

Registered number: 01669057

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**SEGA EUROPE LIMITED**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2018**

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**SEGA EUROPE LIMITED**

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## SEGA EUROPE LIMITED

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### STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2018

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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 2018.

#### 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 17% from £80,418,000 to £94,415,000 for the year to 31 March 2018 due to a further strengthened pipeline of new releases including the second instalment in Creative Assembly's epic Total War™: WARHAMMER® fantasy trilogy in September 2017. The release of WARHAMMER® 40,000: Dawn of War III, Sonic Forces and the first title of Amplitude Studios, Endless Space 2, along with the 'Football Manager' franchise contributed to the increase in turnover. All these titles were critically acclaimed and helped SEGA consolidate its existing user base, as well as expanding it to new consumers.

Whilst overall turnover increased, the gross margin increased slightly from 37% to 39% driven by the continued shift towards digital sales thus reducing the sales mix comprising of lower margin, packaged-based PC and console products.

With a successful and efficient pillar structure comprising multiple successful brands (Total War, Company of Heroes, Endless, Football Manager and Searchlight), the SEGA group will continue to seek opportunities in expanding the product lifecycle by providing additional 'Downloadable Content' ("DLC") and seeking to reinforce this position in new and emerging markets via strategic local partnerships.

The Searchlight pillar, dedicated to new incubated projects, met success with two titles, one now successfully released Two Point Hospital, and another currently in development with Interior Night, a new studio based in London and specialised in narrative-driven adventure games. These incubations allow the SEGA group to expand their reach to new consumers, as well as growing in new segments of the market, paving the way for potential new pillars and franchises, as well as new opportunities in multi brands development, new platforms and territories.

#### 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 £3,489,000 compared to an operating profit of £3,419,000 in 2017. The slight decrease in operating margin from 4.3% to 3.7% was due to the higher advertising and promotional spend in the year.

The profit for the year, after taxation, amounted to £3,446,000 (2017 - £2,877,000).

At 31 March 2018, the company had net assets of £15,846,000 (2017 - £17,680,000).

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## SEGA EUROPE LIMITED

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### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2018

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#### BUSINESS OUTLOOK

In the last five years the market has switched from a B2B model to B2C. The interactive entertainment market continues to become more fragmented than ever. Home gaming is expected to fall from \$51 billion to \$48 billion in 2021\* as the Playstation® 4 and Microsoft® Xbox One reaches maturity\*\*. As it does not account for new generations of consoles or the Cloud gaming emergence, these forecasts need to be used carefully. It is anticipated that the digital sales will have finished its transition and will be the dominating model in the most mature countries. Increased polarisation continues to strengthen the position of well-established IPs as player engagement, retention and customer centric communities create significant barriers to entry for first iterations. A phase of consolidation in the industry is expected in the coming years, with new entrants in the market such as Google and Amazon and other major players reinforcing their portfolio.

Mobile gaming is expected to grow with annual world-wide revenues anticipated to grow from \$60 billion to \$68 billion in 2021, led by Asia\*\* and connected experiences with 'free to play' access. China is the biggest market in world but also the toughest due to the highly polarised nature. 50% of China's game revenues are generated within the mobile space, however local developers dominate the market with RPG & MOBA being the most popular genres.

\*not including possible 'Next Generation' hardware (2020/21)

\*\* Source IHS

#### PRINCIPAL RISKS AND UNCERTAINTIES

The company operates in a constantly evolving and highly competitive market. The future prospects of the market are largely dependent upon the availability of new and existing video game platforms developed by third parties. The directors seek to minimise these risks by bringing to market a balanced portfolio of games available to consumers across all platforms.

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



D Ward  
Director

Date: 19 Dec 2018

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## SEGA EUROPE LIMITED

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### DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2018

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The directors present their report for the year ended 31 March 2018.

#### DIRECTORS

The directors who served during the year and subsequently were as follows:

K Matsubara  
J Post (resigned 30 June 2017)  
T Miyazaki  
D Ward  
C Bergstresser (appointed 1 September 2017, resigned 11 December 2017)

#### DIVIDENDS

The directors approved and paid a dividend of £5,280,000 (2017 - £Nil) in the year.

#### FINANCIAL INSTRUMENTS

Liquidity risk is minimal as the company is a wholly owned subsidiary of SEGA Games Co. Ltd of Japan which meets all the funding requirements of the company. The company seeks to minimise credit risk by trading through credit insurance, cash in advance, letter of creditor or bank guarantee.

