

2022

Annual Financial Statement

Notes to the Annual Financial Statement

We aim to maximise the added value we provide while generating a responsible and justifiable positive result. Our financial policy is not therefore profit-led. In 2021, we raised .nl registry fees for the first time in many years, by 2 per cent. Inflation, service quality assurance initiatives and other factors had been driving up our costs for several years prior to the adjustment. In that period, although cost growth was outpacing turnover growth, we pursued a policy of using our accrued equity capital to absorb the shortfall. By 2021, however, our equity capital had fallen to an appropriate level, and the decision was therefore made to finally raise prices to cover part of our cost base growth. The intention is that our (core) service should yield a healthy positive result by 2024. As we progressed towards that goal, a deficit was recorded for 2022.

Comparison with budget

The annual result after taxation was a deficit of €1.8 million. The overall deficit was in line with our forecast and the budget. Nevertheless, there were discrepancies on certain items. Expenditure on our .nl activities was higher than originally anticipated, due to upscaling of our ICT capacity and the hire of external staff for ICT and other roles. By contrast, net Yivi-related expenditure was lower, due to receipt of a grant not provided for in the budget.

2 Comparison with 2021

The pre-tax operating result was €1.8 million lower than in 2021, due entirely to higher personnel costs and operating costs. Net turnover increased by €0.8 million, driven by the 2 per cent price uplift in combination with a small increase in the number of domain names. Total personnel costs were €1.9 million higher than in 2021. The increase is attributable partly to higher wage costs (including social security contributions and pensions). Another factor was the general shortage of IT personnel affecting the economy, which obliged us to use agency staff to (temporarily) cover some vacancies. For certain specialist roles, we used external personnel out of choice. Our operations were more affected by incidents than in 2021, and maintenance workloads were higher. In response, we decided to increase our IT capacity. The continuity of our services remained and remains assured. Similarly, the availability of our core systems remained and remains very high and in accordance with our agreed service levels.

Taxes

Our corporation tax liability is calculated from the result for SIDN alone, taking account of a small amount of deductible expenditure. In 2022, we extended the settlement agreement with the Tax Service for a period of 5 years. Due to a one-off fiscal settlement, our corporation tax liability for 2022 was positive, in line with the arrangements made.

Expenditure on activities and services

We believe it is important to be transparent about what we spend money on. We therefore make an annual estimate of the

proportion of our expenditure attributable to activities and services under a number of headings. The figures for 2022 are presented 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:

- Discounts: direct debit and volume discounts
- Registrar Scorecard incentives
- Funding of projects for registrars and grant to the Registrars' Association (RA)
- .nl activities

2. Research, development and sponsorship

The positive return on the operation of .nl 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, and our sponsorship of other organisations (including ECP, the Reporting Hotline for Internet Child Pornography, IDnext, Bits of Freedom and DINL).

3. Electronic identities and cybersecurity

This heading covers expenditure on Yivi and SIDN BrandGuard.

