

SONY INTERACTIVE ENTERTAINMENT EUROPE LIMITED DIRECTORS' REPORT for the year ended 31 March 2020

CORPORATE GOVERNANCE STATEMENT

We have considered the Companies (Miscellaneous Reporting) Regulations 2018 and recognise that Sony Interactive Entertainment Europe Limited (the "**Company**") is required to report on its corporate governance arrangements in this directors report. For the year ended 31 March 2020, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council in December 2018).

The application of the Wates Principles is set out below and can also be found on the Company website: <https://www.playstation.com/en-gb/>.

Principle 1 – Purpose and leadership

Our corporate governance principles (the "**Governance Principles**") set out the principles by which the Company operates as a business whilst adhering to our primary purpose and core values that are embedded into our day-to-day behaviours and ethical decision-making ("**Values**").

The primary purpose of the Company is the fulfilment of its role as exclusive distributor of PlayStation products across the PAL region and the development and publishing of related video games.

Our Values are:

1. We place the consumer experience at the core of all we do - our consumers are the reason for our existence. We demonstrate our appreciation by providing them with a market leading games console and associated services and devices, and the release of significant high-profile, quality content.
2. We are committed to our people - we provide opportunity, nurture talent, develop leaders and reward achievement. We believe that a team of well-trained individuals with diverse backgrounds and experiences, working together in an environment that fosters respect and drives high levels of engagement, is essential to our continued success. The Company expects all employees, regardless of level or position, to demonstrate leadership behaviours that elevate the internal community and foster a healthy work environment across divisional and regional lines. This is aligned to the Company's internal framework of communication, collaboration, innovation, and inclusion.
3. We hold ourselves, and conduct our business, to high standards of fairness, honesty, and integrity. Every member of the Company is individually accountable and collectively responsible.
4. We take seriously the responsibilities that come with being a large organization and, when appropriate, help our consumers build better communities and leverage our size, scope and resources to help make the world and local communities a better place.
5. We aim to grow our business profitably - the entire Sony Group¹ works collectively to provide sustained profitable growth for shareholders and other stakeholders.
6. We continually strive to improve – the Company is a learning organisation that aims to anticipate and respond to changing consumer, employee and stakeholder needs through constant evolution and innovation.

The Governance Principles will evolve as the business responds to the ever-changing economic and environmental landscape, and the complex challenges that demand innovative solutions and collective action whilst maintaining a focus on our growth and core values.

Principle 2 – Board Composition

¹ Sony Group company is any company where 50% or more of the voting rights are directly or indirectly controlled by Sony Corporation.

The board of directors (the “**Board**”) comprises of the President and CEO of Sony Interactive Entertainment (“**SIE**”), a Deputy President of SIE and the Executive Vice President and Head of European Business Operations. Through these individuals the Board is equipped with the appropriate balance of skills, experience, and knowledge of the company to enable it to discharge its duties and responsibilities effectively. The size and composition are appropriate for a subsidiary company whose ultimate parent is a quoted corporation and we remain committed to nurturing a workforce that reflects our consumers and the places we do business.

The Board is supported by various leadership teams and further committees throughout the organisation and all appointments ensure that the appropriate levels of skills and experience are employed in order to address the current and future operations and challenges facing the business.

Principle 3 – Director Responsibilities

The Board

Responsibility for good governance ultimately lies with the Board. The Board is collectively responsible for the long term success of the UK business and achieves this through its oversight of its role as the exclusive distributor of PlayStation products across the PAL region and the development and publishing of related video games (the “**SIEEL Activities**”).

In exercising its duty to promote the success of the Company, the Board is responsible for overseeing the management of the SIEEL Activities in the UK and, in so doing, may exercise its powers, subject to any relevant laws, regulations and the Company’s Articles of Association. The Board bears legal responsibility for the acts carried out on its behalf and enforces standards of accountability – all with a view to enable senior management to execute their responsibilities fully and in the interests of the Company’s stakeholders.

Day-to-day management

The Board delegates responsibility for day-to-day management of the Company’s business to various leadership teams and further committees throughout the organisation. The financial risk policies set by the Board and the ultimate parent company Sony Corporation are implemented by the Company’s finance department.

