

2020

Financial statement

Notes to the Annual Financial Statement

We closed our 2020 accounting year with a positive net result of €3.6 million. The positive result reflected the successful sale of our interest in Connectis. In addition, a one-off supplemented donation of €2.1 million was made to SIDN Fund. The donation was made to enable the Fund to make previously approved but outstanding grant payments. Since SIDN Fund was founded in 2014, our stated intention has been to provide funding of up to €2.5 million per year. By the end of 2020, we had promised a total of €15 million. However, the amount actually donated per year has been the amount needed to cover the project support grants made by the Fund, rather than the full amount promised. The extra donation was made in order to enable the Fund to make project support grants averaging €2.5 million per year and cover its own operating costs.

Operating result

Excluding the donations to SIDN Fund, the operating result for 2020 was €1.6 million (positive), an improvement of €2.9 million on the figure for 2019. The improved operating result reflects higher net turnover and lower operating costs.

The number of registered .nl domain names grew considerably more than expected, resulting in substantially greater turnover than last year. Furthermore, the turnover in 2019 was slightly depressed by a one-off correction, amplifying the effect of the turnover growth in 2020. In the 2020 financial year, a total of €3.2 million was returned to registrars in the form of payment discounts, volume discounts and incentive payments made in the context of the Registrar Scorecard (RSC). The latter item was €0.3 million lower in 2020 than in 2019.

Operating costs

Operating costs, excluding donations to SIDN Fund, were €18.4 million. That is €1.9 million lower than in 2019. Personnel costs fell slightly to €10.2 million, due to reduced expenditure on the hire of temporary staff, particularly for CyberSterk and IRMA. Less was also spent on the hire of temporary Finance personnel, for whom there was less need following the appointment of additional permanent personnel. Hence, lower staff hire costs offset the increased personnel costs associated with permanent staff.

The depreciation charges in respect of goodwill are lower, because of the sale of our interest in Connectis, with effect from 1 April 2020. Excluding donations to SIDN Fund, other operating expenses fell by €1.0 million. The reduction was attributable primarily to the pandemic-related restrictions, which meant that almost no travel or accommodation costs were incurred, and less was spent on the organisation of events. In addition, the operating costs associated with CyberSterk were lower than in 2019.

Financial strategy

The primary aim of our financial strategy is to assure the continuity of our services. That aim is translated into a solvency of at least 60 per cent and a contingency buffer equal to one year's

expenditure. At the close of 2020, both our solvency and our equity capital were at target levels.

Our treasury policy is designed to mitigate liquidity risks. To that end, our liquid assets are spread across three Dutch banks. Since 2017, we have additionally held a portfolio of Dutch and German government bonds.

Breakdown of expenditure by strategy

In line with our desire to secure a responsible, positive return, we keep a critical eye on our expenditure. The expenditure associated with each of our strategies in 2020 is analysed below.

1. Valuable and value-based domain

This heading covers mainly expenditure on activities linked to management of the .nl domain. The other forms of expenditure included are:

- Direct debit and volume discounts
- Registrar Scorecard incentives
- Funding of projects for registrars
- Our support grant to the RA

2. Impact in two domains: online identity and cybersecurity

This heading covers expenditure on IRMAconnect, CyberSterk, the DBS and Connectis.

3. Profit with a purpose

The positive return on the operation of .nl and our other activities is used for the benefit of the Dutch and international internet communities. This heading covers expenditure in that context, namely our funding of SIDN Fund, SIDN Labs (and partners), the IRMA platform and community, and our sponsorship of other organisations (including ECP, IDnext, Bits of Freedom and the Reporting Hotline for Internet Child Pornography).

Comparison of actual versus budgeted expenditure in 2020, per strategy

Expenditure on .nl-related activities was lower than budgeted in 2020. That was due mainly to restrictions imposed in the context of the coronavirus pandemic: after mid-March, there was no business travel and all training courses and events were cancelled and/or held online. Expenditure on a number of projects was also lower than anticipated.