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 2018, the company made a foreign exchange gain of £2,283,000 (2017 - gain of £1,698,000) principally due to the Euro and US Dollar fluctuating against the British Pound.

#### 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 company's 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 company's auditor is aware of that information.

#### 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.

#### POST BALANCE SHEET EVENTS

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

#### MATTERS COVERED IN THE STRATEGIC REPORT

The directors' assessment of the company's principal risks and uncertainties and future developments are set out in the Strategic Report.

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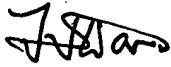
SEGA EUROPE LIMITED

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DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2018

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



D Ward  
Director

Date: 19 Dec 2018

27 Great West Road  
Brentford  
Middlesex  
TW8 9BW

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## SEGA EUROPE LIMITED

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### DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 MARCH 2018

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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 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 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 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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## SEGA EUROPE LIMITED

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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 2018 which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and 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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *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

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

#### Strategic Report and Directors' Report

The directors are responsible for the strategic report and the 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 the 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 report and the 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.

We have nothing to report in these respects.



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## SEGA EUROPE LIMITED

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEGA EUROPE LIMITED

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#### **Directors' responsibilities**

As explained more fully in their statement set out on page 5, 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).

#### **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.



**Neil Hughes (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL

21 December 2018

**SEGA EUROPE LIMITED**

**PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 MARCH 2018**

	Note	2018 £000	2017 £000
<b>TURNOVER</b>	4	<b>94,415</b>	80,418
Cost of sales		<b>(57,369)</b>	(50,512)
<b>GROSS PROFIT</b>		<b>37,046</b>	29,906
Selling and distribution costs		<b>(15,982)</b>	(10,741)
Administrative expenses		<b>(24,184)</b>	(20,419)
Other operating income	5	<b>6,609</b>	4,673
<b>OPERATING PROFIT</b>	6	<b>3,489</b>	3,419
Interest receivable and similar income	10	<b>49</b>	117
<b>PROFIT BEFORE TAXATION</b>		<b>3,538</b>	3,536
Taxation on profit	11	<b>(92)</b>	(659)
<b>PROFIT AFTER TAXATION</b>		<b>3,446</b>	2,877
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income for the year, net of tax		-	-
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>3,446</b>	2,877

The notes on pages 11 to 27 form part of these financial statements.

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

**BALANCE SHEET**  
**AS AT 31 MARCH 2018**

	Note	2018 £000	2017 £000
<b>FIXED ASSETS</b>			
Tangible assets	13	945	789
Investments	14	-	-
		<u>945</u>	<u>789</u>
<b>CURRENT ASSETS</b>			
Stocks	15	536	1,114
Debtors (including £549,000 (2017 - £618,000) due after one year)	16	24,406	65,633
Cash at bank and in hand	17	34,416	24,467
		<u>59,358</u>	<u>91,214</u>
Creditors: amounts falling due within one year	18	(44,457)	(74,323)
<b>NET CURRENT ASSETS</b>		<u>14,901</u>	<u>16,891</u>
<b>NET ASSETS</b>		<u><u>15,846</u></u>	<u><u>17,680</u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	21	10,000	10,000
Profit and loss account	22	5,846	7,680
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>		<u><u>15,846</u></u>	<u><u>17,680</u></u>

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



**D Ward**  
Director

Date: 19 Dec 2018

The notes on pages 11 to 27 form part of these financial statements.

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**SEGA EUROPE LIMITED**

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**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2018**

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	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2017	10,000	7,680	17,680
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>			
Profit for the year	-	3,446	3,446
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	-	3,446	3,446
<b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b>			
Dividends: Equity capital (Note 12)	-	(5,280)	(5,280)
<b>TOTAL DISTRIBUTIONS TO OWNERS</b>	-	(5,280)	(5,280)
<b>AT 31 MARCH 2018</b>	<b>10,000</b>	<b>5,846</b>	<b>15,846</b>

The notes on pages 11 to 27 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2017**

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	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2016	10,000	4,803	14,803
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>			
Profit for the year	-	2,877	2,877
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	-	2,877	2,877
<b>AT 31 MARCH 2017</b>	<b>10,000</b>	<b>7,680</b>	<b>17,680</b>

The notes on pages 11 to 27 form part of these financial statements.