The following matters require the approval of the Board:

1. the establishment of effective procedures for monitoring and control of operations;
2. reviewing the Company’s accounting and financial reporting practices and reviewing the Company’s financial and other controls;
3. significant transactions or other material business decisions including any acquisition, disposal, investment, capital expenditure or realisation or creation of a new venture;
4. corporate governance and risk;
5. matters that the Board is required by statute to do; and
6. such other matters as the Board may from time to time determine.

In performing its oversight function, the Board is entitled to rely on the advice, reports and opinions of management, counsel, auditors, and outside experts.

Operation of the Board

The Board aims to ensure that its directors focus sufficient time on key areas and that the Board’s time together is used effectively.

The success of the Company for the benefit of all stakeholders is the driving factor behind all decisions made by the Board.

The Board carefully considers the impact of the business on communities and the environments in which the Company operates. In all of its activities the Board requires that the Company’s employees and suppliers

conduct business with the highest ethical and professional standards by adhering to the “**Sony Group Code of Conduct**” set by the Sony Corporation (the “**Code**”).

In the financial year 2019 – 2020 the Board approved, inter alia:

1. payment of an interim dividend;
2. the Company’s brexit strategy and associated decisions; and
3. all financial reporting and accounts.

Principle 4 – Opportunity and Risk

Risk Management Structure

The Company seeks to maintain the high standards set by the Sony Corporation whilst balancing the risks of the business. By carefully aligning the Company’s risk appetite to the global strategy, the Board aims to deliver sustainable long-term shareholder returns for the Company, as well as profitability. An example of this is how the Company has proactively invested in research and development and software and content development, all in which the associated risks are assessed in proportion to the investment, to improve both the experience of the Company’s consumers as well as the environment for employees.

All the Company’s activities involve the measurement, evaluation, acceptance and management of risk or combinations of risks.

All employees are responsible for the management of risk, proportionate to the relevant employee’s role and level of experience, with the ultimate accountability residing with the Board. The Company has a strong risk culture, which is embedded through clear and consistent communication and appropriate training, alongside corresponding risk and compliance management tools.

The Company also has a Risk Management Committee that aims to meet at least twice yearly to:

- Establish and maintain a fit for purpose risk management framework appropriate for the Company and the expectations of its stakeholders.
- Oversee the effective application of the risk management framework across the Company, covering financial and non-financial risks, including reputational risk.
- Be the focal point for the deliberation of principal risks faced by the Company in pursuit of its business objectives and priorities, including those associated with material environmental, social and governance matters, such as climate change, workforce relationships, supply chains, and ethical considerations
- Oversee the implementation of appropriate internal controls / governance activities in accordance with the Company’s appetite for risk, agreeing how the principal risks should be managed or mitigated and over what timeframe to reduce the likelihood of their incidence or the magnitude of their impact
- Sponsor improved risk awareness and the consideration of risk in key decision making at all levels, establishing clear internal and external communication channels on the identification of risk factors, both internally and externally.

This risk framework underpins our strategic priorities, reinforced by its Values, and helps the Company to identify current and future risks so that it can take decisions to prevent and limit risk while managing any material impact on finances, reputation or business model.

The Company also has an Internal Audit Management Committee that reports to the Board and authorises investigations (as necessary) to ensure the company fulfils its corporate governance responsibilities relating to the effectiveness of the Company’s group operations & control environment. Audit investigations are completed by the Sony Interactive Entertainment Europe Limited Risk & Control team and reported to the Internal Audit Management Committee and the Sony Corporation Risk & Control Department. The Internal Audit Management Committee reports to the Board and all minutes of the Internal Audit Management Committee meetings are sent to Board members.

Opportunity

The Company takes advantage of several multifunctional leadership teams within the Company to help formulate the Company's future business plans.

These are cross-functional teams made up of subject matter experts from a range of departments within the Company. Each team holds a series of meetings throughout the year to continue the prioritisation of ideas and plan development, where insight is shared, and ideas debated.

Where relevant, additional research is conducted, and business cases developed, to support decisions taken. The teams regularly report progress to Board members.

