
Director

Date: 31 March 2021

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<b>SEGA EUROPE LIMITED</b>
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**DIRECTORS' RESPONSIBILITIES STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2020**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 comply with the Companies Act 2006. They 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, and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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<b>SEGA EUROPE LIMITED</b>
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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEGA EUROPE LIMITED**

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**Opinion**

We have audited the financial statements of SEGA Europe Limited ("the company") for the year ended 31 March 2020, which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes, including the accounting policies in note 2:

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

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<b>SEGA EUROPE LIMITED</b>
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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEGA EUROPE LIMITED**

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**Strategic report and directors report**

The directors are responsible for the strategic and directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic and directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**Matters on which we are required to report by exception**

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

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or

We have nothing to report in these respects.

**Directors' responsibilities**

As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

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<b>SEGA EUROPE LIMITED</b>
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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEGA EUROPE LIMITED**

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**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Kevin Hall (Senior statutory auditor)

for and on behalf of  
**KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square  
London  
E14 5GL

31 March 2021

<b>SEGA EUROPE LIMITED</b>
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**PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 MARCH 2020**

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	Note	2020 £000	2019 £000
<b>TURNOVER</b>	4	<b>161,576</b>	107,680
Cost of sales		<b>(114,567)</b>	(70,718)
<b>GROSS PROFIT</b>		<b>47,009</b>	36,962
Selling and distribution costs		<b>(18,062)</b>	(13,502)
Administrative expenses		<b>(30,004)</b>	(26,889)
Other operating income	5	<b>7,940</b>	8,023
<b>OPERATING PROFIT</b>	6	<b>6,883</b>	4,594
Interest receivable and similar income	10	<b>157</b>	9
Interest payable and similar expenses		<b>(60)</b>	(11)
<b>PROFIT BEFORE TAXATION</b>		<b>6,980</b>	4,592
Taxation on profit	11	<b>(1,201)</b>	(256)
<b>PROFIT AFTER TAXATION</b>		<b>5,779</b>	4,336
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>			
Other comprehensive income for the year, net of tax		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>5,779</b>	4,336

The notes on pages 17 to 39 form part of these financial statements.

**SEGA EUROPE LIMITED**  
**REGISTERED NUMBER: 01669057**

**BALANCE SHEET**  
**AS AT 31 MARCH 2020**

	Note	2020 £000	2019 £000
<b>FIXED ASSETS</b>			
Tangible assets	12	4,444	915
Investments	13	-	-
		<u>4,444</u>	<u>915</u>
<b>CURRENT ASSETS</b>			
Stocks	14	1,864	595
Debtors	15	34,692	54,561
Cash at bank and in hand	16	47,008	27,215
		<u>83,564</u>	<u>82,371</u>
Creditors: amounts falling due within one year	17	(59,649)	(63,104)
		<u>23,915</u>	<u>19,267</u>
<b>NET CURRENT ASSETS</b>			
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>28,359</u>	<u>20,182</u>
Creditors: amounts falling due after more than one year	18	(2,398)	-
		<u>25,961</u>	<u>20,182</u>
<b>NET ASSETS</b>		<u>25,961</u>	<u>20,182</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	22	10,000	10,000
Profit and loss account	23	15,961	10,182
		<u>25,961</u>	<u>20,182</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 31 March 2021.

**D Ward**  
Director

*John Ward*

0B206150CFC9582300E742E892B11BCE contractworks.

The notes on pages 17 to 39 form part of these financial statements.

<b>SEGA EUROPE LIMITED</b>
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**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2020**

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	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2019	10,000	10,182	20,182
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>			
Profit for the year	-	5,779	5,779
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	-	5,779	5,779
<b>AT 31 MARCH 2020</b>	10,000	15,961	25,961

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**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2019**

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	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2018	10,000	5,846	15,846
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>			
Profit for the year	-	4,336	4,336
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	-	4,336	4,336
<b>AT 31 MARCH 2019</b>	10,000	10,182	20,182

The notes on pages 17 to 39 form part of these financial statements.

<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**1. GENERAL INFORMATION**

SEGA Europe Limited ("the company") is a private company and is incorporated and domiciled in the United Kingdom. The address of its registered office is 27 Great West Road, Brentford, Middlesex, TW8 9BW.

The company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The principal accounting policies adopted by the Company are set out in note 2.