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## SEGA EUROPE LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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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.

#### 2. ACCOUNTING POLICIES

##### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company 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.

The following principal accounting policies have been applied:

##### 2.2 Going concern

The company's business activities, together with the factors likely to affect its performance and financial position are set out in the Business Review section of the Strategic Report. The company has historically been profitable and the directors expect this to continue. The company has adequate cash resources and net assets. Accordingly, the directors believe that the company is well placed to manage its business risks successfully and are satisfied that the company has and will maintain sufficient financial resources to enable it to continue operating for the foreseeable future. The directors therefore continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

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## SEGA EUROPE LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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## 2. ACCOUNTING POLICIES (CONTINUED)

### 2.3 Exemption for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions have been complied with, including notification of and no objection to, the use of exemptions by the company's shareholders. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. The company is a qualifying entity as its results are consolidated into the financial statements of SEGA Sammy Holdings Inc., which are publicly available.

As a qualifying entity, the company has taken advantage of the following exemptions:

- from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
- from the requirement to disclose details of material transactions between the company and the ultimate parent undertaking or its other wholly owned subsidiaries as required by section 33 of FRS 102;
- from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
- from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
- from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

### 2.4 Turnover

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 for goods supplied when all substantial risk of loss has passed to customers and collection is probable. Service revenues are recognised when the service has been provided. Licence revenues are recognised when the customer has signed a licence, there are no non-trivial future obligations and collection is probable.

The company sells digital products via third-party sales channels. The company analyses the relevant facts. The company has concluded that most such revenue should be recorded net (i.e. at the amount received by the company, not at the end user price with the channel partner's margin recorded as a cost).

### 2.5 Royalties

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

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## SEGA EUROPE LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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#### 2. ACCOUNTING POLICIES (CONTINUED)

##### 2.6 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' (£), 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.

##### 2.7 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.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

##### 2.8 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 the Profit and Loss Account.

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## SEGA EUROPE LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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## 2. ACCOUNTING POLICIES (CONTINUED)

### 2.9 Operating leases: the company as lessee

Rentals paid under operating leases are 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 are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

### 2.10 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

### 2.11 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.

### 2.12 Debtors

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

### 2.13 Cash

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

### 2.14 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each



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## SEGA EUROPE LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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## 2. ACCOUNTING POLICIES (CONTINUED)

### 2.14 Financial instruments (continued)

reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and Loss Account.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 2.15 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

### 2.16 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.

### 2.17 Pensions

#### Defined contribution pension plan

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

The contributions are recognised as an expense in the Profit and Loss Account 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.

### 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.

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## SEGA EUROPE LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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## 2. ACCOUNTING POLICIES (CONTINUED)

### 2.19 Interest income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

### 2.20 Borrowing costs

All borrowing costs are recognised in the Profit and Loss Account in the year in which they are incurred.

### 2.21 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 the Profit and Loss Account 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.

### 2.22 Current and deferred taxation

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2018

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**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 16 for the net carrying amount of the receivables.

**4. TURNOVER**

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

Analysis of turnover by country of destination:

	2018 £000	2017 £000
United Kingdom	11,883	9,086
Rest of Europe	21,969	16,036
Rest of the world	60,563	55,296
	<u>94,415</u>	<u>80,418</u>

**5. OTHER OPERATING INCOME**

	2018 £000	2017 £000
Group recharges	<u>6,609</u>	<u>4,673</u>

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 Games Co. Ltd., the immediate parent company.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2018

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6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	2018 £000	2017 £000
Depreciation of tangible fixed assets	533	807
Profit on disposal of tangible fixed assets	(6)	-
Exchange differences	(2,283)	(1,698)
Other operating lease rentals - land & buildings	907	977
Other operating lease rentals - plant & machinery	23	58
	<u>          </u>	<u>          </u>

7. AUDITOR'S REMUNERATION

	2018 £000	2017 £000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	116	112
<b>FEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES IN RESPECT OF:</b>		
Audit of financial statements of related undertakings	24	23
Taxation compliance services	225	365
Audit-related assurance services	19	18
All other services	14	30
	<u>          </u>	<u>          </u>

The company recharged costs for the audit of 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.

