

# 2019

## Financial statement

## Notes to the Annual Financial Statement

In line with our annual plan, the net result for the 2019 financial year was a negative sum of €3.7 million (2018: €4.0 million negative). The result is an extension of our stated financial policy of making effective use of a proportion of our accumulated reserves. That includes making donations to SIDN Fund, increasing spending on SIDN Labs, operating an incentive scheme for .nl registrars (the Registrar Scorecard), and funding projects that contribute to the improvement of .nl and have direct commercial benefit for registrars ('registrar projects').

The operating result, excluding donations to SIDN Fund, was a negative sum of €1.3 million. That is €0.5 million down on 2018 (€0.8 million negative), due to a fall in net turnover.

In 2019, the number of registered domain names increased slightly, but turnover fell slightly relative to 2018, mainly as a consequence of a one-off correction to previously reported figures. The correction related to the attribution of turnover in previous years. Operating costs remained at the same level as in 2018, namely €22.8 million. Personnel costs for the year were €10.3 million and accounted for roughly 45 per cent of the total costs (2018: 43 per cent). That represents a rise of 3.8 per cent relative to the previous year (2018: €9.9 million). Numerous vacancies were filled in 2019, resulting in less use of external staff. The lower expenditure on external staff offset the rise in social security and pension contributions. Salaries rose as a result of index-linked adjustments and the organisational changes made. The other operating expenses remained stable and the lower depreciation changes in 2019 were at a normal level.

The settlement agreed with the tax authority regarding the status of the donations to SIDN Fund led to a one-off fiscal charge in the 2018 financial year. The corporation tax payment in 2019 reflected the agreement, resulting in an effective taxation charge of -5 per cent.

Our share in the net result of Connectis Group B.V. ('Connectis') for 2019 was a negative sum of €0.3 million. In 2019, Connectis continued to invest in scaling up services and products, and met its financial targets for 2019.

The cash flow in 2019 was a negative sum of €0.8 million, attributable mainly to investments in hardware and equipment.

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 liquidity of between 65 and 100 per cent of the structural cost base. At the close of 2019, both solvency and liquidity 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.

## Outlook

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

At the end of 2019, the new IRMA and CyberSterk services were introduced to the market. Income from both services is expected to increase substantially in the years ahead. Personnel costs will increase slightly as a result of the development of the new services. Investment is expected to remain unchanged. The net effect is expected to be an uplift in our operating results, relative to 2019.

In March 2020, SIDN Deelnemingen B.V. decided to sell all its shares in Connectis Group B.V. to a third party. The decision was subsequently endorsed by SIDN (the shareholder) and by SIDN's Supervisory Board. The contract governing the sale was finalised and signed in early March 2020. It is expected that the transaction will be completed during 2020. Through the sale, SIDN Deelnemingen B.V. will more than recover the price paid to acquire the shareholding. Furthermore, under the terms of the sale, SIDN Deelnemingen B.V. will acquire an interest in a new company, of which Connectis will become part. Additional information is provided in the Notes to the Annual Financial Statement.

Another major event has taken place since the balance sheet date, namely the COVID-19 outbreak. When the outbreak began, we acted promptly in anticipation of the government's restrictions. We have prioritised the continuity of our services and the health of our staff. Both are adequately assured by our IT systems, which provide full support for working from home. We continue to monitor developments closely and will take further action if necessary or desirable.

## Risks and uncertainties

### Vision and policy

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

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.

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 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. 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 adoption of IPv6, DNSSEC and the use of e-mail security standards. At the same time, we are seeking to increase our added value, extend the range of services we offer and thus reduce our dependence on .nl.

We have accordingly added a second component to our strategy: maximising impact through growth in the e-identity and cybersecurity domains. At the start of 2017, we gave expression to that strategy by acquiring a 65 per cent interest in Connectis. The acquisition was made through SIDN Deelnemingen BV, a wholly owned SIDN subsidiary. That was followed in 2019 by the preparation of two new products -- IRMA and CyberSterk -- for market introduction.

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 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 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 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

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 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.
- 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 above the defined minimum.

- Uncertainty about our ability to attract finance: to date, we have not needed to seek external finance.

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 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.

4 Since 2018, SIDN has been designated an operator of essential services under the Network and Information Systems Security Act. As such, we are required to inform the NCSC and the regulator of any serious incident 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 2019. We are additionally subject to supervision by the Radiocommunications Agency, with whom we have regular liaison meetings.

