

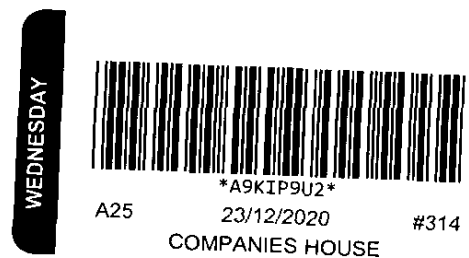
Parent for:
9091899

Netflix International Holdings B.V.

Amsterdam

Consolidated annual report as at and for the year ended
31 December 2019 for the purposes of filing with
Companies House

Registration number: 67203043



Netflix International Holdings B.V.

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Netflix International Holdings B.V.

Director's report

As allowed by the provisions of Article 394, Book 2 of the Dutch Civil Code, the director's report is available for inspection at the Group's registered office.

Netflix International Holdings B.V.
Consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 31 December
(In million EUR)

	Note	2019	Unaudited 2018
Revenue	2.1	9,468	6,575
Cost of providing services	2.2	(7,555)	(5,070)
Gross profit		1,913	1,505
Marketing expenses		(1,210)	(1,049)
General and administrative expenses	2.3	(411)	(216)
Operating profit		292	240
Finance income		10	4
Finance costs		(36)	(59)
Finance income/(costs)		(26)	(55)
Profit before income tax		266	185
Income tax expense	2.4	(92)	(104)
Profit for the year		174	81
Other comprehensive income for the year			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation differences		2	22
Total other comprehensive income for the year		2	22
Total comprehensive income for the year (attributable to the owner)		176	103

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Netflix International Holdings B.V.
Consolidated financial statements

Consolidated balance sheet

As at 31 December
(In million EUR)

			Unaudited
	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents	3.1	1,590	858
Trade and other receivables	3.2	327	285
Total current assets		1,917	1,143
Non-current assets			
Property, plant and equipment		73	32
Content assets	3.3	451	614
Right-of-use leased assets	3.4	119	—
Other assets		43	24
Total non-current assets		686	670
Total assets		2,603	1,813
Liabilities			
Current liabilities			
Trade and other payables	3.5	1,830	1,236
Content liabilities	3.6	100	176
Current tax liabilities		11	10
Lease and other liabilities		34	—
Total current liabilities		1,975	1,422
Non-current liabilities			
Content liabilities	3.6	56	89
Lease and other liabilities		94	—
Total non-current liabilities		150	89
Total liabilities		2,125	1,511
Equity			
Share capital		—	—
Share premium		136	136
Translation reserve		24	22
Retained earnings		318	144
Total equity		478	302
Total equity and liabilities		2,603	1,813

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Netflix International Holdings B.V.
Consolidated financial statements

Consolidated statement of changes in equity

For the year ended 31 December
(In million EUR)

	Note	Attributable to the equity owner of the Group				
		Share capital	Share premium	Translation reserves	Retained earnings	Total
1 January 2019		—	136	22	144	302
Profit for the year		—	—	—	174	174
Other comprehensive income		—	—	2	—	2
Total comprehensive income for the year		—	—	2	174	176
Contributions of equity net of transaction costs		—	—	—	—	—
Dividend		—	—	—	—	—
31 December 2019	4.4	—	136	24	318	478
Unaudited						
1 January 2018		—	136	—	63	199
Profit for the year		—	—	—	81	81
Other comprehensive income		—	—	22	—	22
Total comprehensive income for the year		—	—	22	81	103
Contributions of equity net of transaction costs		—	—	—	—	—
Dividend		—	—	—	—	—
31 December 2018		—	136	22	144	302

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Netflix International Holdings B.V.
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Consolidated statement of cash flows

For the year ended 31 December
(In million EUR)

	Note	2019	Unaudited 2018
Cash flows from operating activities			
Operating profit before income tax		266	185
<i>Adjustments for:</i>			
- Depreciation, amortisation and other non-cash items		350	515
<i>Changes in operating assets and liabilities:</i>			
- (Increase)/decrease trade and other receivables	3.2	(42)	(141)
- Increase/(decrease) trade and other payables	3.5	594	431
Cash generated from operations		1,168	990
Income taxes (paid)/received		(91)	(97)
Interest (paid) / received		5	4
Net cash inflow/(outflow) from operating activities		1,082	897
Cash flows from investing activities			
Payment for property, plant and equipment		(58)	(14)
Payment for intangible assets		(273)	(508)
Net cash inflow/(outflow) from investing activities		(331)	(522)
Cash flows from financing activities			
Payments for lease liabilities		(33)	—
Net cash flow inflow/ (outflow) from financing activities		(33)	—
Net increase/(decrease) in cash and cash equivalents		718	375
Cash and cash equivalents at the beginning of the financial year		858	481
Effects of exchange rate changes on cash and cash equivalents		14	2
Cash and cash equivalents at end of the financial year	3.1	1,590	858

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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Notes to the consolidated financial statements

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Notes to the consolidated financial statements

1 About this report

1.1 General information

1.1.1 Activities

Netflix International Holdings B.V. (hereafter the Group) is a private limited liability company. The Group is part of the Netflix group, the world's leading subscription streaming entertainment service with over 167 million paid streaming memberships in over 190 countries. The main activity of the Group is to market, develop and support the Netflix service, thereby providing access to streaming content for its members. The Group provides access to members in all regions in which Netflix is available excluding the United States of America.

Netflix, Inc. is the direct parent of, and the ultimate parent of, the Group. The registered office of Netflix, Inc. is located at 100 Winchester Circle, Los Gatos, California 95032, United States of America and the consolidated financial statements are available at this address.

The Group has its registered office at Stadhouderskade 55, 1072 AB Amsterdam, the Netherlands. The number in the trade register at the Chamber of Commerce is 67203043.

The Group's financial year covers the period from 1 January through 31 December of each year.