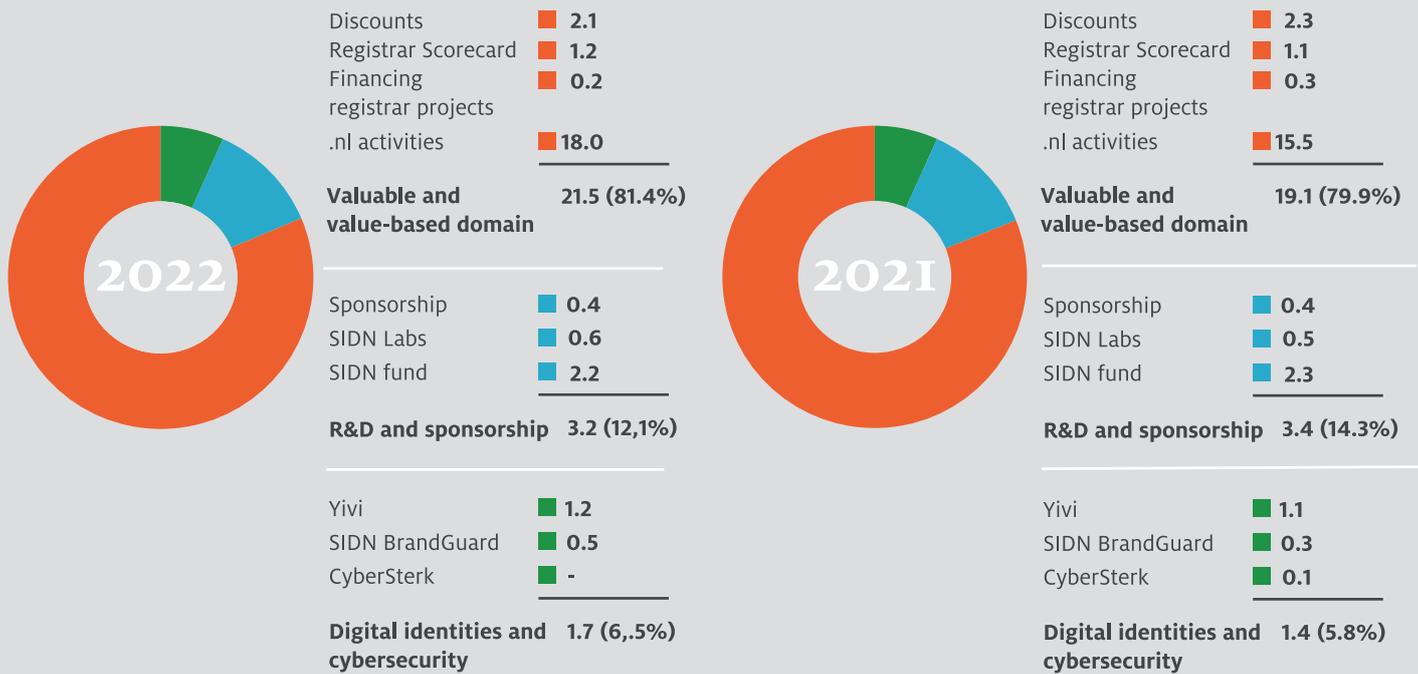
Total expenditure in 2022 was €2.5 million (rounded) higher than in 2021, mainly due to higher personnel costs and .nl-related operating costs. The higher personnel costs reflected the indexation of salaries, pension costs, higher expenditure on agency ICT staff, and growth in the average number of FTEs over the year. Operating costs were driven up partly by inflation and partly by a return to more normal operations than were possible during the years when pandemic-related restrictions were in place. Items contributing to the higher costs included essential security, market surveys and marketing campaigns, employer-branding of SIDN, and office maintenance. Travel costs also rose, as personnel were once again able to attend ICANN meetings and other events in person, and to meet external partners face-to-face.

Financial policy

The cost of registering a .nl domain name for 12 months was €3.55 in 2022, or 2 per cent more than in 2021 (€3.48). The 2 per cent uplift in registry fees was sufficient only to partially offset the 13.2 per cent rise in expenditure on our (core) activities. The net result for our (core) activity fields 'A valuable and value-based domain' and 'Research, development and sponsorship' in 2022 was a deficit of €0.7 million. In line with our financial policy, we covered the deficit by drawing on our reserves.

The net result for the activity field 'Electronic identities and cybersecurity' in 2022 was a deficit of €1.1 million, which was covered entirely by drawing on our reserves.

Fig. 1 | Expenditure on activities and services, detailed breakdown (€m)



Outlook

The growth in the number of domain names appears to be structural. We therefore expect net turnover to increase, mainly as a consequence of a further 6 per cent rise in .nl registry fees.

3 Our focus for 2023 is on improving and modernising our ICT infrastructure. That will involve not only implementing various technical measures, but also promoting staff development. An ICT transition programme was accordingly set in motion at the end of 2022. In 2023, we will also be selecting a new Domain Registration System (DRS).

