

2021

Financial statement

Notes to the Annual Financial Statement

In 2021, we recorded a negative result before taxes of €0.1 million. That is better than forecast, reflecting higher net turnover and lower operating costs. Net growth in the number of .nl domain names was also higher than forecast in 2021, due to organisations moving activities online in the face of continuing pandemic-related restrictions. In the budget for 2021, we made allowance for such restrictions limiting travel and other activities for several months of the year. In practice, however, the great majority of our events and outside event participations took place online. Furthermore, the progress of a number of projects, such as further development of the SIDN Academy, was slower than planned. As a result, operating costs were lower than initially budgeted.

Comparison with the previous year

In 2021, the operating result before taxes was a negative of €0.1 million, compared with a negative of €3.0 million in 2020. The number of .nl domain names increased by more than 120,000, to stand at more than 6.2 million by the end of 2021. The growth increased our net turnover. In 2021, we paid a total of €3.4 million to .nl registrars in the form of discounts and incentive payments – €0.2 million more than in 2020.

Operating costs were €20.6 million. That is €2.3 million lower than in 2020. The fall is the net result of increased expenditure on agency staff and a smaller donation to SIDN Fund. Agency staff were required for a large part of 2021 in order to cover unfilled vacancies. We also scaled up our ICT and recruitment capacities. Following the sale of our interest in Connectis at the start of April 2020, the associated goodwill has now been entirely written off. Hence, there will be no further goodwill depreciation charges. The increased expenditure on consultancy services in 2020 related entirely to the sale of Connectis. Expenditure on marketing and consequently overall costs were lower as a result of the transfer of CyberSterk to Guardian360 at the end of March 2021.

Taxes

In 2021, the simple operating result before taxes was a positive of €1.0 million, compared with a negative of €0.7 million in 2020. As a result, the corporation tax liability in respect of 2021 was €0.3 million higher than in 2020. At the start of 2022, a revised corporation tax declaration for 2020 was submitted. In the revised declaration, the additional contribution to SIDN Fund made in 2020 was treated as entirely non-tax-deductible. The effect was to increase the 2021 corporation tax liability by €0.5 million.

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 at least one year's expenditure. At the close of 2021, 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. The value of the holding is gradually decreasing as the bonds mature.

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 2021 is analysed below.

1. A valuable and value-based domain

This heading covers mainly expenditure on activities linked to management and development 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

With effect from 2021, corporation tax is no longer treated as expenditure. Moreover, the costs incurred by SIDN Labs in connection with .nl are accounted for under strategy 1. The interest payable on the loan that SIDN made to SIDN Deelnemingen BV is also attributed entirely to strategy 1. The comparable figures for 2020 have been adjusted accordingly.

2. Impact in two domains: online identity and cybersecurity

This heading covers expenditure on IRMAconnect, CyberSterk (ended at the start of April 2021) SIDN BrandGuard (previously the Domain Name Surveillance Service) and Connectis (interest sold at the start of April 2020).