1.1.2 Going concern assumption

These financial statements disclose all matters relevant to the Group's ability to continue as a going concern, including all significant conditions and events. The Group has the intention and ability to take actions necessary to continue as a going concern.

1.1.3 Basis of preparation

These financial statements have been prepared in accordance with IFRS as endorsed by the EU and the statutory provisions of Part 9, Book 2, of the Dutch Civil Code. They were authorised for issue by the Director of the Group on 15 December 2020.

Details of the Group's accounting policies are included within the relevant note where applicable, or disclosed in Note 4.9.

The Group had previously elected not to prepare consolidated financial statements, utilising the exemption under Section 408, Book 2 of the Dutch Civil Code, and instead prepared stand-alone financial statements. The Group still meets the requirements to utilise this exemption, however the Group elected to voluntarily prepare consolidated financial statements for the year ending 31 December 2019. Given this exemption was utilised for the year ending 31 December 2018, all comparative figures in the consolidated financial statements are unaudited and have been included only as a courtesy to users of these financial statements. We note that no comparative information has been provided for note 2.3.4.

The Group consolidated financial statements include the following entities (among others) that prepared stand-alone audited financial statements for the year ending 31 December 2018:

- Netflix International B.V.;
- Netflix Streaming Services International B.V.;
- Netflix CPX International B.V.; and
- Netflix Services UK Limited (registered in England and Wales, company number 09091899).

The Group has declared in writing that it is jointly and severally liable for the debts resulting from legal acts of the above mentioned legal entities. Given this guarantee is in place, the above entities will no longer prepare audited financial statements for the year ending 31 December 2019. Netflix Services UK Limited (registered in England and Wales, company number: 09091899) is exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of that Act.

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Notes to the consolidated financial statements

1.1.4 Basis of measurement

These financial statements have been prepared on a historical cost basis, unless otherwise stated.

1.1.5 Functional and presentational currency

These financial statements are presented in euro (EUR), which is the Group's functional currency. All amounts have been rounded to the nearest million, unless otherwise stated.

1.1.6 Current or non-current classification

Current assets include assets that are consumed or realised as part of the normal operating cycle, being 12 months, other assets are classified as non-current. Current liabilities include all liabilities unless the group has a contractual or unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

1.2 Critical accounting estimates and judgements

In preparing these financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Details of the judgements and estimates made are included in the following notes:

- Note 2.1 Revenue from contracts with customers;
- Note 2.2 Cost of providing services; and
- Note 2.4 Income tax expense.

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Notes to the consolidated financial statements

2 Business performance

2.1 Revenue from contracts with customers

	Unaudited	
	2019	2018
Revenue from streaming	9,458	6,572
Other revenue	10	3
	9,468	6,575

i. Principal versus agent

The Group acts as a reseller/distributor on behalf of Netflix, Inc. displaying all features that indicate that the Group is acting as a principal to the transactions. The Group is the contracting party with members and has exposure to (part of) the risks and rewards associated with providing these services. The Group uses commercially reasonable efforts to offer the Netflix service at the price suggested by its ultimate parent company, Netflix, Inc., though the Group may adjust the price if necessary or advisable under prevailing market conditions. Based on this judgement, gross revenues are disclosed. There are no significant estimates made in the recognition of revenue.

ii. Revenue recognition

The Group recognises revenue from contracts with customers when services have been provided, can be reliably estimated and when it is probable that the consideration will be received.

The Group's primary source of revenue is monthly membership fees. Members are billed in advance of the start of their monthly membership and revenues are recognised ratably over each monthly membership period. Revenues are presented net of the taxes that are collected from members and remitted to governmental authorities. Deferred revenue consists of membership fees billed that have not been recognised and gift and other prepaid memberships that have not been redeemed, refer to note 3.5.

The Group is the principal in all its relationships where partners (e.g. internet service providers) provide access to the service as the Group retains control over service delivery to its members. Typically, payments made to the partners, such as for marketing, are expensed, but in the case where the price that the member pays is established by the partners and there is no stand-alone price for the Netflix service (for instance, in a bundle), these payments are recognised as a reduction of revenues.

2.2 Cost of providing services

		Unaudited	
	Note	2019	2018
Content amortisation	3.3	327	535
Recharges with affiliated companies		6,732	4,185
Other expenses		496	350
		7,555	5,070

i. Content amortisation

The Group obtains content via streaming content licence agreements. Content licences are for a fixed fee and specific windows of availability. For licences, we capitalise the fee per title and record a corresponding liability at the gross amount of the liability when the license period begins, the cost of the title is known and the title is accepted and available for streaming.

Based on factors including historical and estimated viewing patterns, we amortise the content assets in 'cost of providing services' in the statement of comprehensive income, over the shorter of each title's contractual window of availability, estimated period of use, or ten years, beginning with the month of first availability. The amortisation is on an accelerated basis as we typically expect more upfront viewing, for instance due to additional merchandising

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Notes to the consolidated financial statements

and marketing efforts. We review factors that impact the amortisation of the content assets on a regular basis. Our estimates related to these factors require considerable management judgement. Changes in our estimates could have a significant impact on our future results.

ii. Recharges with affiliated companies

The Group acts as a reseller / distributor on behalf of Netflix, Inc. through a licence agreement (Netflix Global Holdings LLC was the counterparty until 2 April 2019). The Group is the contracting party with members and has exposure to (part of) the risks and rewards associated with providing these services. The operating margin is dependent on the transfer pricing agreed with Netflix, Inc. There are several other intercompany services which are performed in the normal course of business. All intercompany services are pursuant to legal agreements and are invoiced on a monthly or quarterly basis. No significant balances were long outstanding at year end and no impairments took place.