**2. ACCOUNTING POLICIES**

**2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided in note 27.

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

By virtue of section 401 of the Companies Act 2006, the company is exempt from preparing consolidated financial statements as the results of this company are included in the financial statements of its ultimate parent company, SEGA Sammy Holdings Inc., which are publicly available.

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**SEGA EUROPE LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**2. ACCOUNTING POLICIES (CONTINUED)**

**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 IFRS 7 Financial Instruments: Disclosures
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

SEGA Sammy Holdings Inc. is the parent undertaking of the largest group of undertakings in which these financial statements are consolidated. Copies of the consolidated financial statements of SEGA Sammy Holdings Inc. which are prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), may be obtained from the head office Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo 141-0033, Japan or from the company's website on [www.segasammy.co.jp/english/](http://www.segasammy.co.jp/english/).

**2.3 GOING CONCERN**

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors are satisfied that the Balance Sheet remains strong and the company remains well financed with considerable cash. During 2020 the company has continued to generate positive cash inflows from operations. The Directors have prepared an assessment of forecast cash flow for a period of 12 months from the date of approval of these financial statements. These forecasts reflect the current and anticipated impact of COVID-19 on the operations and its financial resources and include a severe but plausible downside scenario. They indicate that the company will have sufficient funds to meet its liabilities as they fall due for that period and will continue to generate positive operating cash flows to fund both operations and financing requirements of the company.

Consequently, the Directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

**2.4 IMPACT OF NEW INTERNATIONAL REPORTING STANDARDS, AMENDMENTS AND INTERPRETATIONS**

**IFRS 16**

There are no material adjustments required to be made to the company's financial statements as a result of the application of IFRS 16.

The company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2019.

On transition to IFRS 16, the company elected to apply the following practical expedients:

- the company has not reassessed contracts that were not identified as leases under IAS 17 and

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<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**2. ACCOUNTING POLICIES (CONTINUED)**

**IMPACT OF NEW INTERNATIONAL REPORTING STANDARDS, AMENDMENTS AND  
2.4 INTERPRETATIONS (CONTINUED)**

IFRIC 4 to determine whether these is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or modified on or after 1 April 2019.

- for leases previously classified as operating leases under IAS 17 -
- the company has applied a single discount rate to a portfolio of leases with similar characteristics.
- the company has adjusted the right-of-use assets by the amount of IAS 37 onerous contract provisions immediately before the date of initial application, as an alternative to an impairment review.
- the company has applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of remaining lease term at the date of application.
- the company has excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- the company has used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet at 31 March 2019.

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**SEGA EUROPE LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**2. ACCOUNTING POLICIES (CONTINUED)**

**2.5 REVENUE**

The company's revenue is driven by sales of interactive software, brought to the market as physical goods sold in retail outlets or digital products which are downloadable.

Revenue comprises:

- Physical goods sold into retail via third party distributors.

Products are sold via distribution partners, the most significant being Koch who manage the majority of the Company's physical distribution within Europe. Turnover is the total amount receivable by the company in the ordinary course of business for goods supplied and services provided, excluding VAT, price protection, credits, sales allowance and net of trade discounts, during the year.

Revenue is recognised upon the performance of the obligation to the customer when control of the product passes to the customer. Settlement terms for physical goods is typically 30 days from the end of month of the revenue being recognised.

- Digital content is created by the online stores such as Steam (PC), Sony (Playstation) and Microsoft (Xbox) in the form of downloadable keys using the Company's IP. Such revenues are recorded net (i.e. at the amount received by the company). Revenue from released self-published games is recognised in accordance with IFRS 15, at the point when the game is available for the customer to download. Revenue is recognised on an accruals basis based on the online stores sales reports. Any revenues received for 'pre-orders' where a title has not been released are taken to deferred income and are recognised when the game code becomes available to download. Settlement terms vary by provider between 30 and 60 days from the end of the month.
- The company received mobile income through Apple and Android via SEGA Networks Inc. who hold the first party agreement. These sales are recognised as gross sales with the commissions deducted by Apple and Android treated as a cost of sale.
- The company also undertakes licensing agreements. Licence revenues are through a combination of minimum guarantees and future royalties streams. Revenue in respect of each agreement is recognised dependent upon the specific performance obligations of that agreement. As such management assesses when to recognise revenue in relation to these contracts on a contract by contract basis using the criteria of IFRS 15.