Our budget for 2020 envisaged investment in Connectis, IRMAconnect and CyberSterk. However, the sale of our interest in Connectis meant that we more than recovered our investment in the company, and that there was no further expenditure. Some activities linked to IRMAconnect were postponed, due to the slow passage of the Digital Government Act. On the other hand, we scaled up our activities for the IRMA community (strategy 3). Finally, we postponed our planned CyberSterk marketing activities.

The higher-than-budgeted expenditure on strategy 3 is a consequence of the one-off additional grant to SIDN Fund referred to earlier.

Fig. 1 | Budgeted expenditure per strategy in 2020 (€m)

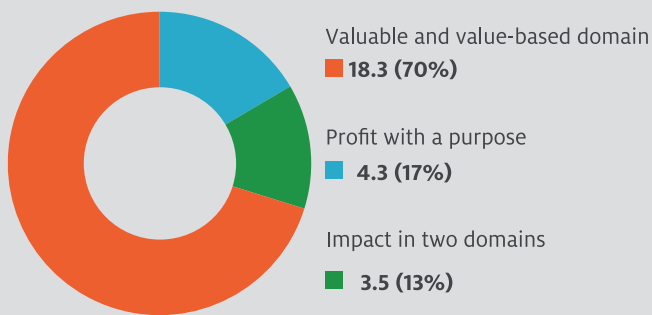
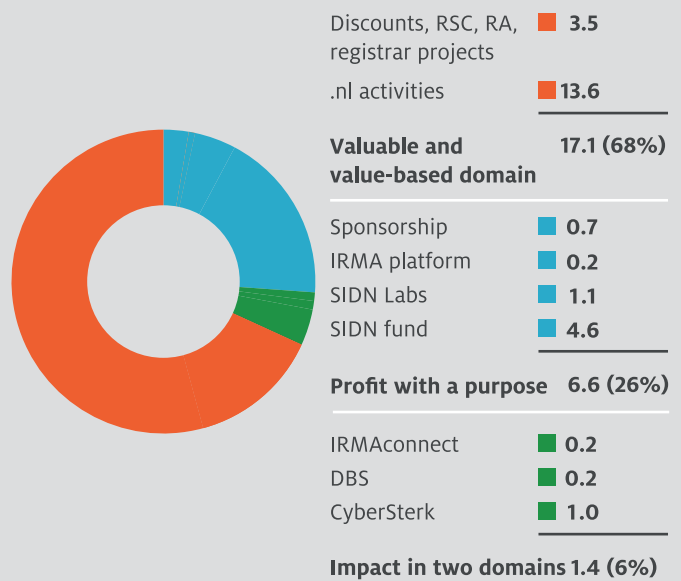


Fig. 2 | Actual expenditure per strategy in 2020, detailed breakdown (€m)



Outlook

In recent years, we have made effective use of a proportion of our accumulated reserves by increasing investment in the internet community, projects for .nl registrars and incentive schemes. Having reduced our equity capital to an appropriate level, we intend to reduce investment and expenditure in the coming years to a level commensurate with the prevailing circumstances.

In 2020, we updated our pricing policy. It was decided that, for the first time in some years, a 2 per cent annual indexation would be applied to .nl registration fees with effect from 1 January 2021. From 1 January 2022, we are additionally reducing the direct debit discount from 5 per cent to 2.5 per cent. The changes are needed in order to protect our long-term financial stability in an environment where our costs are rising year on year, while turnover is barely increasing. That will enable us to continue investing in the security and stability of the .nl domain, as well as in research, projects that have the potential to make the internet better, and activities that the market has so far neglected. We anticipate a slight increase in the number of registered .nl domain names in 2021 and corresponding growth in net turnover.

At the end of 2020, we decided to transfer CyberSterk to one of our partners. The transfer is expected to be completed at the start of April 2021. Meanwhile, we will increase our investment in IRMA. We anticipate a small inflation-led increase in operating costs. In combination, we expect those developments to yield a negative operating result in 2021.