2.3 General and administrative expenses

		Unaudited	
	Note	2019	2018
Employee benefits		266	122
Depreciation and amortisation		17	13
Technology and development expenses		3	3
Lease expenses		24	8
Travel expenses		28	19
Other expenses		73	51
		411	216

2.3.1 Employee benefits

		Unaudited	
		2019	2018
Salaries and wages		218	101
Social security contributions		14	8
Pension contributions (DC)		6	2
Stock-based compensation		20	9
Other personnel expenses		8	2
		266	122

For the disclosure of the remuneration of the Group's key management personnel, reference is made to note 2.3.4.

2.3.2 Average number of employees

During the year, the average number of employees calculated on a full-time-equivalent basis was 1,071 (2018: 743). The number of employees based abroad was 597 (2018: 324).

These employees were in the following functional areas:

		Unaudited	
		2019	2018
Marketing, public relations and business development		442	265
General and administrative		253	130
Other		376	348
		1,071	743

2.3.3 Share based payments

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i. Share-based payments

The Group employees participate in a share-option plan. It is designed to provide long-term incentive to attract and retain the best available employees, and to promote the success of the Netflix group as a whole. The ultimate parent company Netflix, Inc. provides fully vested non-qualified share options, and the Group grants these to employees on a monthly basis. The options remain exercisable for a period of ten years from grant date, regardless of employment status. Each option is convertible into one ordinary share. Options granted under the plan carry no dividend or voting rights. The fair value of the options is determined at the grant date and is expensed.

Set out below are summaries of options granted to employees of the Group under the plan (in USD):

	2019			Unaudited 2018		
	Average exercise price	Number of options	Weighted average exercise period	Aggregate intrinsic value	Average exercise price	Number of options
1 January	\$203.54	246,010			\$136.13	159,210
Granted	\$319.40	159,516			\$308.64	99,591
Exercised	\$151.84	(11,893)			\$118.04	(12,791)
31 December	\$250.68	393,633	8.31	\$32,648,345	\$203.54	246,010
Vested and exercisable		393,633				246,010

For share options exercised during the year, the weighted-average share price at the date of exercise was US \$358.17. The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Netflix, Inc. closing share price on the last trading day of 2019 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last trading day of 2019.

The grant and expiry details of outstanding options are detailed below (in USD):

		2019		Unaudited 2018	
Year of grant	Year of expiry	Average exercise price	Number of options	Average exercise price	Number of options
2014	2024	\$55.32	3,543	\$54.66	3,882
2015	2025	\$87.27	20,215	\$87.71	21,335
2016	2026	\$102.68	37,596	\$102.52	41,130
2017	2027	\$161.86	82,518	\$161.77	85,638
2018	2028	\$316.08	92,359	\$315.31	94,025
2019	2029	\$319.60	157,402		
		\$250.68	393,633	\$203.54	246,010

Fair value measurement

The exercise price is based on the closing price of the Group's share on the date of grant. The fair value at grant date is calculated using a lattice-binomial model. This model requires the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the estimate of fair value of options granted and our results of operations could be impacted. The following table summarises the assumptions used to value option grants using the lattice binomial model and the valuation data.

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		Unaudited
	2019	2018
Dividend yield	0%	0%
Expected volatility	37-41%	40% - 42%
Risk-free interest rate	1.74-2.74%	2.61-3.09%
Suboptimal exercise factor	3.07 - 3.23	2.80 - 3.01
Valuation data		
Weighted-average fair value (per share)	\$156.60	\$157.19
Total stock-based compensation expense (in EUR)	20,391,716	8,738,987

In valuing shares issued under the Netflix, Inc. employee share option plans, the Group calculates expected volatility based solely on implied volatility. The Group believes that implied volatility of publicly traded options in Netflix, Inc. ordinary shares is more reflective of market conditions, and given consistently high trade volumes of the options, can reasonably be expected to be a better indicator of expected volatility than historical volatility of Netflix, Inc. ordinary shares. The Group bases the risk-free interest rate on U.S treasury zero coupon issues with terms similar to the contractual term of the options. Netflix, Inc. does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yields of zero in the option valuation model. The Group does not use a post-vesting termination rate as options are fully vested upon grant date.

2.3.4 Key management compensation

Key management includes the directors of the Group, and those having authority and responsibility for planning, directing and controlling the activities of the Group. The compensation paid or payable to key management is shown below, these figures have been rounded to the nearest EUR.

	2019
Salaries and wages	9,541,405
Social security contributions	85,014
Pension costs – defined contribution plans	141,903
Other benefits	47,567
Stock based compensation expense	1,701,559
	<u>11,517,448</u>

2.3.5 Director's remuneration

Costs relating to the remuneration and pensions of the current managing director is not presented, since it can be traced to one person (exemption article 383 according to the Dutch Civil Code).

2.4 Income tax expense

	Unaudited	
	2019	2018
Current tax expense		
Current year	97	109
Adjustments for prior years	—	—
	97	109
Deferred tax expense		
Temporary differences	(5)	(5)
Total income tax expense	92	104

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Notes to the consolidated financial statements

The tax expense differs from the weighted-average statutory amount that would arise using the tax rate applicable to profits of the Group as follows:

	Unaudited	
	2019	2018
Profit before tax	266	185
Adjustments for non-deductible expenses	20	16
Adjusted profit before tax	286	201
Income tax using the weighted average statutory tax rate	73	51
<i>Adjustment to income tax due to:</i>		
Withholding taxes paid	29	88
Tax credits received	(10)	(35)
Income tax expense	92	104
Effective tax rate	34.6 %	56.2 %
Weighted average statutory tax rate	25.6 %	25.6 %

i. Estimation uncertainty of income tax

The Group records a provision for income taxes for the anticipated tax consequences of its reported results using the asset and liability method. There are no certain tax benefits from uncertain tax positions within the provision for income taxes. The Group only recognises a tax benefit if it is more likely than not that the tax position will be sustained on examination by the tax authorities, based on the technical merits of the position. Due to uncertainties in any tax audit outcome, estimates of the ultimate settlement of unrecognised tax positions may change and the actual tax benefits may differ from the estimates.

ii. Corporate income tax

The income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. The effective tax rate has declined as a result of the decline in withholding tax of EUR 59 million year over year. The decline is due to a change in the corporate structure which took effect on 2 April 2019, as a result of which, withholding taxes that are due on revenue from Brazil, which were previously a liability of the Group, are now borne directly by Netflix, Inc.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

The Group's operating profit is determined in line with internationally adopted transfer pricing guidelines and reflects both the activities that it performs and the risks that it bears. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax assets and tax liabilities are offset only if certain criteria are met.