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**SEGA EUROPE LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2018**

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**8. EMPLOYEES**

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

	2018 £000	2017 £000
Wages and salaries	9,612	8,807
Social security costs	1,298	1,105
Cost of defined contribution scheme (Note 23)	369	340
	<u>11,279</u>	<u>10,252</u>

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

	2018 No.	2017 No.
Sales, marketing and distribution	62	48
Administration	92	88
	<u>154</u>	<u>136</u>

**9. DIRECTORS' EMOLUMENTS**

	2018 £000	2017 £000
Directors' emoluments	813	627
Company contributions to defined contribution pension schemes	27	67
Compensation for loss of office	59	-
	<u>899</u>	<u>694</u>

During the year retirement benefits were accruing to 2 directors (2017 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £379,000, including compensation for loss of office (2017 - £347,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £NIL (2017 - £37,000).

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

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2018

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10. INTEREST RECEIVABLE

	2018 £000	2017 £000
Interest receivable from group companies	25	117
Interest receivable on bank deposits	24	-
	<u>49</u>	<u>117</u>

11. TAX ON ORDINARY ACTIVITIES

	2018 £000	2017 £000
<b>CORPORATION TAX</b>		
Current tax on profits for the year	120	724
Adjustments in respect of previous periods	(73)	(91)
<b>TOTAL CURRENT TAX</b>	<u>47</u>	<u>633</u>
<b>DEFERRED TAX</b>		
Origination and reversal of timing differences	73	43
Changes to tax rates	(8)	(6)
Adjustments in respect of previous years	(20)	(11)
<b>TOTAL DEFERRED TAX (Note 20)</b>	<u>45</u>	<u>26</u>
<b>TAXATION ON PROFIT ON ORDINARY ACTIVITIES</b>	<u>92</u>	<u>659</u>

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2018

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11. TAX ON ORDINARY ACTIVITIES (CONTINUED)

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2017 - lower than) the standard rate of corporation tax in the UK of 19% (2017 - 20%). The differences are explained below:

	2018 £000	2017 £000
Profit on ordinary activities before tax	3,538	3,536
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 20%)	672	707
<b>EFFECTS OF:</b>		
Expenses not deductible for tax purposes	38	60
Current tax adjustments to tax charge in respect of prior periods	(73)	(91)
Deferred tax adjustments in respect of prior periods	(20)	(11)
Impact of change in tax rate	(8)	(6)
Group relief not paid for	(517)	-
<b>TAXATION ON PROFIT ON ORDINARY ACTIVITIES</b>	<b>92</b>	<b>659</b>

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

A deferred tax asset has been recognised in the financial statements as shown in Note 20.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. A rate of 17% has been applied to the deferred tax asset at the balance sheet date.

The company carries forward unrecognised non trade losses of £566,000 (2017 - £600,000) at 31 March 2018. The directors believe that it is not likely that these losses will be utilised in future periods.

12. DIVIDENDS

	2018 £000	2017 £000
Dividends on shares classified in shareholder funds	5,280	-

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**SEGA EUROPE LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2018**

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**13. TANGIBLE FIXED ASSETS**

	Leasehold improve- ments £000	Fixtures and fittings £000	Office equipment and motor vehicles £000	Total £000
<b>COST</b>				
At 1 April 2017	1,272	623	10,207	12,102
Additions	125	-	576	701
Disposals	(2)	-	(24)	(26)
At 31 March 2018	<u>1,395</u>	<u>623</u>	<u>10,759</u>	<u>12,777</u>
<b>DEPRECIATION</b>				
At 1 April 2017	1,152	599	9,562	11,313
Charge for the year on owned assets	75	14	444	533
Disposals	(2)	-	(12)	(14)
At 31 March 2018	<u>1,225</u>	<u>613</u>	<u>9,994</u>	<u>11,832</u>
<b>NET BOOK VALUE</b>				
At 31 March 2018	<u>170</u>	<u>10</u>	<u>765</u>	<u>945</u>
At 31 March 2017	<u>120</u>	<u>24</u>	<u>645</u>	<u>789</u>



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## SEGA EUROPE LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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#### 14. FIXED ASSET INVESTMENTS

##### DIRECT SUBSIDIARY UNDERTAKINGS

The following were subsidiary undertakings of the company:

Name	Class of shares	Holding	Principal activity
SEGA Europe Overseas Limited	Ordinary	100 %	Holding company

##### INDIRECT SUBSIDIARY UNDERTAKINGS

The following were indirect subsidiary undertakings of the company:

Name	Class of shares	Holding	Principal activity
SEGA Germany GmbH	Ordinary	100 %	Non-trading
SEGA Consumer Products SA	Ordinary	100 %	Non-trading

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

#### 15. STOCKS

	2018 £000	2017 £000
Finished goods and goods for resale	536	1,114

Stock recognised in cost of sales during the year as an expense was £11,442,000 (2017 - £6,050,000) .

