

2018

Financial statement



Your world. Our domain.

Finance

In 2017, through our subsidiary SIDN Deelnemingen B.V., we acquired a 65 per cent majority interest in Connectis Group B.V. of Rotterdam. In the Annual Financial Statement for 2018, the majority interest is accounted for as a participating interest; hence Connectis Group B.V.'s result for 2018 is included under 'Result from participating interests'.

The net result for the year was a loss of € 4.0 million, attributable mainly to the negative operating result of € 3.5 million. A negative operating result was foreseen in the plans and budget for 2018. The actual result is largely attributable to the deliberate policy of putting a portion of our accrued reserves to effective use: supporting SIDN Fund and increasing spending on, for example, 'registrar projects' and the Registrar Scorecard (our incentive programme for registrars). Allowance was also made for increased personnel costs in 2018. Half of the recorded rise in personnel costs was caused by the need to hire temporary staff to cover vacancies and absences due to sickness.

Corrected for the donation to SIDN Fund, the operating result for 2018 would be minus € 0.8 million, compared with a surplus of € 1.6 million in 2017. As a percentage of turnover, the operating result was minus 18 per cent (2017: minus 0.1 per cent).

Our share in Connectis Group B.V.'s net result for 2018 was € 0.2 million. Connectis realised its targets and budget for 2018, and substantial capital was invested in growth potential.

The net turnover in 2018 was € 19.5 million, or € 0.2 million down (-1%) on the previous year (2017: € 19.7 million). The reduction in turnover is attributable mainly to higher incentive payments to registrars in 2018.

Personnel costs were € 1.1 higher than in 2017, at € 9.9 million (2017: € 8.8 million). The rise is attributable partly to growth of the workforce and general pay rises (together € 0.5 million) and partly to higher pension contributions (€ 0.1 million). The increase in the size of the workforce was due to the expansion of SIDN Labs' research capacity and the establishment of a Security Operations Centre. Expenditure on temporary personnel increased by € 0.5 million, mainly as a result of delays filling certain vacancies.

Depreciation changes for 2018 were € 2.5 million, i.e. € 0.5 million higher than for 2017. The other operating expenses in 2018 were € 10.5 million (2017: € 8.9 million). The increase of € 1.6 million relative to 2017 was due mainly to the donation made to SIDN Fund.

We generated a negative cash flow of € 1.9 million (2017: negative flow of € 10.3 million). The negative cash flow in 2017 was mainly a consequence of acquiring a majority interest in Connectis Group B.V. (€ 8.6 million). The negative cash flow in 2018 is attributable partly to a tax deferral being charged to the accounts.

At the close of 2018, our equity capital was € 28.1 million. Our financial position therefore remains strong. The equity capital serves partly as a financial buffer, helping to assure service continuity. The minimum financial buffer required is related to the organisation's structural cost base. The cost base rises over time, as the organisation's activities expand and the quality, stability and security requirements increase. The financial buffer is currently ample to provide necessary and reasonable cover against the identified risks and uncertainties.

In order to manage our liquidity risk, we spent € 1.5 million on the acquisition of Dutch and German government bonds in 2017. The current value of the bonds is very similar. Our solvency fell slightly from 76.8 per cent in 2017 to 73.1 per cent in 2018. In 2018, € 5.2 million was invoiced and received for services to be delivered in the following calendar year; that is up from € 4.9 million in 2017.

In 2013, we began talks regarding the tax implications of the donation to SIDN Fund. SIDN and the tax authorities differed in their view of the extent to which the donation is tax-deductible. Hence, the corporation tax assessment received in respect of 2014 was not in line with the amount that SIDN reported as due on its tax return for that year. We accordingly appealed against the assessment. In 2018 we reached a settlement with the tax authorities regarding the actual deductibility of expenditure since 2013. That led to a net overall adjustment of € 0.7 million to the corporation tax liability for the preceding years.