Where necessary, we will be adapting our working processes and organisation so that the quality of our services remains assured. As well as investing in technology, we will continue doing all we can to enable our personnel to take appropriate training. Against a background of ongoing labour shortages, our recruitment capacity requirement remains high. In addition to recruiting new personnel, it is very important that we are able to retain personnel. At the end of 2022, in light of the results of the annual benchmarking exercise, we adjusted our compensation packages in various ways so that they remain aligned with market norms.

In 2023, we intend to invest further in development of the Yivi app (previously known as IRMA) to ensure that it meets all the relevant regulatory requirements.

That implies higher capital and operational expenditure in the year ahead. The budgeted result is negative, since we anticipate drawing on our reserves again to cover expenditure growth. The investment in Yivi will also be funded using equity capital.

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.

Governance

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 internal and external audits, including the ISO 27001 security audit, and the audit by the Dutch Authority for Digital Infrastructure (previously known as the Radiocommunications Agency).

On the Supervisory 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.

Organisation

The management team is responsible for risk policy and risk tolerance, and for the direction of control measures. Where information security risks are concerned, we are supported by the Security Officer. Line managers are responsible for primary risk management and the associated reporting.

In 2022, an internal auditor post was created to reinforce internal risk management. The internal auditor tests the effectiveness of the management system and processes. When selecting audit subjects, the internal auditor refers to an estimate of the risk that a process is subject to insufficient control, resulting in under-utilisation of opportunities. With a view to providing the management with additional assurance, a number of operational audits were performed in the year under review. Particular emphasis was placed on assessing the management system, internal control of information security processes, and demonstrable compliance with privacy legislation.

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.

Risks and risk tolerance

The most significant risks associated with our operations are identified below. 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.

4 The main risks and uncertainties in each area are described in the following paragraphs. The developments and control activities associated with each risk area are also summarised.

Strategic risks

The main risks associated with SIDN's strategy stem from the strong dependence on (earnings from) the .nl domain. Our .nl domain registration services are sold through registrars. We therefore work closely with the registrar community, as represented by the Registrars' Association (RA), on the promotion

of .nl domain names and on continuous improvement of the security and quality of .nl.

The coronavirus pandemic proved to be a strong driver of growth in domain name registrations. In the years ahead, we expect the .nl market to remain relatively stable. Given our limited capacity to influence the end market, our strategic risk tolerance is moderate. We are seeking to increase our impact and extend the range of services we offer. In the field of Electronic identities and cybersecurity, we accordingly plan to continue investing in Yivi and SIDN BrandGuard.

Operating risks

The 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 2 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 ISO 27001-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 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.

Fig. 2 | 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		•	

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. Our solvency at the end of 2022 was 60.5 per cent (slightly higher than the norm value of 60 per cent) due to a decline in our equity capital over the year.
- *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 2022 was €28.8 million, down €2.0 million on the close of 2021, mainly as a result of investment in fixed assets. Our liquid asset balance is amply sufficient to cover our short and long-term finance needs. Concentration risk is addressed by having our liquid assets spread across 3 Dutch banks.
- *Market risk*
Market risk is the risk of our government bonds and/or other securities decreasing in value. We intend to hold our Dutch and German government 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 negligible.

- *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 and other receivables. 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.
- *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 risk tolerance in this field 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. The HR Manager and Legal and Policy Manager advise on risks relating to legislation and regulations. We have also appointed a Data Protection Officer, and we have a Privacy Board, pursuant to the General Data Protection Regulation.

Our legislative and regulatory risk tolerance is low.

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 vIn 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.

