

SDN Limited

Strategic Report for the Year Ended 31 December 2020

The Directors present their Strategic Report for the year ended 31 December 2020.

Principal activity

The principal activity of SDN Limited ("the Company") continues to be the operator of 'COM4' (Digital Terrestrial Television) for which it was awarded the licence by Ofcom (formerly the Independent Television Commission) in May 1998.

SDN's current multiplex licence expires in November 2022. The Government recently completed its consultation on the future of the SDN licence (as well as most of those held by Arqiva, the BBC and Channel 4). The consultation indicated that the Government is seeking to renew the licence and not to hold an open competition. The Government recognises the need to ensure that Ofcom can undertake the renewal of these licences sufficiently in advance of their expiry in 2022. Amended legislation came into force in September 2021, allowing the renewal of licences for periods up to 31 December 2034.

Fair review of the business

The results for the Company show a profit before tax for the period of £66,824,000 (2019: £67,618,000) and revenue of £86,326,000 (2019: £83,201,000). At the statement of financial position date the Company had net assets of £671,294,000 (2019: £629,168,000).

KPIs

The Directors of the ITV plc Group manage the Group's operations on a divisional basis with this Company being included within the Broadcast & Online division. For this reason, the Company's Directors use the ITV plc Group Broadcast & Online division's operating and performance review in managing and understanding the development, performance and position of the Company. The operating and performance review is included on pages 28 to 41 of ITV plc's 2020 annual report. In October 2020, the Group announced a restructure within its Broadcast segment to better reflect and serve the changing viewing habits. Broadcast will be renamed Media and Entertainment and will continue to include Broadcast and On-Demand services. The restructure will be effective from 1 April 2021.

The Company's key financial and other performance indicators during the year were as follows:

	2020	2019
Revenue change compared with prior year	3.8% increase	(7.0%) decrease
Change in cost of sales compared with prior year	2.6% increase	0.2% increase

Developments during the year

Revenue, which is generated from licence sales for DTT Multiplex A, increased 3.8% to £86,326,000 (2019: £83,201,000). The increase in revenue is driven by the impact of new video streams which were launched in 2020.

Principal risks and uncertainties

The management of the business and execution of the Company's strategy are subject to a number of risks:

- Fluctuations in the market for DTT capacity;
- Long term viability of the DTT platform, in particular with regard to other competing platforms, e.g. digital, satellite or Internet Protocol Television;
- The Company's key supplier's ability to fulfil its transmission supply contract; and
- SDN's multiplex licence expires in 2022. We are fully engaged with both Government and Ofcom in relation to the possible renewal or extension of the licence.

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Section 172 (1) Statement - Directors Statement in performance of their duties under section 172(1)

The Directors of ITV plc manage the ITV Group governance structure. As SDN is embedded within this governance structure, the Directors of SDN believe that certain matters they are responsible for under Section 172 (1) of the Companies Act 2006 ('s172') have been considered to an appropriate extent by the Directors of ITV plc in relation both to the ITV Group and the Company and reference to this is made below as appropriate.

The Directors meet as required to consider and approve relevant matters during the year. To the extent necessary for an understanding of the development, performance and position of SDN, an explanation of how the Directors have specifically considered the matters set out in s172 is set out below:

- **The long term:** The Directors' main focus during the year continued to be the renewal of the DTT Multiplex licence that expires in 2022. They have been fully engaged with both Government and Ofcom in relation to the renewal or extension of the licence, and how this affects SDN's longer-term strategy. A consultation process has been undertaken and the Government have indicated they will seek to renew the licence and not to hold an open competition, whilst recognising that this will need to happen sufficiently in advance of its expiry in November 2022. Separately, in 2010 ITV established a Pension Funding Partnership (PFP) with the Trustees backed by SDN and the value of the licence as an alternative asset. The Directors have continued to liaise with ITV plc on the affect that the upcoming renewal process for the licence will have on this relationship and the PFP is currently being reviewed as ITV look to replace it with an alternative asset.

- **Business relationships - suppliers, customers:** The Directors are committed to fostering good working business relationships with their key stakeholders which include ITV, other broadcasters, platform owners and regulators. The Directors recognise that an understanding of issues relating these stakeholders is fundamental to building and maintaining the successful relationships, enabling SDN to maintain the strong and mutually beneficial opportunities needed to ensure the success of the Company. As the Company is fully embedded within the ITV Group governance structure, the Directors seek to align themselves with ITV plc's engagement mechanisms and an explanation of how the Directors of ITV plc have had regard to the need to foster the Company's business relationships with other Broadcasters and Platform owners is set out on page 98 to 99 of ITV plc's 2020 annual report, with detail on legislators and regulators on page 100.

- **Community & environment:** The Directors have regard to the impact of its operations on the environment and consider that as a result of being embedded within the ITV Group governance structure, the Directors of ITV plc have taken the lead in carrying out the duties in respect of the community and wider environmental issues. Further information on how ITV aims to reduce its carbon emissions and waste, and source responsibly is set out on pages 46 to 47 of ITV plc's 2020 annual report, which does not form a part of this report.

- **High standards of business conduct:** The Board's intention is to ensure that the Company operates in an ethical and responsible way. As a part of the ITV Group it recognises that a healthy corporate culture is the cornerstone of high standards of business conduct and governance. ITV's culture also pervades its business dealings with stakeholders outside of the organisation.

Approved by the Board on 29/10/2021 and signed on its behalf by:



R Appleton
Director