Namely for each contract management follows a five-step process:

1. identifying the contract with the customer;
2. identifying the performance obligations within the contract;
3. determining the transaction price;
4. allocating the transaction price to the performance obligations; and
5. recognising revenue when/as performance obligations are satisfied.

Other revenue driven from the ad hoc sales of titles or licenses to distribute titles are recognised when the performance obligations of such agreements are met by the company. Where possible

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**SEGA EUROPE LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**2. ACCOUNTING POLICIES (CONTINUED)**

**2.5 REVENUE (CONTINUED)**

the company pursues minimum payments in advance of completion of such agreements. Where balances are received in advance, they are recognised as a liability until the performance obligations are met by the company. Revenue from sales of licenses are either recognised when the performance obligations of the contract are met at a point in time or over the development phase where not distinct dependent upon the specific nature of the licence agreement.

**2.6 ROYALTIES**

Royalties payable are dealt with on an accruals basis calculated on sales arising during the financial period.

**2.7 FOREIGN CURRENCIES**

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 rounded to the nearest thousand and are presented in 'Pounds Sterling' (£'000), which is also the company's functional currency.

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date of the transaction. All foreign currency exchange gains and losses are recognised in the Profit and Loss Account.

**2.8 INTEREST INCOME**

Interest income is recognised in profit or loss using the effective interest method.

**2.9 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 profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the company in independently administered funds.

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**SEGA EUROPE LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**2. ACCOUNTING POLICIES (CONTINUED)**

**2.10 CURRENT AND DEFERRED TAXATION**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income. For income tax arising on dividends, the related tax is recognised in the income statement, statement of other comprehensive income, or in equity consistently with the transactions that generated the distributable profits.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

**2.11 INTANGIBLE ASSETS**

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.

**2.12 TANGIBLE FIXED 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 so as 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:

Leasehold improvements	- over the remaining term of the lease
Office equipment and motor vehicles	- 25% - 50%
Fixtures and fittings	- 25% - 33%

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 profit or loss.

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<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**2. ACCOUNTING POLICIES (CONTINUED)**

**2.13 VALUATION OF INVESTMENTS**

Investments in subsidiaries are measured at cost less accumulated impairment.

**2.14 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 first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet 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.

**2.15 DEBTORS**

Trade and other receivables are amounts due from group undertakings for services performed in the ordinary course of business. Debtors are included in current assets and separately disclosed any due after more than one year based on contractual terms.

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.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

**2.16 CASH**

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.

**2.17 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.

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**SEGA EUROPE LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**2. ACCOUNTING POLICIES (CONTINUED)**

**2.18 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.

**2.19 PROVISIONS FOR LIABILITIES**

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

**2.20 FINANCIAL INSTRUMENTS**

Trade debtors and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade debtor without a significant financing component) or financial liability including trade creditors is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade debtor without a significant financing component is initially measured at the transaction price.

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:

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**

All of the company's financial assets other than those which meet the criteria to be measured at amortised cost 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.

**Debt instruments at amortised cost**

Debt instruments are subsequently measured at amortised cost where they are financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**2. ACCOUNTING POLICIES (CONTINUED)****2.20 FINANCIAL INSTRUMENTS (CONTINUED)**

amount outstanding. Amortised cost is calculated using the effective interest method and represents the amount measured at initial recognition less repayments of principal plus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

**Impairment of financial assets**

The company always 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 instrument.

**Financial liabilities****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.

**2.21 DIVIDENDS**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

**2.22 LEASES**

Prior to 1 April 2019 the Company classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Only finance leases were then recognised on the balance sheet.

Rentals paid under operating leases were charged to the Profit and Loss Account on a straight line basis over the lease term. Benefits received and receivable as an incentive to sign an operating lease were recognised on a straight line basis over the lease term, unless another systematic basis was representative of the time pattern of the lessee's benefit from the use of the leased asset.

**The company as a lessee (from 1 April 2019 onwards)**

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

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**SEGA EUROPE LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**2. ACCOUNTING POLICIES (CONTINUED)**

**2.22 LEASES (CONTINUED)**

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 to discount the lease payments.

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 Balance Sheet.

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 right-of-use assets are included in the 'Intangible Assets', 'Tangible Fixed Assets' and 'Investment Property' lines, as applicable, in the Balance Sheet.

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 2.12.

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**SEGA EUROPE LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**2. ACCOUNTING POLICIES (CONTINUED)**

**2.22 LEASES (CONTINUED)**

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.