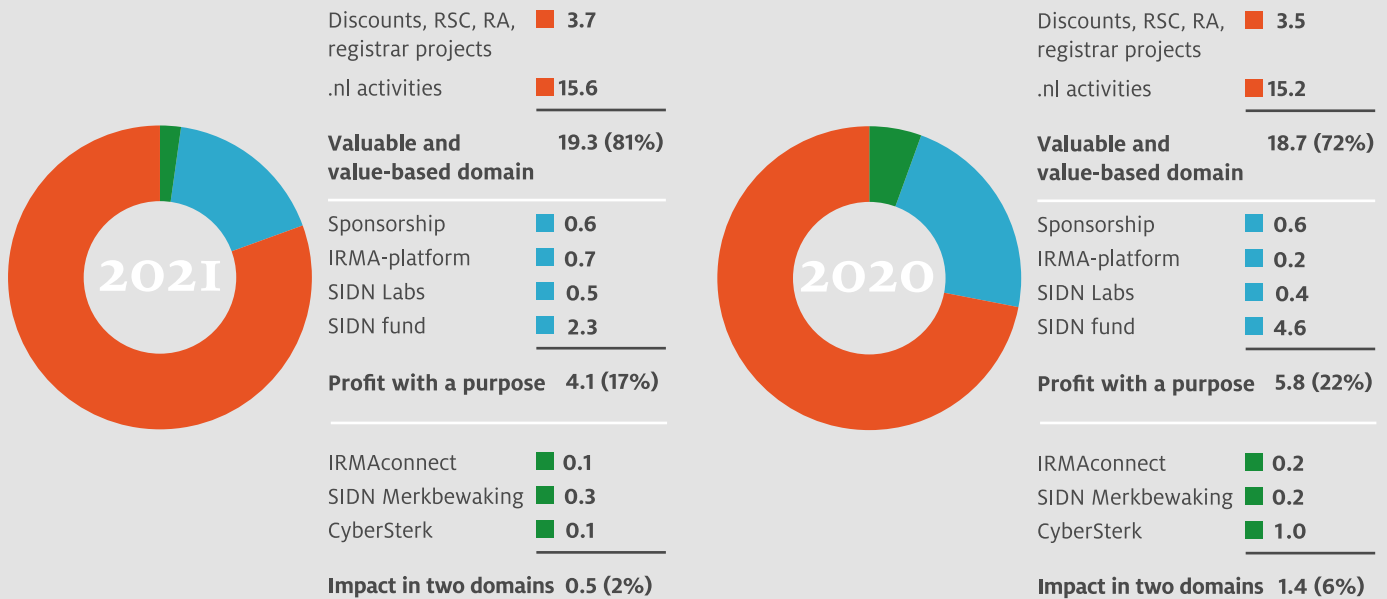
3. Profit with a purpose

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. Supported organisations include NLnet Labs (€225,000), ECP (€100,000), the Academic Cyber Security Society (ACSS) (€100,000), the Reporting Hotline for Internet Child Pornography (€60,000), IDnext (€40,000), Bits of Freedom (€40,000) and DINL (€20,000).

Actual expenditure per strategy, 2021 versus 2020

Total expenditure in 2021 was €2.0 million lower than in 2020. The fall was due to a smaller donation to SIDN Fund and the transfer of CyberSterk, after which all CyberSterk-related activities ceased. Expenditure on 'A valuable and value-based .nl domain' was higher, due to increased agency staff costs and discounts. We also continued our investment in the IRMA platform in 2021. IRMA-related investment will increase further in 2022, due to the cost of making IRMA fully compliant with (European) legislation and regulations.

Fig. 12 | Actual expenditure per strategy, detailed breakdown (€m)



Outlook

The coronavirus pandemic had major implications for all organisations. SIDN was no exception, experiencing both positive and negative impacts. The shift from physical activities to online activities was financially advantageous to us. However, the very limited scope for scheduled and ad hoc face-to-face meetings meant that many innovations and project-based activities were delayed and ran over to 2022. We attach particular importance to the welfare of our personnel – a subject that has our ongoing attention. We accordingly provide equipment for home working and ensure that any face-to-face meetings that do take place comply with the applicable guidance and are as safe as possible. We will invest further in our home working and office environments, in order to facilitate hybrid working.

In the years ahead, we expect net turnover to increase slightly, driven primarily by registration fee indexation and reduction of the direct debit discount from 5 to 2.5 per cent with effect from 1 January 2022. We are also investing in our ICT infrastructure, equipment and software, and in our working methods, with a view to increasing our agility and flexibility. We also continue to encourage our personnel to follow both further training courses and retraining courses, the scope for which has been curtailed for the last two years. Another ongoing field of investment is the security of both our internal computer systems and our services. The tight labour market obliges us to look at alternative approaches to recruitment and training. We are actively seeking collaborations and making more use of our contact network. Given the challenging labour market, the desire to maintain a flexible workforce and other factors, we seek to maintain a balance between permanent and temporary staff. That approach enables us to engage personnel with certain specialist expertise for periods of various lengths.

In 2022, we will carry forward development of the IRMA app, to ensure that it is fully compliant with the Digital Government Act. We will also add new functionalities and services to SIDN BrandGuard, with a view to increasing the service's added value.

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 and Stability Committee.

The Security and 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 and 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 tolerance, and for the direction of control measures. Where information security risks are concerned, the management team is supported by the Security Officer. The Legal and 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 tolerance

Our risk management activities have multiple foci, reflecting the main risk areas that we face. Our risk tolerance in each area is defined on the basis of careful analysis. The defined risk tolerance then determines whether and to what extent a given risk should be taken. The risk tolerance 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 associated with our operations are identified below. The developments and control activities associated with each risk area during the year are also summarised.

4 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, which was extended at the end of 2021.

As a consequence of pandemic-related restrictions, we saw further growth in online service provision and .nl registrations in 2021. 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. In the years ahead, we expect the .nl market to remain stable. Given our limited capacity to influence the end market, our strategic risk tolerance is moderate.

We are seeking to increase our added value and extend the range of services we offer. As part of our strategy of achieving impact in the domains of online identity and cybersecurity, we have decided to continue investing in IRMA and SIDN BrandGuard.

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. In the context of our Information Security Management System (ISMS), we perform business impact analyses. That involves following an annual cycle in accordance with a defined information security policy. We also identify risks, implement control measures and assess residual risks. The findings, reports and internal and external audits are regularly discussed, e.g. in our Tactical Security Meetings, after which any necessary improvements are implemented. The outcomes are monitored by means of

Fig. 13 | SIDN's risk tolerance

Category	Risk	Low	Moderate	High
Strategic	Dependency on .nl		•	
Operational	Service availability interruptions	•		
	Breaches of the confidentiality or integrity of important data	•		
Financial	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		•	

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.

We assess the significance of each key process for service continuity 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.