In 2020, we promptly anticipated the government's pandemic-related restrictions and took steps to facilitate working from home. As things stand, we do not expect the pandemic to have any material and/or major financial implications for our operations. Nevertheless, it is plausible that, if the current restrictions remain in place for an extended period, backlogs of work could arise, necessitating a temporary capacity increase. Our intention is to continue the policy adopted in 2020 of monitoring internal and external developments closely and responding as necessary.

Risk management

Vision

Our strategic plan is reviewed on an annual basis and adjusted as necessary. To that end, we perform an analysis of opportunities, threats, strengths and weaknesses, the conclusions of which are translated into a statement of risks and countermeasures. Our risk management activities are focused on:

- The continuity of the organisation
- Assurance of our role as registry for the .nl domain
- Protection of our position and reputation

Governance and organisation

Our Supervisory Board oversees our organisation's strategy, policy and general operational position. The Supervisory Board pays explicit attention to risk management, which is scrutinised by the Board's Audit Committee and Security & Stability Committee.

The Security & Stability Committee supports the Board's supervision of the integrity, confidentiality and stability of our services. The Committee's supervisory tasks also include monitoring compliance with legislation and regulations and with applicable codes of conduct. The Security & Stability Committee additionally considers significant business risks relating to security and stability, the findings of the annual security audit (ISO 27001), the findings of ad hoc narrow-scope audits and penetration tests, and recommendations and other feedback from the external auditor and internal Security Officer.

On the Board's behalf, the Audit Committee supervises the integrity of the organisation's financial reporting, compliance with legislation and regulations and with applicable codes of conduct, and SIDN's financing arrangements.

The management team is responsible for risk policy and risk appetite, and for the direction of control measures. Where information security risks are concerned, the management team is supported by the Security Officer. The Legal & Policy Manager

advises on risks relating to legislation and regulations. SIDN additionally has a Data Protection Officer and a Privacy Board, pursuant to the General Data Protection Regulation. Line managers are responsible for primary risk management and the associated reporting.

Risks and risk appetite

Our risk management activities have multiple foci, reflecting the main risk areas that we face. Our risk appetite in each area is defined on the basis of careful analysis. The defined risk appetite then determines whether and to what extent a given risk should be taken. The risk appetite definitions provide parameters for decision-making, control measures and course adjustments where additional intervention is needed to keep risks to the desired level.

Dealing with risks

Our risk policy involves the definition of parameters, standards and values with a view to maximising the effectiveness of our efforts to realise our objectives. We consider it important to operate transparently and with integrity.

Main risks and uncertainties

The main risks and uncertainties facing the organisation are itemised below. The developments and control activities associated with each risk area during the year are also summarised.

Strategic risks

The main risks associated with SIDN's strategy stem from the strong dependence on (earnings from) the .nl domain and from the contraction of the .nl market.

Our .nl domain registration services are sold through registrars. Through the Registrars' Association (RA), we therefore work closely with the registrar community on the promotion of .nl domain names and on continuous improvement of the security and quality of .nl. To that end, we entered into a new cooperation agreement with the RA at the end of 2020.

As a consequence of pandemic-related restrictions, we have seen considerable growth in online service provision and .nl

registrations. By the close of 2020, there were more than six million registered .nl domain names, substantially more than a year earlier. However, the pandemic's effects on the economy are likely to become apparent in the years ahead. Those effects will inevitably influence development of the .nl domain. Taking all factors into account, we expect the .nl market to remain stable.

At the same time, we are seeking to increase our added value and extend the range of services we offer. Our strategy is therefore to make an impact in two domains: online identity and cybersecurity. That was followed in 2019 by the preparation of two new products – IRMA and CyberSterk – for market introduction. At the end of 2020, we decided to transfer further development of CyberSterk to one of our partners, thus ending our direct involvement. At the same time, we will continue to invest in IRMA, which will be an important focus in the coming years.

Given our limited capacity to influence the end market, our strategic risk appetite is moderate.