**2.23 IMPAIRMENT OF NON-FINANCIAL ASSETS**

The carrying amounts of the company's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash generating units are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

**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:

**Critical judgements**

The company sells digital products via third-party sales channels and must judge whether revenue should be recorded net (at the amount received by the company) or gross (at the end user price with the channel partner's margin recorded as a cost). The company analyses the relevant facts for each arrangement and has concluded that most such revenue should be recorded net.

**Estimation uncertainty**

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 15 for the net carrying amount of the receivables.

<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

**4. TURNOVER**

The turnover and profit before tax are attributable to the principal activity of the company.

Analysis of turnover by country of destination:

	2020 £000	2019 £000
United Kingdom	23,872	18,535
Rest of Europe	48,389	23,592
Rest of the world	89,315	65,553
	161,576	107,680

Timing of revenue recognition:

	2020 £000	2019 £000
Goods and services transferred over time	161,576	107,680
	161,576	107,680

**5. OTHER OPERATING INCOME**

	2020 £000	2019 £000
Group recharges	7,940	8,023
	7,940	8,023

Group recharges are product development and localisation recharges from SEGA Europe Limited to SEGA Publishing Europe Limited, a fellow subsidiary undertaking, and digital SG&A and marketing recharges to SEGA Corporation, the immediate parent company.

**6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

The profit on ordinary activities before taxation is stated after charging/(crediting):

	2020 £000	2019 £000
Depreciation of tangible fixed assets	547	591
Exchange differences	(155)	745
Right of use asset depreciation	952	-
Other operating lease rentals - land & buildings	-	959
Other operating lease rentals - plant & machinery	-	15
	542	1,310

<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

**7. AUDITOR'S REMUNERATION**

	2020 £000	2019 £000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	159	116
<b>FEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES IN RESPECT OF:</b>		
The auditing of accounts of associates of the company pursuant to legislation	48	24
Taxation compliance services	386	386
Audit-related assurance services	36	19
All other services	-	14
	159	116

The company recharged costs for the audit of the financial statements of related undertakings to these entities. All of the other above costs have been borne by the company with no recharge made to related undertakings.

**8. EMPLOYEES**

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

	2020 £000	2019 £000
Wages and salaries	14,811	11,064
Social security costs	2,262	1,429
Cost of defined contribution scheme	497	490
	17,570	12,983

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

	2020 No.	2019 No.
Sales, marketing and distribution	66	64
Administration	113	97
	179	161

<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**9. DIRECTORS' EMOLUMENTS**

	2020 £000	2019 £000
Directors' emoluments	1,330	598
	1,330	598

The highest paid director received remuneration of £798,000 including compensation for loss of office (2019 - £319,000). During the year no retirement benefits were accruing to the directors in respect of defined contribution pension schemes (2019 - Nil)

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £NIL (2019 - £NIL).

The Japanese directors are also executives of SEGA Corporation and the company considers their services to the company insignificant compared with those performed for SEGA Corporation and therefore no emoluments are reported for the company in respect of these directors.

**10. INTEREST RECEIVABLE**

	2020 £000	2019 £000
Interest receivable from group companies	156	9
Interest receivable on bank deposits	1	-
	157	9

<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**11. TAX ON ORDINARY ACTIVITIES**

	2020 £000	2019 £000
<b>CORPORATION TAX</b>		
Current tax on profits for the year	1,313	552
Adjustments in respect of previous periods	(120)	(336)
<b>TOTAL CURRENT TAX</b>	1,193	216
<b>DEFERRED TAX</b>		
Origination and reversal of timing differences	47	52
Changes to tax rates	(53)	(6)
Adjustments in respect of previous years	14	(6)
<b>TOTAL DEFERRED TAX</b>	8	40
<b>TAXATION ON PROFIT ON ORDINARY ACTIVITIES</b>	1,201	256

<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

**11. TAX ON ORDINARY ACTIVITIES (CONTINUED)**

**FACTORS AFFECTING TAX CHARGE FOR THE YEAR**

The tax assessed for the year is lower than (2019 - lower than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £000	2019 £000
Profit on ordinary activities before tax	6,981	4,592
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	1,326	872
<b>EFFECTS OF:</b>		
Expenses not deductible for tax purposes	34	27
Current tax adjustments to tax charge in respect of prior periods	(120)	(336)
Deferred tax adjustments in respect of prior periods	14	(6)
Impact of change in tax rate	(53)	(6)
Group relief not paid for	-	(295)
<b>TAXATION ON PROFIT ON ORDINARY ACTIVITIES</b>	<b>1,201</b>	<b>256</b>

**FACTORS THAT MAY AFFECT FUTURE TAX CHARGES**

A deferred tax asset has been recognised in the financial statements as shown in Note 21.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. A rate of 19% has been applied to the deferred tax asset at the balance sheet date.