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 2022

Consolidated balance sheet as at 31 December 2022 (after appropriation of profit)

Assets	31 December 2022 (in €)	31 December 2021 (in €)
Immateriële vaste activa		
Software	262,677	339,857
Intangible fixed assets under development	752,695	51,661
	<u>1,015,372</u>	<u>391,518</u>
Tangible fixed assets		
Land and buildings	4,796,988	4,738,417
Machinery and equipment	943,031	916,945
Other fixed business assets	518,748	414,362
Tangible fixed assets under development	24,968	2,643
	<u>6,283,735</u>	<u>6,072,367</u>
Financial fixed assets	2,160,784	2,322,129
Current assets		
Receivables		
Trade receivables	186,883	728,538
Tax and social security contributions	408,037	-
Other receivables and accrued and deferred assets	1,516,193	1,982,920
	<u>2,111,113</u>	<u>2,711,458</u>
Liquid assets	<u>28,737,167</u>	<u>30,756,914</u>
	<u>40,308,171</u>	<u>42,254,386</u>

Liabilities

Group equity

Short-term liabilities

Accounts payable

Tax and social security contributions

Other liabilities and accrued and deferred liabilities

31 December 2022 (in €)

24,796,761

434,560

639,387

14,437,463

15,511,410

40,308,171

31 December 2021 (in €)

26,558,151

788,153

1,665,438

13,242,644

15,696,235

42,254,386

Consolidated profit and loss account for 2022

8

	2022 (in €)	2021 (in €)
Net turnover	21,526,124	20,754,098
Purchase value of turnover	-92,953	-144,148
Net turnover	<u>21,433,171</u>	<u>20,609,950</u>
Costs		
Wages and salaries	9,838,586	8,289,246
Social security contributions	908,196	787,702
Pension contributions	1,385,560	1,330,958
Other personnel costs	762,176	530,797
Depreciation	899,379	833,653
Other operating expenses	9,392,006	8,827,082
	<u>23,185,903</u>	<u>20,599,438</u>
Operating result	-1,752,733	10,512
Financial income and expenditure	-163,669	-117,973
Result before taxation	<u>-1,916,402</u>	<u>-107,461</u>
Taxes	155,012	-1,201,916
	<u>-1,761,390</u>	<u>-1,309,377</u>
Result from participating interests	<u>-</u>	<u>-</u>
Result after taxation	<u>-1,761,390</u>	<u>-1,309,377</u>

Consolidated cash flow statement for 2022

	2022 (in €)	2021 (in €)
Cash flow from operating activities		
Operating result	-1,752,733	10,512
<i>Adjustments for:</i>		
Depreciation	900,282	820,596
Movement in provisions	-	-
	<u>900,282</u>	<u>820,596</u>
<i>Movement in working capital:</i>		
Movement in receivables	600,417	-152,396
Movement in short-term liabilities	-29,885	70,070
	<u>570,532</u>	<u>-82,326</u>
9 Cash flow from operating activities	<u>-281,918</u>	<u>748,781</u>
Interest received	-163,669	-118,825
Corporation tax	-	-
Result from participating interests	-	-
	<u>-163,669</u>	<u>-118,825</u>
Cash flow from operating activities	<u>-445,587</u>	<u>629,957</u>
Cash flow from investment activities		
Investments in intangible fixed assets	-731,006	-235,136
Divestments of intangible fixed assets	-	4,091
Investments in tangible fixed assets	-1,005,280	-579,689
Divestments of tangible fixed assets	781	13,722
Movement in other financial fixed assets	31,345	2,664
Long-term lending	-	3,068,429
Income from securities	130,000	133,000
Cash flow from investment activities	<u>-1,574,160</u>	<u>2,407,081</u>
Increase / (decrease) in funds	<u>-2,019,747</u>	<u>3,037,038</u>
Analysis of funds		
Funds as at 1 January	30,756,914	27,719,876
Movement in liquid funds	<u>-2,019,747</u>	<u>3,037,038</u>
Funds as at 31 December	<u>28,737,167</u>	<u>30,756,914</u>

Colophon

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10

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Text

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www.cre-aid.nl

Translations

G & J Barker Translations
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