The .nl domain contained more than 5.831 million domain names at the end of the year. In 2018, the net growth in the number of registered domain names was 37,200 down on the 109,706 seen in 2017. In order to promote the use of DNSSEC to secure domain names, we have been paying an annual rebate per secure domain name since July 2012. By the close of 2018, approximately 3.3 million domain names were secured with DNSSEC (57 per cent of all .nl domain names). In 2015, we started the Registrar Scorecard: an incentive programme designed to further increase the quality of the .nl zone. Through the programme, we returned € 1.6 million to participating registrars in 2018 (2017: € 1.3 million). The total value of all the incentives set off against the turnover (DNSSEC discount, Registrar Scorecard rewards, volume discount and direct debit discount) was € 3.5 million: a 9 per cent increase on the 2017 total of € 3.2 million. The number of registrars fell again, to stand at 1,258 at the close of 2018 (2017 1,303).

Outlook

We anticipate a slight increase in the number of registered .nl domain names in 2019 and a modest corresponding growth in earnings from .nl registrations. Total earnings are likely to increase a little as well. Our workforce is expected to grow, thus pushing up overall expenditure. Capital expenditure is likely to be broadly similar to 2018 and we anticipate that the result from participating interests will again be nil in 2019. Taking all factors into account, we envisage a smaller negative operating result.

Risks and uncertainties

Vision and policy

Our strategic plan for the next four years is reviewed and updated annually. As part of that process, we consider the company's (strategic) risk exposure. The management team and staff carry out a context analysis, in which opportunities and threats are surveyed. We also identify the strengths and weaknesses of the internal organisation. The conclusions of the analysis are then translated into a statement of risks and (where appropriate) countermeasures. The primary objectives of risk management are to assure the continuity of the organisation and our role as registry for the .nl domain, and to protect our position and reputation.

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 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.

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Before starting a project, we produce a project plan, which always includes a section covering the risks associated with the project, the risk management measures to be taken and residual risks. Before the project is given the go-ahead, consideration is given to the risk section of the project plan. Any changes to the risk situation and the risk management measures are addressed in the regular project progress reports.

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.

Strategic risk analysis and reporting

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. We do not have a direct sales channel to the end market and therefore have very little scope for influencing that market ourselves. The focus is consequently on collaboration with our registrars, e.g. through the Registrar Scorecard, which offers incentives to promote the use of .nl domain names. At the same time, we are seeking to increase our added value, extend the range of services we offer and reduce our dependence on .nl. It was with those aims in mind that we acquired a 65 per cent holding in Connectis Group B.V. at the start of 2017. In order to maintain risk separation between SIDN and Connectis Group B.V., we established a subsidiary, SIDN

Deelnemingen B.V. at the end of 2016. It is the new subsidiary that holds 65 per cent of the shares in Connectis Group B.V. Connectis Group B.V. is currently transitioning from start-up to scale-up. It is a young, dynamic enterprise with a strong position and abundant opportunities in a growing and competitive market. In 2018, as in 2017, we continued to invest to facilitate the process of transition, with the emphasis on further professionalisation, realignment of the company's commercial strategy and the creation of synergy and added value.

Our strategic risk appetite is moderate in relation to activities with the potential to increase our added value.

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.

The significance of each key process for service continuity is assessed by means of Business Impact Analysis, which is part 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 Whois/Is, the power supply, our office IT 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 problems, and to enable swift corrective action and minimise impact if problems do arise. The measures in question range from the elimination of single points of failure by extensive redundancy in hardware, software, connections, third-party services and expertise, logical and physical access control, audits and penetration testing, contractual arrangements with suppliers, codes of conduct for SIDN personnel, an emergency backup location, crisis and relocation drills, a privacy board and a Security Operations Centre (SOC).

Our operating risk appetite is low in relation to interruptions to the availability of our services and breaches of the confidentiality or integrity of important data. Our risk appetite in relation to activities with the potential to increase operational excellence is moderate.

Financial risks

- Damage claims and penalties: service interruptions and data confidentiality or integrity breaches have the potential to generate claims and/or penalties. Our General Terms and Conditions limit or exclude our liability for such problems.
- Currency/exchange rate risk: our exposure to currency and exchange rate risks is modest. Our .nl services are priced in euros and we make little use of suppliers that charge us in other currencies.
- Bad debt risk: 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.
- Liquidity risk: our liquid assets are divided across three Dutch banks. In 2017, we acquired a portfolio of Dutch and German government bonds.
- Market risk: our portfolio of Dutch and German government bonds was acquired with a view to holding the bonds until maturity. If circumstance should require us to dispose of the bonds prior to maturity, we would face the risk of the bonds having diminished in value relative to the date of purchase.
- Solvency risk: we maintain a financial buffer to assure the continuity of the organisation (for a period) in the event of a significant loss of our earnings and/or the need for high expenditure at short notice. The minimum size of the buffer increases in step with our structural cost base. The financial buffer is currently well above the defined minimum.
- Uncertainty about our ability to attract finance: to date, we have not needed to seek external finance.