The company carries forward unrecognised non trade losses of £566,000 (2019 - £566,000) at 31 March 2020. The directors believe that it is not likely that these losses will be utilised in future periods.

**SEGA EUROPE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

**12. TANGIBLE FIXED ASSETS**

	Leasehold Improve- ments £000	Fixtures & fittings £000	Office equipment and motor vehicles £000	Total £000
<b>COST</b>				
At 1 April 2019	890	438	4,458	5,786
Recognition of right-of-use assets on initial application of IFRS 16	4,481	-	30	4,511
At 1 April 2019 (adjusted balance)	5,371	438	4,488	10,297
Additions	-	45	472	517
Disposals	(362)	(32)	(2,534)	(2,928)
At 31 March 2020	5,009	451	2,426	7,886
<b>DEPRECIATION</b>				
At 1 April 2019	703	397	3,771	4,871
Charge for the year on owned assets	78	17	452	547
Charge for the year on right-of-use assets	943	-	9	952
Disposals	(362)	(32)	(2,534)	(2,928)
At 31 March 2020	1,362	382	1,698	3,442
<b>NET BOOK VALUE</b>				
At 31 March 2020	3,647	69	728	4,444
At 31 March 2019	187	41	687	915

<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

**12. TANGIBLE FIXED ASSETS (CONTINUED)**

Included within right of use assets the company has lease contracts for property floor space and signage with lease termination dates of 31 December 2023, equipment leases with a termination date of 31 December 2023 and motor vehicles lease with termination dates of 31 July 2020, 17 January 2023 and 14 March 2023 respectively.

Right of use assets additions comprise £4,511,000 which were recognised on 1 April 2019 and £24,000 which were acquired during the year. The additions of £4,511,000 being the net book value at 1 April 2019.

The net book value of owned and leased assets included as "Tangible fixed assets" in the Balance Sheet is as follows:

	2020 £000
Tangible fixed assets owned	861
Right-of-use tangible fixed assets	3,583
	4,444

Information about right-of-use assets is summarised below:

**Net book value**

	2020 £000
Leasehold improvements	3,538
Office equipment and motor vehicles	45
	3,583

**Depreciation charge for the year ended**

	2020 £000
Leasehold improvements	(943)
Office equipment and motor vehicles	(9)
	(952)

**Additions to right-of-use assets**

	2020 £000
Additions to right-of-use assets (See above)	4,535

<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**13. FIXED ASSET INVESTMENTS**

Included in Fixed Asset Investments is a £1 (2019 - £1) investment in SEGA Europe Overseas Limited.

**SUBSIDIARY UNDERTAKINGS**

The following were subsidiary undertakings of the company:

Name	Registered office	Class of shares	Holding
SEGA Europe Overseas Limited	27 Great West Road, Brentford, Middlesex, TW8 9BW, UK	Ordinary	100%
SEGA Germany GmbH	Rablstrasse 24, Muenchen, 81669, Germany	Ordinary	100%
SEGA Consumer Products SA	Francisco de Rojas 9 – 2º Derecha 28010, Madrid, Spain	Ordinary	100%

Shares in SEGA Europe Overseas Limited, a holding company, are held directly and shares in SEGA Germany GmbH and SEGA Consumer Products SA, non-trading companies, are held indirectly.

**14. STOCKS**

	2020 £000	2019 £000
Finished goods and goods for resale	<u>1,864</u>	<u>595</u>

Stock recognised in cost of sales during the year as an expense was £33,750,000 (2019 - £14,827,000).

An impairment resulting in a loss of £135,000 (2019 - loss £31,000) was recognised in cost of sales against stock during the year.