Operating risks

The two main risks associated with our operating activities are interruptions to the availability of our services and breaches of the confidentiality or integrity of important data. Such problems could arise from technical and/or human error, or from deliberate (targeted or indiscriminate) human action. A prolonged, large-scale problem in one of those fields has the potential to threaten the continuity of the organisation in two ways. First, by seriously damaging our reputation, giving rise to doubts in political circles and the community at large as to SIDN's legitimacy as the registry for the .nl domain. Second, by leaving us vulnerable to large compensation claims from clients.

Since 2011, we have been ISO27001-certified. That status involves operating an Information Security Management System (ISMS), featuring an annual cycle of business impact analysis, risk identification, risk management and residual risk appraisal, all in accordance with a defined information security policy. The findings, reports and internal and external audits are regularly

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Fig. 3 | SIDN's risk appetite

Category	Risk	Low	Moderate	High
Strategic	Dependency on .nl		•	
Operational	Service availability interruptions	•		
Financial	Breaches of the confidentiality or integrity of important data	•		
	Solvency	•		
	Liquidity risk	•		
	Market risk		•	
	Currency risk		•	
	Interest rate risk		•	
	Credit risk		•	
	Bad debt risk		•	
	Damage claims and penalties	•		
Legislation and regulations	Risk of non-compliance with legislation or regulations	•		
Reputation	Reputation risk		•	
Equity capital requirement	Risk of equity capital falling below the defined minimum		•	

discussed, e.g. in our Tactical Security Meetings (TSMs), after which any necessary improvements are implemented. The outcomes are monitored by means of biannual management reviews. In that context, consideration is given to the results of the audits and performance assessments, as well as to the status of audit action points and any security incidents that may have occurred.

The significance of each key process for service continuity is assessed by means of business impact analyses in the context of the ISMS. Our DNS services – the basis of the functionality of registered domain names – are the most critical, closely followed by our registration services, which enable users to register new domain names and to update and cancel existing registrations. Also rated as critical are the Registrar Whois/Is, the power supply, our office ICT systems, our website www.sidn.nl, and our communication and telecommunication systems. With a view to assuring availability, integrity and confidentiality, we have put a wide variety of risk management measures in place, designed to minimise the likelihood of serious problems, and to enable swift corrective action and minimise impact if problems do arise. The measures in question involve, for example:

- The elimination of single points of failure
- Extensive redundancy in hardware, software, connections, external services and expertise
- Logical and physical access control
- Audits and penetration tests
- Vendor requirements
- Internal regulations
- Operations-ready alternative premises for emergency use
- Crisis and relocation drills
- A Privacy Board
- A fully equipped Security Operations Centre

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Our operating risk appetite is low in relation to interruptions to the availability of our services and to breaches of the confidentiality or integrity of important data.

Financial risks

- *Solvency*
Solvency is equity capital expressed as a percentage of the balance sheet total. Between the close of 2019 and the close of 2020, solvency fell from 68.3 per cent to 66.4 per cent. The drop mainly reflects the donations to SIDN Fund outstanding at the end of the year and our increased levels of activity. The closing solvency figure remains above the defined minimum of 60 per cent.
- *Liquidity risk (including concentration risk)*
Liquidity risk is the risk of having insufficient liquid assets to cover our (annual) expenditure. It incorporates concentration risk: the risk that dependency on a single bank could impair our ability to immediately access our liquid assets. The balance of our liquid assets at the end of 2020 was €27.7 million, up €10.1 million on the close of 2019, due to the sale of our shares in Connectis. In recent years, our liquid assets have also been buoyed by improved cash flow supported by increasing use of annual registration periods for .nl domain

names. Our liquid assets are amply sufficient to cover our annual expenditure. Concentration risk is addressed by having our liquid assets spread across three Dutch banks.