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Our financial risk appetite is 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 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 initiated a comprehensive inventory of our personal data processing activities in connection with the General Data Protection Regulation, which came into effect in 2018. Each processing activity is being critically examined to determine whether it is consistent with the new legislation. Where necessary, we will modify our procedures to ensure compliance with the law. We have voluntarily appointed a Data Protection Officer.

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

Consolidated financial statements for 2018

Consolidated balance sheet as at 31 December 2018 (after appropriation of profit)

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Fixed assets

Intangible fixed assets

6,992,515

8,393,948

Tangible fixed assets

Land and buildings

5,147,068

5,326,488

Machinery and equipment

836,742

1,107,138

Other fixed business assets

608,821

789,711

Tangible fixed assets under development

29,174

0

6,621,805

7,223,337

Financial fixed assets

3,690,854

4,135,007

Current assets

Receivables

Trade receivables

396,459

303,489

Tax and social security contributions

1,208,846

363,548

Other receivables and accrued and deferred assets

1,211,978

1,088,038

2,817,283

1,755,075

Liquid assets

18,384,811

20,326,724

35,507,268

41,834,091

	31 December 2018 (in €)	31 December 2017 (in €)
Group equity	28,149,021	32,131,840
Long-term liabilities		
Other liabilities	406,250	406,250
Short-term liabilities		
Accounts payable	1,104,879	1,113,426
Tax and social security contributions	420,679	365,941
Other liabilities and accrued and deferred liabilities	8,426,439	7,816,634
	<u>9,951,997</u>	<u>9,296,001</u>
	<u>38,507,268</u>	<u>41,834,091</u>

Consolidated profit and loss account for 2018

	2018 (in €)	2017 (in €)
Net turnover	19,481,759	19,704,620
Expenditure		
Wages and salaries	7,345,103	6,351,074
Social liabilities	709,964	691,554
Pension costs	978,649	858,979
Other personnel costs	916,093	892,793
Depreciation	2,518,557	2,000,516
Other operating expenses	10,518,465	8,929,193
	22,986,831	19,723,927
7 Operating result	-3,505,072	-19,307
Financial income and expenditure	48,067	21,950
Result before taxation	-3,457,005	2,643
Taxes	-726,371	-478,772
	-4,183,376	-476,129
Result from participating interests	200,557	-169,079
Result after taxation	-3,982,819	-645,208

Consolidated cash flow statement for 2018

	2018 (in €)	2017 (in €)
Cash flow from operating activities		
Operating result	-3,505,072	-19,306
Adjustment for depreciation	2,518,557	2,000,513
<i>Movement in working capital</i>		
Movement in receivables	-253,002	-96,250
Movement in short-term liabilities	665,339	876,965
Cash flow from operating activities	<u>-574,178</u>	<u>2,761,922</u>
Interest received	1,145	30,356
Corporation tax	-587,155	-709,653
	-586,010	-679,297
8 Cash flow from operating activities	<u>-1,160,188</u>	<u>2,082,625</u>
Cash flow from investment activities		
Investments in intangible fixed assets	-268,099	-8,424,855
Investments in tangible fixed assets	-247,493	-775,767
Acquisition of participating interests	0	-243,956
Mutatie overige financiële vaste activa	-266,133	0
Long-term lending	0	-1,487,260
Acquisition of securities	0	-1,489,643
Cash flow from investment activities	<u>-781,725</u>	<u>-12,421,481</u>
Increase/(decrease) in funds	<u>-1,941,913</u>	<u>-10,338,856</u>

Consolidated cash flow statement for 2018

Analysis of funds

Funds as at 1 January

Movement in liquid funds

Funds as at 31 December

	2018 (in €)	2017 (in €)
Funds as at 1 January	20,326,724	30,665,580
Movement in liquid funds	-1,941,913	-10,338,856
Funds as at 31 December	18,384,811	20,326,724

Colophon

Editorial

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