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Notes to the consolidated financial statements

3 Operating assets and liabilities

3.1 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, bank overdrafts, and amounts in transit from payment processors for credit card and debit card transactions. All cash and cash equivalents are at the Group's free disposal.

The cash flow statement has been prepared using the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. In the statement of cash flows, bank overdrafts are shown as cash, however in the balance sheet they are within borrowings in current liabilities or non-current liabilities.

3.2 Trade and other receivables

	Unaudited	
	2019	2018
Trade receivables	278	185
Due from affiliated companies	5	71
Prepaid expenses	3	2
Value-added tax	31	19
Other receivables	10	8
	327	285

Trade and other receivables are amounts due from customers for services rendered in the ordinary course of business. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less a provision for impairment when applicable. The receivables due from affiliated companies bear no interest, are short-term in nature and are periodically settled.

3.3 Content assets

	Unaudited	
	2019	2018
Cost	1,398	1,667
Accumulated impairments and amortisation	(784)	(826)
Opening net book value as at 1 January	614	841

Movements during the year

Additions	164	308
Accumulated costs of disposals	(458)	(577)
Amortisation for the year	(327)	(535)
Amortisation of disposals	458	577
Closing net book value	451	614

Cost	1,104	1,398
Accumulated impairments and amortisation	(653)	(784)
Closing net book value as at 31 December	451	614

Amortisation rates	20%-100%	20%-100%
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Notes to the consolidated financial statements

Content assets are carried at cost less accumulated amortisation and impairment losses. Content assets are assessed at each reporting date to determine whether there is any indication that the asset is impaired. The Group's business model is subscription based as opposed to a model generating revenues at a specific title level. Therefore, licensed content assets are reviewed in aggregate when an event or change in circumstances indicates impairment. If such an indication exists, the Group will estimate the asset's recoverable amount. The asset should be written down to its recoverable amount. To date, no impairment has been recorded. The acquisition of content licences is classified within cash used for investing activities in the cash flow statement.

Refer to note 2.2 for an introduction to content licences, and detail of the judgement in the amortisation approach taken.

3.4 Right-of-use leased assets

i. Accounting policy

The Group predominantly leases office space, other leases are not of a material value. The Group previously classified leases as *operating* given that all of the risks and rewards incidental to ownership of the underlying asset did not transfer to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for these leases on the balance sheet.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option, or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases (less than 12 months). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. On initial application

From 1 January 2019, the Group applied the new leasing standard using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings, and therefore comparative information has not been restated, or presented under the new standard. From 1 January 2019, at inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

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Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets; and
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied was 3.65%.

	1 January 2019
Operating lease commitments at 31 December 2018 under IAS 17	62
Right-of-use assets - property, plant and equipment	37
Lease liabilities	(37)

iii. Specification

The movement in the right-of-use assets during the year was as follows:

	2019
Opening net book value as at 1 January	37
Additions	108
Depreciation for the year	(26)
Closing net book value	119
Cost	145
Accumulated impairments and depreciation	(26)
Closing net book value as at 31 December	119

The amounts recognised in the profit or loss in relation to leases:

	2019
Interest on lease liabilities	4
Income from sub-leasing right-of-use assets presented in 'other revenue'	—
Expenses relating to short-term leases	1
Expenses relating to leases of low-value assets	—

A total cash outflow of EUR 33 million was recognised in the statement of cash flows. The Group is exposed to potential cash outflows for extension of existing leases, or termination of existing leases, no extension options or termination options are material to the Group. Detail of leases not yet commenced are included in our disclosure of commitments, refer to note 4.8.

Netflix International Holdings B.V.

Notes to the consolidated financial statements

3.5 Trade and other payables

		Unaudited
	2019	2018
Trade payables	218	164
Due to affiliated companies	726	402
Value-added tax	298	207
Deferred revenue	468	354
Other liabilities and accrued expenses	120	109
	1,830	1,236

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

The payables due to affiliated companies bear no interest, are short-term in nature and are periodically settled.

Deferred revenue consists of membership fees billed that have not been recognised, as well as gift and other prepaid memberships that have not been fully redeemed. As of year end, total deferred revenue was EUR 468 million (2018: EUR 354 million), the vast majority of which was related to monthly membership fees billed that are expected to be recognised as revenue within the next month, which is consistent with the timing of recognition of the deferred revenue balance in the last financial year. The remaining deferred revenue balance, which is related to gift cards and other prepaid memberships, will be recognised as revenue over the period of service after redemption, which is expected to occur over the next 12 months. The EUR 114 million increase in deferred revenue as compared to the last financial year is a result of increased memberships and average subscription price.

3.6 Content liabilities

		Unaudited
	2019	2018
Content liabilities (current)	100	176
Content liabilities (non-current)	56	89
	156	265

There are no content liabilities due more than five years from 31 December 2019.

Netflix International Holdings B.V.

Notes to the consolidated financial statements

4 Other

4.1 Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Group seeks to manage risk to minimise adverse effects on the Group's financial performance, but does not trade in derivative financial instruments to achieve this, management is of the opinion that the Group's exposure to financial risks is limited.

i. Credit risk

Credit risk arises on cash and cash equivalents, as well as credit exposures to trade and other receivables as a result of the risk of default of the counterparty. Credit risk related to cash balances is managed through deposits being held only with banks which have an independent credit rating deemed sufficient.