- *Market risk*
Market risk is the risk of our government bonds and/or other securities decreasing in value. Our portfolio of Dutch and German government bonds was acquired with a view to holding the bonds until maturity. If circumstances should necessitate disposal of the bonds prior to maturity, we would face the risk of the bonds having diminished in value relative to the date of purchase. Our holdings of other securities are at risk of declining in value. However, we have not detected any signs (trigger events) indicative of such an eventuality.
- *Currency risk*
Currency risk derives firstly from the risk that our other securities are devalued by movement in the value of the Norwegian krone. Secondly, there is the exchange rate risk associated with transactions in currencies other than the euro. Our .nl services are priced in euros and therefore entail no currency risk. Because we make little use of suppliers that charge us in currencies other than the euro, our purchasing entails very little currency risk either.
- *Interest rate risk*
Interest rate risk is the risk that our government bonds and/or receivable loans are devalued by movement in market interest rates. Because we intend to hold our government bonds until maturity, the associated interest rate risk is small. The outstanding loan to Connectis Group B.V. was repaid in full in early 2021.
- *Credit risk*
Credit risk is the risk that a party with whom we have a contract defaults on their contractual obligations, as associated with other securities, accounts receivable, other receivables and liquid assets. Our bad debt risk is modest, because about 75 per cent of registrars pay by direct debit. Our General Terms and Conditions make provision for action to be taken if a registrar does not fulfil its financial obligations. Our policy is to distribute our liquid assets across three Dutch banks, thus mitigating the associated credit risk.
- *Damage claims and penalties*
This is the risk arising from service interruptions and data confidentiality or integrity breaches. Our General Terms and Conditions limit or exclude our liability for such problems.

Our financial risk appetite is moderate to low.

Legislative and regulatory risks

Changes to national or international legislation and regulations have the potential to affect our organisation and operating processes. We take stock of potentially significant proposed or impending legislative and regulatory changes – e.g. changes in employment law, tax law or data protection law – at an early stage. The impact of any such change is assessed and translated

into organisational adaptations, which are then implemented. In view of the potential impact of legislative or regulatory changes relating to our registry role, we have appointed a Legal & Policy Manager with responsibility for that domain. Where necessary and possible, the Legal & Policy Manager seeks to influence the nature of any proposed changes.

We conducted a comprehensive inventory of our personal data processing activities in connection with introduction of the General Data Protection Regulation. Each processing activity was critically examined to determine whether it was consistent with the new legislation. Where necessary, procedures were modified to ensure compliance with the law. We have voluntarily appointed a Data Protection Officer.

Since 2018, SIDN has been designated an operator of essential services under the Network and Information Systems Security Act. As such, we are subject to supervision by the Radiocommunications Agency. Such supervision is concerned specifically with the stability and continuity of our .nl services, which are the subject of periodic audits by the Agency. We are additionally required to inform the NCSC and the regulator of any serious incidents and we have a statutory duty of care, which covers risk control and incident prevention and mitigation. No serious incidents of a kind covered by the reporting requirement occurred in 2020. We are additionally subject to supervision by the Radiocommunications Agency, with whom we have regular liaison meetings.

- 6 Our legislative and regulatory risk appetite is low; we endeavour to operate well within the parameters of all applicable legislation and regulations.

Reputation risk

With a view to managing reputation risks, we work closely with our stakeholders, including the .nl registrars, the RA and the Ministry of Economic Affairs and Climate Policy. Where the registrars are concerned, we pursue an active stakeholder-management policy through the RA. We attach great importance to the quality of our services and to the maintenance and elevation of service quality. In that context, we undertake an annual Registrar Satisfaction Survey. We also actively monitor our media coverage.

Contingency buffer

Om de continuïteit van onze organisatie te waarborgen is het van belang om de continuïteit van onze organisatie te waarborgen. In order to assure the continuity of our organisation, it is important that we have an adequate financial buffer to protect against the possibility of losing a large portion of our income. The contingency buffer additionally serves to protect against the financial implications of the materialisation of an identified risk. Moreover, in event of discontinuation, we would require sufficient funds to ensure the orderly winding up and/or transfer of our .nl activities.