Principle 5 – Remuneration

All employees' base and bonus remuneration, including all of the directors, is benchmarked regularly against the market to ensure this is consistent with the industry and no directors are involved in deciding their own remuneration. Directors are not compensated for their services as directors.

Principle 6 – Stakeholders

Employees

The Company works hard to create opportunities for all of its workforce, regardless of gender, age, ethnicity or life stage. We strive to create an environment where our values are not just words but are put into practice, promoting positive and productive behaviour every day. We invest time and resources communicating with our people, designing programmes to educate and encourage the highest standards of conduct.

Understanding how our workforce feel about the Company is vital. It helps us ensure that we are giving them the right support to achieve their potential and to serve our consumers well. We have several specific forums where employees can voice their opinions, with results filtered back to the Board. For example:

Employee Surveys We undertake an annual employee survey to allow everyone in the business to comment on how they feel about their role and the environment at the Company and we have various ad-hoc surveys throughout the year which may relate to a particular business area in review or development. These surveys allow the Board to make informed decisions which consider the interests of the workforce. As a direct result of previous employee survey feedback, a global rating scale for employee performance shall be implemented in the next financial year.

Town Halls Our 'Town Halls' are a regular business update, presented by the CEO and President of SIE, who is also a Board member of the Company. They are held at either our London premises, an external venue, or virtually if required. Each 'Town Hall' gives employees the opportunity to hear about the Company's upcoming plans and initiatives as well as voice questions and provide feedback.

The Board highlight the values of the Company and encourage all employees to match behaviours with the following values: communication, collaboration, innovation, and inclusion. All employees are also expected to meet the standards of ethical and responsible behaviour set by the Code. This includes the core principle of respect for human rights and prohibits slavery and human trafficking, including forced and child labour. Each Sony Group company must take appropriate steps to assure compliance with the Code, including establishing appropriate disciplinary procedures, which may include termination of employment, for violations of the Code.

Employees and their managers are encouraged to have ongoing check-ins to drive progress and accountability in-line with these values throughout the year. The Board recognise that the workforce is diverse and fosters numerous interests and values. The Board encourages continual growth and support of various 'Employee Network Groups'.

These procedures ensure that the Board engage regularly with the Company's workforce on a host of areas and are updated regularly on how everyone feels about working at the Company.

Suppliers

All Sony Group¹ suppliers and contractors are expected to adhere to Sony's ethical values and comply with Sony policies concerning compliance with laws, respect for human rights and fair labour and employment practices, including but not limited to the Code. The Code prohibits any form of forced, involuntary or child labour in our operations. All Sony Group companies (sometimes collectively referred to as "**Sony**") have adopted the Sony Supply Chain Code of Conduct (the "**Supply Chain Code**") for electronics products suppliers. The Supply Chain Code, which incorporates the RBA Code of Conduct, establishes standards designed to, among other things, ensure that human rights of workers are upheld and that workers are treated with respect and dignity by suppliers. In particular, the Supply Chain Code prohibits forced, bonded or indentured labour, involuntary prison labour, slavery and human trafficking. The Supply Chain Code is available at http://www.sony.net/SonyInfo/csr_report/sourcing/supplychain/code.html.

The Supply Chain Code is aligned with the UN Guiding Principles on Business and Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work and the UN Declaration of Human Rights.

The Sony Group also publishes a group-wide annual statement on the steps being taken to ensure that slavery and human trafficking do not take place in its business or supply chains. This statement also satisfies the requirements from the UK Modern Slavery Act 2015.

The Company is committed to maintaining and improving systems and processes to help ensure that there are no human rights violations related to its business operations or supply chains. This commitment includes working with suppliers and other stakeholders to understand potential areas of risk and using the Company's influence to help mitigate any negative impacts identified within the Company's systems and processes.

Shareholders

The Company is a wholly owned subsidiary within the Sony Group. The ultimate parent undertaking is Sony Corporation and as such the Company is a member of the Sony Group. The Board aim to grow the business profitably and we work collectively with the entire Sony Group to provide sustained profitable growth for our shareholders and other stakeholders.

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