The Group's policy is that customers pay membership fees upfront, access to the service is suspended for customers with overdue fees until the receivables have been fully paid. Therefore, credit risk is limited. There are no significant concentrations of credit risk, customers are located in several geographical areas.

The total value of overdue trade and other receivables as at year end was nil (2018: nil). While trade and other receivables are subject to the impairment requirements of the expected credit loss model, the identified impairment loss is immaterial. The Group has no other financial instruments that are subject to this.

ii. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk is primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility by monitoring and maintaining a level of cash deemed adequate to finance operations, and mitigate the effects of fluctuation in cash flows.

The table below analyses the Group's financial assets and financial liabilities at year end based on the contractual maturity.

	Note	2019	At call	<1 year	1 - 5 years	5+ years
Financial assets						
Cash and cash equivalents	3.1	1,590	1,590			
Trade and other receivables (excl. prepayments)	3.2	324		324		
Financial liabilities						
Trade and other payables (excl. deferred revenue)	3.5	(1,362)		(1,362)		
Content liabilities	3.6	(156)		(100)	(56)	
Lease liabilities		(135)		(37)	(85)	(13)
Surplus / (deficit)		261	1,590	(1,175)	(141)	(13)

Netflix International Holdings B.V.

Notes to the consolidated financial statements

		Unaudited 2018	At call	<1 year	1 - 5 years	5+ years
Financial assets						
Cash and cash equivalents	3.1	858	858			
Trade and other receivables (excl. prepayments)	3.2	283		283		
Financial liabilities						
Trade and other payables (excl. deferred revenue)	3.5	(882)		(882)		
Content liabilities	3.6	(265)		(176)	(89)	
Surplus / (deficit)		(6)	858	(775)	(89)	—

iii. Market risk

The Group is exposed to foreign currency exchange risks through foreign currency denominated transactions during the normal course of business, as at reporting date the Group is not exposed to interest rate risk. The majority of the Group's monetary balances are in EUR, but it also holds substantial USD and BRL monetary balances. The Group does not hedge this exposure.

The table below demonstrates the sensitivity of the Group's profit to a reasonably possible change in the USD and BRL exchange rate against the functional currency. The Group's exposure to other foreign exchange movements is not significant.

	Equity		Profit or loss	
	Unaudited		Unaudited	
	2019	2018	2019	2018
EUR/USD exchange rate - movement 5%	40	10	(40)	(10)
EUR/BRL exchange rate - movement 5%	6	4	(6)	(4)

* Holding all other variables constant

4.2 Capital management

The Group's objectives are to safeguard its ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, or issue new shares.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total liabilities less cash and cash equivalents. The gearing ratio was as follows:

		Unaudited	
	Note	2019	2018
Total liabilities		2,125	1,511
Less: cash and cash equivalents	3.1	1,590	858
Net debt		535	653
Total equity		478	302
Net debt to equity ratio		112 %	216 %

The decrease in the gearing ratio during the year resulted primarily from an increase in the Group's cash position and improved equity.

Netflix International Holdings B.V.

Notes to the consolidated financial statements

4.3 Fair value estimation

The Group has no financial assets and liabilities measured at fair value. The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables are assumed to approximate their fair values due to the short-term maturities of these assets and liabilities. The fair values of the streaming content liabilities are not materially different from the carrying amounts.

4.4 Equity

Called up share capital

The authorised share capital of the Group of EUR 100 (2018: EUR 100) is divided into 10,000 (2018: 10,000) ordinary shares, fully paid-up, with a par value of EUR 0.01 each.

Translation reserve

The translation reserve relates to the use of EUR as the presentation currency.

Retained earnings

On 22 April 2020, the general meeting of shareholders determined to add the net profit over 2019 of EUR 174 million to the retained earnings. The Group had distributed dividends amounting to nil. The net addition to retained earnings is EUR 174 million.

4.5 Subsidiaries

Entity	Unaudited	
	2019	2018
Netflix K.K., Tokyo	100%	100%
Netflix Services UK Limited, London	100%	100%
Netflix Services Germany GmbH, Berlin	100%	100%
Netflix Australia Pty Ltd, Melbourne	100%	100%
Netflix New Zealand Limited, Wellington	100%	100%
Netflix Services Korea Ltd., Seoul	100%	100%
Netflix Pte. Ltd., Singapore	100%	100%
Netflix Services Taiwan Limited, Hsinchu City	100%	100%
Netflix Information Technology (Beijing) Co., Ltd., Beijing	100%	100%
Netflix Entertainment Services India LLP, Mumbai	100%	100%
Netflix Entretenimento Brasil Ltda., São Paulo	100%	100%
Netflix International B.V., Amsterdam	100%	100%
Netflix Streaming Services International B.V., Amsterdam	100%	100%
Netflix CPX International B.V., Amsterdam	100%	100%
Los Gatos Servicios de Transmisión España, S.L., Madrid	100%	100%
Los Gatos Services France S.A.S., Paris	100%	100%
Los Gatos Services Italy S.R.L., Milan	100%	0%
Los Gatos Streaming Services Belgium BVBA, Brussels	100%	0%
Los Gatos Servicios de Transmisión Mexico, S. de R.L. de C.V., Mexico City	100%	0%

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and can affect those returns through its power over the entity.

Netflix International Holdings B.V.

Notes to the consolidated financial statements

4.6 Related party transactions

All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also, entities which can control the Group are considered a related party. In addition, statutory and supervisory directors and close relatives are regarded as related parties.

The following transactions were carried out with related parties:

- Cost of providing services (refer to the note 2.2);
- Key management compensation (refer to the note 2.3.4); and
- Intercompany receivables/payables (refer to the note 3.2 and 3.5).

Please refer to note 1.1.3 for detail of the guarantees provided to subsidiaries of the parent.

4.7 Auditor's remuneration

The following audit fees were expensed in the consolidated statement of comprehensive income in the reporting period. These figures have been rounded to the nearest EUR.