In 2020, we recalibrated our financial strategy and redefined our minimum equity capital requirement as a sum equal to our annual expenditure. Our equity capital is currently above the defined minimum. Our Finance Department monitors the sufficiency of our equity capital in relation to the defined minimum and periodically reports its findings.

Consolidated financial statements for 2020

Consolidated balance sheet as at 31 December 2020 (after appropriation of profit)

Fixed assets

Intangible fixed assets

50,454

6,021,677

Tangible fixed assets

Land and buildings

4,789,525

4,968,951

Machinery and equipment

918,446

816,494

Other fixed business assets

535,906

574,703

Tangible fixed assets under development

193,138

47,054

6,437,015

6,407,202

Financial fixed assets

5,525,371

3,999,271

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Current assets

Receivables

Trade receivables

906,709

207,694

Tax and social security contributions

66,863

383,948

Other receivables and accrued and deferred assets

1,585,489

948,738

2,559,061

1,540,380

Liquid assets

27,719,876

17,577,002

42,291,777

35,545,532

Liabilities

Group equity

Long-term liabilities

Other liabilities

Short-term liabilities

Accounts payable

Tax and social security contributions

Other liabilities and accrued and deferred liabilities

31 december 2020 (in €)

27,867,528

0

977,009

687,959

12,759,281

14,424,249

42,291,777

31 december 2019 (in €)

24,280,705

442,651

732,932

480,480

9,608,764

10,822,176

35,545,532

Consolidated profit and loss account for 2020

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	2020 (in €)	2019 (in €)
Net turnover	20,005,965	18,934,295
Purchase value of turnover	-42,693	0
Net turnover	<u>19,963,271</u>	<u>18,934,295</u>
Expenditure		
Wages and salaries	7,512,593	7,338,005
Social security contributions	847,190	844,949
Pension contributions	1,236,973	1,167,679
Other personnel costs	654,608	980,136
Depreciation	1,017,491	1,821,568
Other operating expenses	11,698,133	10,596,751
	<u>22,966,988</u>	<u>22,749,088</u>
Operating result	-3,003,717	-3,814,793
Financial income and expenditure	27,903	41,327
Result before taxation	<u>-2,975,814</u>	<u>-3,773,466</u>
Taxes	-363,593	180,584
	<u>-3,339,408</u>	<u>-3,592,882</u>
Resultaat deelnemingen	6,926,231	-275,434
Result after taxation	<u>3,586,823</u>	<u>-3,868,316</u>

Consolidated cash flow statement for 2020

	2020 (in €)	2019 (in €)
Cash flow from operating activities		
Operating result	-3,003,717	-3,814,793
<i>Adjustments for:</i>		
Depreciation	1,016,799	1,739,593
Movement in provisions	-	201,462
	<u>1,016,799</u>	<u>1,941,055</u>
<i>Movement in working capital:</i>		
Movement in receivables	-2,974,456	-263,306
Movement in short-term liabilities	3,159,422	870,179
	<u>184,967</u>	<u>606,873</u>
10 Cash flow from operating activities	<u>-1,801,951</u>	<u>-1,266,865</u>
Interest received	-55,694	19,283
Corporation tax	-	855,925
Result from participating interests	6,926,231	-
	<u>6,870,537</u>	<u>875,208</u>
Cash flow from operating activities	5,068,586	-391,657
Cash flow from investment activities		
Investments in intangible fixed assets	-	-
Divestments of intangible fixed assets	5,681,201	6,336
Investments in tangible fixed assets	-757,282	-636,556
Divestments of tangible fixed assets	692	76,068
Movement in other financial fixed assets	-	-
Long-term lending	-	-
Income from securities	149,678	138,000
Income from securities	<u>5,074,288</u>	<u>-416,152</u>
Increase / (decrease) in funds	<u>10,142,874</u>	<u>- 807,809</u>

Consolidated cash flow statement for 2020

Analysis of funds

Funds as at 1 January
Movement in liquid funds

Funds as at 31 December

2020 (in € 1,000)

17,577,002

10,142,874

27,719,876

2019 (in € 1,000)

18,384,811

-807,809

17,577,002

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