Our operating risk tolerance 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 2020 and the close of 2021, solvency fell from 65.9 per cent to 62.9 per cent. The drop mainly reflects our increased levels of activity and the donations to SIDN Fund outstanding at the end of the year. The closing solvency figure at the close of 2021 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 meet our obligations. The balance of our liquid assets at the end of 2021 was €30.8 million, up €3.0 million on the close of 2020, due to repayment of the loan extended to Connectis. In recent years, our liquid assets have been buoyed by improved cash flow supported by increasing use of annual registration periods for .nl domain names. Our liquid asset balance is 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 lost some of their purchase value. 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.
- *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 tolerance 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 and 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. We amended our working practices where appropriate, and we 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, with which we regularly liaise.

The Agency is concerned specifically with the information security of our .nl services, in connection with which it performs audits. In 2021, the Agency carried out a follow-up audit. With the exception of a few action points, no matters of concern were identified. As well as being subject to audits, we are 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.

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

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 the event of discontinuation, we would require sufficient funds to ensure the orderly winding up and/or transfer of our .nl activities.

6

Since recalibration in 2020, our minimum equity capital requirement is 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 2021

Consolidated balance sheet as at 31 December 2021 (after appropriation of profit)

7

Assets

Intangible fixed assets

Software	339,857	50,454
Intangible fixed assets under development	51,661	193,138
	391,518	243,592

Tangible fixed assets

Land and buildings	4,738,417	4,789,525
Machinery and equipment	916,945	918,446
Other fixed business assets	414,362	535,906
Tangible fixed assets under development	2,643	-
	6,072,367	6,243,877

Financial fixed assets

2,322,129

5,525,371

Current assets

Receivables

Trade receivables	728,538	906,709
Tax and social security contributions	-	66,864
Other receivables and accrued and deferred assets	1,982,920	1,585,488
	2,711,458	2,559,061

Liquid assets

30,756,914

27,719,876

42,254,386

42,291,777

Liabilities

Group equity

Short-term liabilities

Accounts payable

Tax and social security contributions

Other liabilities and accrued and deferred liabilities

31 December 2021 (in €)

26,558,151

788,153

1,665,438

13,242,644

15,696,235

42,254,386

31 December 2020 (in €)

27,867,528

977,009

687,959

12,759,281

14,424,249

42,219,777

Consolidated profit and loss account for 2021

9

	2021 (in €)	2020 (in €)
Net turnover	20,754,098	20,005,965
Purchase value of turnover	-144,148	-100,810
Net turnover	<u>20,609,950</u>	<u>19,905,155</u>
Costs		
Wages and salaries	8,289,246	7,542,639
Social security contributions	787,702	847,190
Pension contributions	1,330,958	1,236,937
Other personnel costs	530,797	634,562
Depreciation	833,653	1,017,491
Other operating expenses	8,827,082	11,640,017
	<u>20,599,438</u>	<u>22,908,872</u>
Operating result	10,512	-3,003,717
Financial income and expenditure	-117,973	27,903
Result before taxation	<u>-107,461</u>	<u>-2,975,814</u>
Taxes	-1,201,916	-363,953
	<u>-1,309,377</u>	<u>-3,339,408</u>
Result from participating interests	<u>-</u>	<u>6,926,231</u>
Result after taxation	<u>-1,309,377</u>	<u>3,586,823</u>

Consolidated cash flow statement for 2021

	2021 (in €)	2020 (in €)
Cash flow from operating activities		
Operating result	10,512	-3,003,717
<i>Adjustments for:</i>		
Depreciation	820,596	1,016,799
Movement in provisions	-	-
	<u>820,596</u>	<u>1,016,799</u>
<i>Movement in working capital:</i>		
Movement in receivables	-152,396	-2,974,456
Movement in short-term liabilities	70,070	3,159,422
	<u>-82,326</u>	<u>184,967</u>
10 Cash flow from operating activities	<u>748,781</u>	<u>-1,801,951</u>
Interest received	-118,825	-55,694
Result from participating interests	-	6,926,231
	<u>-118,825</u>	<u>6,870,537</u>
Cash flow from operating activities	<u>629,957</u>	<u>5,068,586</u>
Cash flow from investment activities		
Investments in intangible fixed assets	-235,136	-
Divestments of intangible fixed assets	4,091	5,681,201
Divestments of intangible fixed assets	-579,689	-757,282
Divestments of tangible fixed assets	13,722	692
Movement in other financial fixed assets	2,644	-
Long-term lending	3,068,429	-
Income from securities	133,000	149,678
Cash flow from investment activities	<u>2,407,081</u>	<u>5,074,288</u>
Increase / (decrease) in funds	<u>3,037,038</u>	<u>10,142,874</u>
Analysis of funds		
Funds as at 1 January	27,719,876	17,577,002
Movement in liquid funds	<u>3,037,038</u>	<u>10,142,874</u>
Funds as at 31 December	<u>30,756,914</u>	<u>27,719,876</u>

Colophon

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11

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