	2019	Unaudited 2018
EY Accountants LLP - Netherlands audits		
Financial statement audits	226,279	196,100
Other network		
Financial statement audits	116,502	111,813
Tax services	52,120	38,896
	394,901	346,809

The fees listed above relate to the services provided to the Group by accounting firms and external independent auditors as referred to in Section 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: Wta).

4.8 Commitments and contingencies

Off-balance sheet commitments amount to EUR 256 million (2018: EUR 201 million). These amounts relate to content licences not reflected on the balance sheet because they do not yet meet the criteria for asset recognition, refer to note 3.3, and leases that have been signed but not yet commenced and therefore not yet capitalised. Certain agreements also include the obligation to license rights for unknown future titles, quantities and/or fees. Because the amount is not reasonably estimable, the Group does not include any estimated obligation for these future titles beyond the known minimum amount. These unknown obligations are expected to be significant and the expected timing of payments could range from less than one year to more than five years.

The off-balance sheet commitments for streaming content are as follows:

	2019	Unaudited 2018
No later than 1 year	56	61
Later than 1 year and no later than 5 years	85	78
Later than 5 years	—	—
	141	139

Netflix International Holdings B.V.

Notes to the consolidated financial statements

The off-balance sheet commitments for non-cancellable lease contracts are as follows:

		Unaudited
	2019	2018
No later than 1 year	11	21
Later than 1 year and no later than 5 years	53	36
Later than 5 years	51	5
Total	115	62

4.9 Significant accounting policies and new accounting standards

The principal accounting policies applied in the preparation of these financial statements are generally disclosed within the related note. New policies and other accounting policies that are considered significant are disclosed below. These policies have been consistently applied to all the years presented, unless otherwise stated. Certain prior year amounts may have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

New standards adopted by the Group

The Group adopted IFRS 16 Leases from 1 January 2019, refer to note 3.4 for details of the initial application. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Property, plant and equipment

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives (3-10 years), and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain we will obtain ownership by the end of the lease term. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful life being three years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Finance income and expenses

Finance income and expenses are recognised using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on an impaired loan or receivable is recognised using the original effective interest rate.

Netflix International Holdings B.V.

Notes to the consolidated financial statements

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group does not have any legally enforceable right to offset the recognised amounts in the balance sheet.

Impairment of financial assets

The Group assesses impairment of financial assets on a forward looking basis through measuring the expected credit losses (ECL) associated with instruments recognised at amortised cost. The Group measures loss allowances at an amount equal to lifetime ECLs, except for cash balances and debt securities which are measured at 12 month ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, that includes forward-looking information.

Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). No impairment occurred during 2018 or 2019. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period, other than goodwill of which the Group has none at this time.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within finance costs.

Value-added tax (VAT)

Revenues, expenses and assets are recognised net of the associated VAT, unless the tax incurred is not recoverable from the relevant tax authority. In this case it is recognised as part of the cost of acquisition of the asset or part of the expense. Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT recoverable from, or payable to, the tax authority is included within other receivables or payables in the balance sheet. Cash flows are presented on a gross basis. The VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

4.10 Events after the reporting period

Since the end of the reporting period, the coronavirus (COVID-19) pandemic has impacted our operations. The full extent to which COVID-19 and the various responses to it impacts our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict. In an effort to protect the health and safety of our employees, our workforce has had to spend a significant amount of time working from home, international travel has been severely curtailed and virtually all productions of those who supply us with content are paused. Other partners have similarly had their operations altered or temporarily suspended, including those that we rely on for our operations as well as development, production and post-production of content. We

Netflix International Holdings B.V.

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had to temporarily reduce the network traffic of our members in some countries and have seen significant disruption in customer support operations and have increased headcount to meet the growing demand. We additionally have not been able to provide the same level of product features, such as language dubbing, on some new content releases.

In an effort to contain COVID-19 or slow its spread, governments around the world have also enacted various measures, including orders to close all businesses not deemed “essential,” isolate residents to their homes or places of residence, and practice social distancing when engaging in essential activities. We anticipate that these actions and the global health crisis caused by COVID-19 will negatively impact business activity across the globe. While we have observed demand increases for our streaming entertainment service since 31 December 2019, we cannot estimate the impact the effects of COVID-19 in the future as business and consumer activity decelerates across the globe.

We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by local or foreign authorities, or that we determine are in the best interests of our employees, customers, and partners. It is not clear what the potential effects any such alterations or modifications may have on our business, including the effects on our customers, suppliers or vendors, or on our financial results.

No other events after the reporting period have occurred that are deemed material to the users of these financial statements.

Netflix International Holdings B.V.

Authorisation of the consolidated financial statements

Amsterdam, 15 December 2020
Netflix International Holdings B.V.

Director,

R.M. Zimmermann

Netflix International Holdings B.V.
Parent company financial statements

Statement of comprehensive income

For the year ended 31 December
(In million EUR)

	Note	2019	Restated 2018
Dividend income	2.1	1,880	3,562
Management fee income	2.1	18	70
Cost of providing services	2.1	(1,436)	(4,047)
Gross profit/(loss)		462	(415)
General and administrative expenses	2.2	—	(1)
Operating loss		462	(416)
Finance costs		(1)	(4)
Finance income/(costs) - net		(1)	(4)
Profit/(loss) before income tax		461	(420)
Income tax expense	2.3	—	—
Profit/(loss) for the year		461	(420)
Other comprehensive income for the year			
<i>Items that will not be reclassified to profit or loss</i>			
-		—	—
Total other comprehensive income for the year		—	—
Total comprehensive income for the year (attributable to the owner)		461	(420)

The above statement of comprehensive income should be read in conjunction with the accompanying notes. Please refer to note 1.2 for detail of the restatements made.