An impairment resulting in a loss of £174,000 (2017 - gain of £71,000) was recognised in cost of sales against stock during the year.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2018**

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**16. DEBTORS**

	<b>2018 £000</b>	<b>2017 £000</b>
<b>DUE AFTER MORE THAN ONE YEAR</b>		
Amounts owed by group undertakings	<b>549</b>	618
	<b>549</b>	618
<b>DUE WITHIN ONE YEAR</b>		
Trade debtors	<b>1</b>	1,558
Amounts owed by group undertakings	<b>14,403</b>	56,692
Other debtors	<b>2,436</b>	1,736
Prepayments and accrued income	<b>5,803</b>	4,479
Tax recoverable	<b>709</b>	-
Deferred taxation (Note 20)	<b>505</b>	550
	<b>24,406</b>	65,633

**17. CASH**

	<b>2018 £000</b>	<b>2017 £000</b>
Cash at bank and in hand	<b>34,416</b>	24,467

**18. CREDITORS: Amounts falling due within one year**

	<b>2018 £000</b>	<b>2017 £000</b>
Trade creditors	<b>1,305</b>	2,011
Amounts owed to group undertakings	<b>32,368</b>	62,739
Corporation tax	-	657
Other taxation and social security	<b>1,057</b>	945
Other creditors	<b>375</b>	396
Accruals and deferred income	<b>9,352</b>	7,575
	<b>44,457</b>	74,323

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2018**

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**19. FINANCIAL INSTRUMENTS**

	<b>2018 £000</b>	2017 £000
<b>FINANCIAL ASSETS</b>		
Financial assets measured at fair value through profit or loss	<b>34,416</b>	24,467
Financial assets that are debt instruments measured at amortised cost	<b>21,742</b>	64,399
	<u><b>56,158</b></u>	<u>88,866</u>
<b>FINANCIAL LIABILITIES</b>		
Financial liabilities measured at amortised cost	<u><b>(39,745)</b></u>	<u>(70,895)</u>

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.

**20. DEFERRED TAXATION**

	<b>2018 £000</b>	2017 £000
At beginning of year	<b>550</b>	576
Charged to the profit or loss (Note 11)	<b>(45)</b>	(26)
<b>AT END OF YEAR</b>	<u><b>505</b></u>	<u>550</u>

The deferred tax asset is made up as follows:

	<b>2018 £000</b>	2017 £000
Accelerated capital allowances	<u><b>505</b></u>	<u>550</u>

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2018

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21. SHARE CAPITAL

	2018 £000	2017 £000
<b>Allotted, called up and fully paid</b>		
10,000,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

22. 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.

23. 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 £369,000 (2017 - £340,000).

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2018

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**24. CAPITAL AND OPERATING LEASE COMMITMENTS**

**(a) Capital commitments**

There were no capital commitments at 31 March 2018 (2017 - £Nil).

**(b) Operating lease commitments**

At 31 March 2018 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £000	2017 £000
<b>Land and buildings</b>		
Not later than 1 year	634	908
Later than 1 year and not later than 5 years	1,800	669
Later than 5 years	782	-
<b>TOTAL</b>	<b>3,216</b>	<b>1,577</b>
	2018 £000	2017 £000
<b>Other</b>		
Not later than 1 year	8	7
Later than 1 year and not later than 5 years	13	-
<b>TOTAL</b>	<b>21</b>	<b>7</b>

**(c) Off balance sheet arrangements**

The operating leases noted above are entered into to provide normal operational and trading support for the company. They consist of property, motor vehicle and office equipment rental obligations.

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

The immediate parent company is SEGA Games Co. Ltd (formerly SEGA Corporation) 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 Shiodome Sumitomo Building 1-9-2, Higashi Shimbashi, Minato-Ku, Tokyo 105-0021, Japan or from the company's website on [www.segasammy.co.jp](http://www.segasammy.co.jp).