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 2019

### Consolidated balance sheet as at 31 December 2019 (after appropriation of profit)

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	31 December 2019 (in €)	31 December 2018 (in €)
<b>Fixed assets</b>		
<b>Intangible fixed assets</b>	6,021,677	6,992,515
<b>Tangible fixed assets</b>		
Land and buildings	4,968,951	5,147,068
Machinery and equipment	816,494	836,742
Other fixed business assets	574,703	608,821
Tangible fixed assets under development	47,054	29,174
	<u>6,407,202</u>	<u>6,621,805</u>
<b>Financial fixed assets</b>	3,999,271	3,790,524
<b>Current assets</b>		
<b>Receivables</b>		
Trade receivables	207,694	296,789
Tax and social security contributions	383,948	1,208,846
Other receivables and accrued and deferred assets	948,738	1,211,978
	<u>1,540,380</u>	<u>2,717,613</u>
<b>Liquid assets</b>	<u>17,577,002</u>	<u>18,384,811</u>
	<u><b>35,545,532</b></u>	<u><b>38,507,268</b></u>

## Passiva

### Long-term liabilities

### Long-term liabilities

Other liabilities

### Short-term liabilities

Accounts payable

Tax and social security contributions

Other liabilities and accrued and deferred liabilities

### 31 December 2019 (in €)

24,280,705

442,651

732,932

480,480

9,608,764

10,822,176

35,545,532

### 31 December 2018 (in €)

28,149,021

406,250

1,104,879

420,679

8,426,439

9,951,997

38,507,268

## Consolidated profit and loss account for 2019

	2019 (in €)	2018 (in €)
<b>Net turnover</b>	18,934,295	19,481,759
<b>Expenditure</b>		
Wages and salaries	7,338,005	7,345,103
Social liabilities	844,949	709,964
Pension costs	1,167,679	978,649
Other personnel costs	980,136	916,093
Depreciation	1,821,568	2,518,557
Other operating expenses	10,596,751	10,518,465
	<u>22,749,088</u>	<u>22,986,831</u>
<b>7 Operating result</b>	-3,814,793	-3,505,072
Financial income and expenditure	41,327	48,067
<b>Result before taxation</b>	<u>-3,773,466</u>	<u>-3,457,005</u>
Taxes	180,584	-726,371
	<u>-3,592,882</u>	<u>-4,183,376</u>
Result from participating interests	-275,434	200,557
<b>Result after taxation</b>	<u><b>-3,868,316</b></u>	<u><b>-3,982,819</b></u>

## Consolidated cash flow statement for 2019

	2019 (in €)	2018 (in €)
<b>Cash flow from operating activities</b>		
Operating result	-3,814,793	-3,505,072
<i>Adjustment for:</i>		
Depreciation	1,739,593	2,518,557
Movement in provisions	201,462	-
	<u>1,941,055</u>	<u>2,518,557</u>
<i>Movement in working capital:</i>		
Movement in receivables	-263,306	-253,002
Movement in short-term liabilities	870,179	665,339
	<u>606,873</u>	<u>412,337</u>
<b>8</b> Cash flow from operating activities	<u>-1,266,865</u>	<u>-574,178</u>
Interest received	19,283	1,145
Corporation tax	855,925	-587,155
	<u>875,208</u>	<u>-586,010</u>
Cash flow from operating activities	<b>-391,657</b>	<b>-1,160,188</b>
<b>Cash flow from investment activities</b>		
Investments in intangible fixed assets	-	-268,099
Divestment of intangible fixed assets	6,336	-
Investments in tangible fixed assets	-636,556	-247,493
Divestment of tangible fixed assets	76,068	-
Movement in other financial fixed assets	-	-266,133
Income from securities	138,000	-
Cash flow from investment activities	<u>-416,152</u>	<u>-781,725</u>
Increase / (decrease) in funds	<u><b>-807,809</b></u>	<u><b>-1,941,913</b></u>



## Consolidated cash flow statement for 2019

### Analysis of funds

Funds as at 1 January  
Movement in liquid funds

**Funds as at 31 December**

2019 (in € 1,000)

18,384,811

-807,809

17,577,002

208 (in € 1,000)

20,326,724

-1,941,913

18,384,811

# Colophon

## **Publisher**

SIDN  
Meander 501  
6825 MD Arnhem  
Postbus 5022  
6802 EA Arnhem  
The Netherlands  
T +31 (0)26 352 55 00  
[communicatie@sidn.nl](mailto:communicatie@sidn.nl)

[www.sidn.nl](http://www.sidn.nl)  
[www.sidnlabs.nl](http://www.sidnlabs.nl)  
[www.cvkb.nl](http://www.cvkb.nl)  
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