Netflix International Holdings B.V.
Parent company financial statements

Balance sheet

As at 31 December
(In million EUR)

	Note	2019	Restated 2018
Assets			
Current assets			
Cash and cash equivalents		1	1
Trade and other receivables	2.1	51	3
Current tax receivables	2.3	—	—
Total current assets		52	4
Non-current assets			
Investment in subsidiaries	3.2	144	144
Total non-current assets		144	144
Total assets		196	148
Liabilities			
Current liabilities			
Trade and other payables	2.1	8	420
Current tax liabilities	2.3	3	4
Total current liabilities		11	424
Total liabilities		11	424
Equity			
Share capital		—	—
Share premium		136	136
Retained earnings		49	(412)
Total equity		185	(276)
Total equity and liabilities		196	148

The above balance sheet should be read in conjunction with the accompanying notes. Please refer to note 1.2 for detail of the restatements made.

Netflix International Holdings B.V.
Parent company financial statements

Statement of changes in equity

For the year ended 31 December
(In million EUR)

	Note	Attributable to the equity owner of the Company			
		Share capital	Share premium	Retained earnings	Total
1 January 2019		—	136	(412)	(276)
Profit for the year		—	—	461	461
Total comprehensive income for the year		—	—	461	461
Dividend		—	—	—	—
31 December 2019	3.1	—	136	49	185
Restated					
1 January 2018		—	136	8	144
Loss for the year		—	—	(420)	(420)
Total comprehensive loss for the year		—	—	(420)	(420)
Dividend		—	—	—	—
31 December 2018		—	136	(412)	(276)

The above statement of changes in equity should be read in conjunction with the accompanying notes. Please refer to note 1.2 for detail of the restatements made.

Netflix International Holdings B.V.
Parent company financial statements

Statement of cash flows

For the year ended 31 December
(In million EUR)

	Note	2019	Restated 2018
Cash flows from operating activities			
Operating profit before income tax		461	(420)
<i>Adjustments for:</i>			
- Dividends		(1,880)	(3,562)
<i>Changes in operating assets and liabilities:</i>			
- (Increase)/decrease trade and other receivables		(48)	(3)
- Increase/(decrease) trade and other payables		(412)	424
Cash generated from operations		(1,879)	(3,561)
Income taxes (paid)/received		(1)	
Interest (paid) / received			
Net cash inflow/(outflow) from operating activities		(1,880)	(3,561)
Cash flows from investing activities			
Net cash inflow/(outflow) from investing activities		—	—
Cash flows from financing activities			
Dividends		1,880	3,562
Net cash flow inflow/ (outflow) from financing activities		1,880	3,562
Net increase/(decrease) in cash and cash equivalents		—	1
Cash and cash equivalents at the beginning of the financial year		1	—
Effects of exchange rate changes on cash and cash equivalents		—	—
Cash and cash equivalents at end of the financial year		1	1

The above statement of cash flows should be read in conjunction with the accompanying notes. Please refer to note 1.2 for detail of the restatements made.

Netflix International Holdings B.V.

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Netflix International Holdings B.V.

Notes to the parent company financial statements

1 About this report

1.1 Basis of presentation

Netflix International Holdings B.V. (hereafter the Company) is the parent company of the Group, and it has its registered office at Stadhouderskade 55, 1072 AB Amsterdam, the Netherlands. The number in the trade register at the Chamber of Commerce is 67203043.

These financial statements have been prepared in accordance with IFRS as endorsed by the EU and the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. They were authorised for issue by the Director of the Company on 15 December 2020.

In accordance with subsection 8 of section 362, Book 2 of the Dutch Civil Code, the recognition and measurement principles applied in the accounts of the Company are the same as those applied in the consolidated financial statements of the Group. Reference is made to note 1 of the consolidated financial statements for detail of the accounting policies, and where these can be found. Where there is a specific policy or detail that is not considered to be significant to the Group but is significant to the Company it has been included within the relevant note of these financial statements.

The following topics are considered specifically relevant to the financial statements of the Company and are addressed in the consolidated financial statements of the Group, please refer to the following:

- Note 4.1 Financial risk management;
- Note 4.2 Capital management; and
- Note 4.7 Auditor's remuneration.

In contrast to the consolidated financial statements, these financial statements have audited comparative figures.

These financial statements are presented in euro (EUR), which is the Company's functional currency. All amounts have been rounded to the nearest million, unless otherwise stated.

1.2 Restatement of comparative period

During 2019, the Company became aware that the classification of dividends from its subsidiary Netflix International B.V. should have been recorded in the statement of comprehensive income, as opposed to directly in equity. In accordance with IAS 8.42, this was adjusted in the current year, and the comparative period restated to reflect this change. The result is a reduced loss in 2018 compared to previously disclosed. There is no impact on the net equity previously disclosed, or on the tax position as the subsidiary and the Company form part of the same fiscal unity for Dutch income tax purposes. Please refer to the table below for full detail of the impact, in accordance with IAS 8.49:

		Adjustment	Restated
Statement of comprehensive income	2018		2018
Dividend income	—	3,562	3,562
Loss for the year	(3,982)	3,562	(420)
Balance sheet and Statement of changes in equity			
Share premium	3,706	(3,570)	136
Retained earnings	(3,982)	3,570	(412)
Statement of cash flows			
Loss for the year	(3,982)	3,562	(420)
Adjustment for dividends	—	(3,562)	(3,562)

1.3 Critical accounting estimates and judgements

There were no critical accounting estimates or judgements made in the preparation of the Company financial statements. For details of the Group please refer to note 1.2 of the consolidated financial statements.

Netflix International Holdings B.V.

Notes to the parent company financial statements

2 Business performance

2.1 Related party transactions

The following transactions were carried out with related parties by the Company:

- Dividend income is related to dividends received from Netflix International B.V., and management fees are for services rendered to affiliated companies (refer below);
- Cost of providing services relates to payments to affiliated companies for services performed (refer below); and
- Trade and other receivables, and trade and other payables are all balances due or receivable from affiliated companies.