<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

**15. DEBTORS**

	2020 £000	2019 £000
<b>DUE AFTER MORE THAN ONE YEAR</b>		
Amounts owed by group undertakings	640	622
	640	622
<b>DUE WITHIN ONE YEAR</b>		
Trade debtors	5,867	182
Amounts owed by group undertakings	14,088	38,482
Other debtors	1,487	2,090
Prepayments and accrued income	12,153	10,415
Tax recoverable	-	2,305
Deferred taxation	457	465
	34,692	54,561

**16. CASH**

	2020 £000	2019 £000
Cash at bank and in hand	47,008	27,215
	47,008	27,215

**17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2020 £000	2019 £000
Trade creditors	710	1,061
Amounts owed to group undertakings	35,165	51,005
Corporation tax	1,835	-
Other taxation and social security	1,455	1,162
Lease liabilities	1,067	-
Other creditors	2,455	343
Accruals and deferred income	16,962	9,533
	59,649	63,104

<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

**18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2020 £000	2019 £000
Lease liabilities	2,398	-
	2,398	-

**19. LEASES**

**Company as a lessee**

Full details of the leases in place are given in Note 12.

On recognition on 1 April 2019, £424,000 was current and £1,627,000 was non-current. A weighted average incremental borrowing rate has been applied to all leases.

Lease liabilities as at 31 March 2020 are due as follows:

	2020 £000
Not later than one year	1,067
Between one year and five years	2,398
	3,465

Contractual undiscounted cash flows are due as follows:

The following amounts in respect of leases, where the company is a lessee, have been recognised in profit or loss:

	2020 £000
Interest expense on lease liabilities	63
	63

<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

**20. FINANCIAL INSTRUMENTS**

	2020 £000	2019 £000
<b>FINANCIAL ASSETS</b>		
Financial assets measured at fair value through profit or loss	47,008	27,215
Financial assets that are debt instruments measured at amortised cost	22,082	47,895
	69,090	75,110
<b>FINANCIAL LIABILITIES</b>		
Financial liabilities measured at amortised cost	(53,067)	(59,053)

Financial assets measured at fair value through profit or loss comprise cash at bank and in hand.

Financial assets measured at amortised cost comprise amounts owed by fellow group undertakings, trade debtors, other debtors and accrued income.

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to fellow group undertakings, other creditors and accruals.

**21. DEFERRED TAXATION**

	2020 £000	2019 £000
At beginning of year	465	505
Charged to the profit or loss (Note 11)	(8)	(40)
<b>AT END OF YEAR</b>	457	465

The deferred tax asset is made up as follows:

	2020 £000	2019 £000
Accelerated capital allowances	457	465

<b>SEGA EUROPE LIMITED</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

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**22. SHARE CAPITAL**

	2020 £000	2019 £000
<b>ALLOTTED, CALLED UP AND FULLY PAID</b>		
10,000,000 (2019 - 10,000,000) Ordinary shares of £1.00 each	<u>10,000</u>	<u>10,000</u>

**23. RESERVES**

**Profit & loss account**

The profit and loss account represents accumulated comprehensive income for the year and prior periods together with other distributable reserves less dividends.

**24. PENSION COMMITMENTS**

The company operates a defined contribution pension scheme. Costs relating to this scheme are charged to the Profit and Loss Account when they are incurred. The cost for the year is £497,000 (2019 - £490,000).

**25. POST BALANCE SHEET EVENTS**

There was a group restructure after the year end, however, there was no impact on the Balance Sheet position or Profit and Loss account for the year-ended 31 March 2020. In the post year end period, as part of the restructuring, the company issued 6 ordinary shares on 1 April 2020 at a premium of some £68,794,000 and a further 2 ordinary shares on 5 November 2020 at a premium of some £4,151,000.

There have been no other significant events affecting the company since the year end.

**26. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The immediate parent company SEGA Corporation (formerly SEGA Games Co. Ltd) and the ultimate parent company and controlling party is SEGA Sammy Holdings Inc., a company incorporated in Japan.

SEGA Sammy Holdings Inc. is the parent undertaking of the largest group of undertakings in which these financial statements are consolidated. Copies of the consolidated financial statements of SEGA Sammy Holdings Inc. may be obtained from the head office Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo 141-0033, Japan or from the company's website on [www.segasammy.co.jp](http://www.segasammy.co.jp).

**27. FIRST TIME ADOPTION OF FRS 101**

The policies applied under the entity's previous accounting framework, FRS 102, are not materially different to FRS 101 and have not impacted on equity or profit or loss. There have been no profit and loss or balance sheet re-classifications.