The Company acted as a reseller / distributor on behalf of Netflix Global Holdings LLC through a licence agreement, until 2 April 2019 when this agreement ended. The Company was not the contracting party with members, this was Netflix International B.V. The Company therefore had the related costs associated with the licence, but the revenue was generated in Netflix International B.V. As they form part of the same Dutch fiscal unity this structure had no impact on the net position of the fiscal unity. Following the cessation of this agreement on 2 April 2019, the Company no longer pays service payments to affiliated companies, or earns management fees for services rendered to affiliated companies. This resulted in a decline in both income and expenses compared to the prior year on a stand-alone basis, these expenses have moved to a wholly-owned subsidiary of the Company so there is no impact on the Group.

Please refer to note 4.6 of the consolidated financial statements of the Group for full details of related party transactions within the Group.

2.2 General and administrative expenses

	2019	2018
Recharged employee benefits	—	1
	<u>—</u>	<u>1</u>

2.2.1 Average number of employees

During the year, the average number of employees calculated on a full-time-equivalent basis was nil (2018: nil). The number of employees based abroad was nil (2018: nil).

2.2.2 Key management compensation

No remuneration was paid to key management personnel through the Company during the year (2018: nil).

2.2.3 Director's remuneration

Costs relating to the remuneration and pensions of the current managing director are not presented since these can be traced to one person (exemption article 383 of the Dutch Civil Code), however no remuneration was paid to the managing director through the Company during the year (2018: nil).

2.3 Income tax expense

The Company is head of a fiscal unity for corporate income tax purposes. The Company's income tax expense for the year is nil (2018: nil) based on applicable tax rates when considering that the dividends received from Netflix International B.V. are not taxable given they are part of the same fiscal unity. The balance sheet of the Company is presenting a current tax liability, this is reflective of the income tax charge for the fiscal unity, as the Company is the head of this fiscal unity. The income tax expense for the fiscal unity is recorded within the largest subsidiary Netflix International B.V., it is then transferred to the Company and recorded as a liability, and an intercompany receivable for the same income tax to the Company.

Netflix International Holdings B.V.

Notes to the parent company financial statements

3 Other

3.1 Equity

Called up share capital

The authorised share capital of the Company of EUR 100 (2018: EUR 100) is divided into 10,000 (2018: 10,000) ordinary shares, fully paid-up, with a par value of EUR 0.01 each. Of these shares 90% are voting shares, and 10% are non-voting shares.

Share premium

The balance of the share premium account relates to capital contributions in subsidiaries.

Retained earnings

On 22 April 2020, the general meeting of shareholders determined to subtract the loss over 2019 of EUR 461 million from the retained earnings.

Bridge from the Company to the Group consolidated financial statements

	2019	2018
The Company	185	(276)
Accumulated result of subsidiaries	5,711	4,118
Dividends from Netflix International B.V.	(5,442)	(3,562)
Translation reserve	24	22
The Group	478	302

3.2 Subsidiaries

Investment in subsidiaries is at cost. Detail of the movement in subsidiaries is detailed below:

	2019	2018
Opening book value as at 1 January	144	144
Movements during the year		
Nil	—	—
Closing book value as at 31 December	144	144

The Company holds 100% of the direct interest in Netflix International B.V. and Netflix Streaming Services International B.V. Please refer to note 4.5 of the Group consolidated financial statements for full detail of the entities controlled by the Company through both direct and indirect interest.

3.3 Commitments and contingencies

Tax group liability (the Netherlands)

For corporate income tax purposes, the Company, Netflix International B.V. and Netflix CPX International B.V. are a fiscal unity. Pursuant to the Collection of State Taxes Act, the companies are all severally and jointly liable for taxation payable by the combination.

For value-added tax purposes, the Company, Netflix International B.V., Netflix Streaming Services International B.V., and Netflix CPX International B.V. are a fiscal unity. Pursuant to the Collection of State Taxes Act, the companies are all severally and jointly liable for the value-added tax payable by the combination.

3.4 Events after the reporting period

There were no events that occurred that were specific to the Company, please refer to note 4.10 of the Group consolidated financial statements for full detail of subsequent events.

Netflix International Holdings B.V.

Authorisation of the parent company financial statements

Amsterdam, 15 December 2020
Netflix International Holdings B.V.

Director,

R.M. Zimmermann

Netflix International Holdings B.V.

Other information

Other information

Provision in the Articles of Association relating to profit appropriation

In accordance with Article 23 of the Group's Articles of Association, the profit for the year will be at the disposal of the general meeting.

Branch

The Group has branch offices located in the Philippines and in the United States of America.

Independent auditor's report

We refer to the following page.

Independent auditor's report

To: the shareholder and management of Netflix International Holding B.V.

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

We have audited the financial statements 2019 of Netflix International Holding B.V. based in Amsterdam.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Netflix International Holding B.V. as at 31 December 2019 and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

The consolidated and parent company balance sheet as at 31 December 2019

The following statements for 2019:

The consolidated and parent company statements of comprehensive income, changes in equity and cash flows

The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing.

Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Netflix International Holding B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unaudited corresponding figures

The company didn't prepare consolidated financial statements 2018. Consequently, we have not audited the corresponding figures included in the consolidated statements of comprehensive income, the consolidated statements of changes in equity and cash flows and in the related notes.

Emphasis of matter relating to Corona developments

The developments surrounding the Corona (COVID-19) virus have a profound impact on people's health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a Going Concern. The financial statements and our auditor's report thereon are snapshots. The situation changes on a daily basis giving rise to inherent uncertainty. The impact of these developments on Netflix International Holding B.V. is disclosed in the Directors' report (page 8 and 12) and the disclosure about events after the reporting period (page 25). We draw attention to these disclosures. Our opinion is not modified in respect of this matter.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Director's report

- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements

- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the director's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities regarding the financial statements

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and

- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Amsterdam, 15 December 2020

Ernst & Young Accountants LLP

C.J.M. Kruijt