



ANNUAL REPORT 2004

Stichting
Internet
Domeinregistratie
Nederland





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Foreword

Consolidation, professionalisation and growth.

These were the keywords for SIDN in 2004.

The year saw careful preparations made for a number of very important changes, which were subsequently implemented on a phased basis. These changes were necessitated by the continuing growth in the number of registered '.nl' domain names, the associated increase in the social and economic importance of the domain and the expansion of SIDN itself. By embracing change in this way, SIDN has demonstrated its ability to respond to developments and consolidated its prominent role in a highly dynamic field. The internal and management structures were overhauled to enable it to react more quickly and adroitly to changes in market expectations and to facilitate effective and efficient control of an expanding organisation.

SIDN and the Ministry of Economic Affairs together drew up a letter of intent, under which the foundation is assured of its continued status as an autonomous, self-regulating organisation, while the government is assured that stability of the '.nl' domain is adequately safeguarded. In a parallel development, SIDN and ICANN held talks about a memorandum of understanding, with a view to formalising the division of duties and responsibilities between them. The two documents, which are expected to be finalised and signed by the relevant parties in 2005, are important from the viewpoint of consolidating SIDN's position.

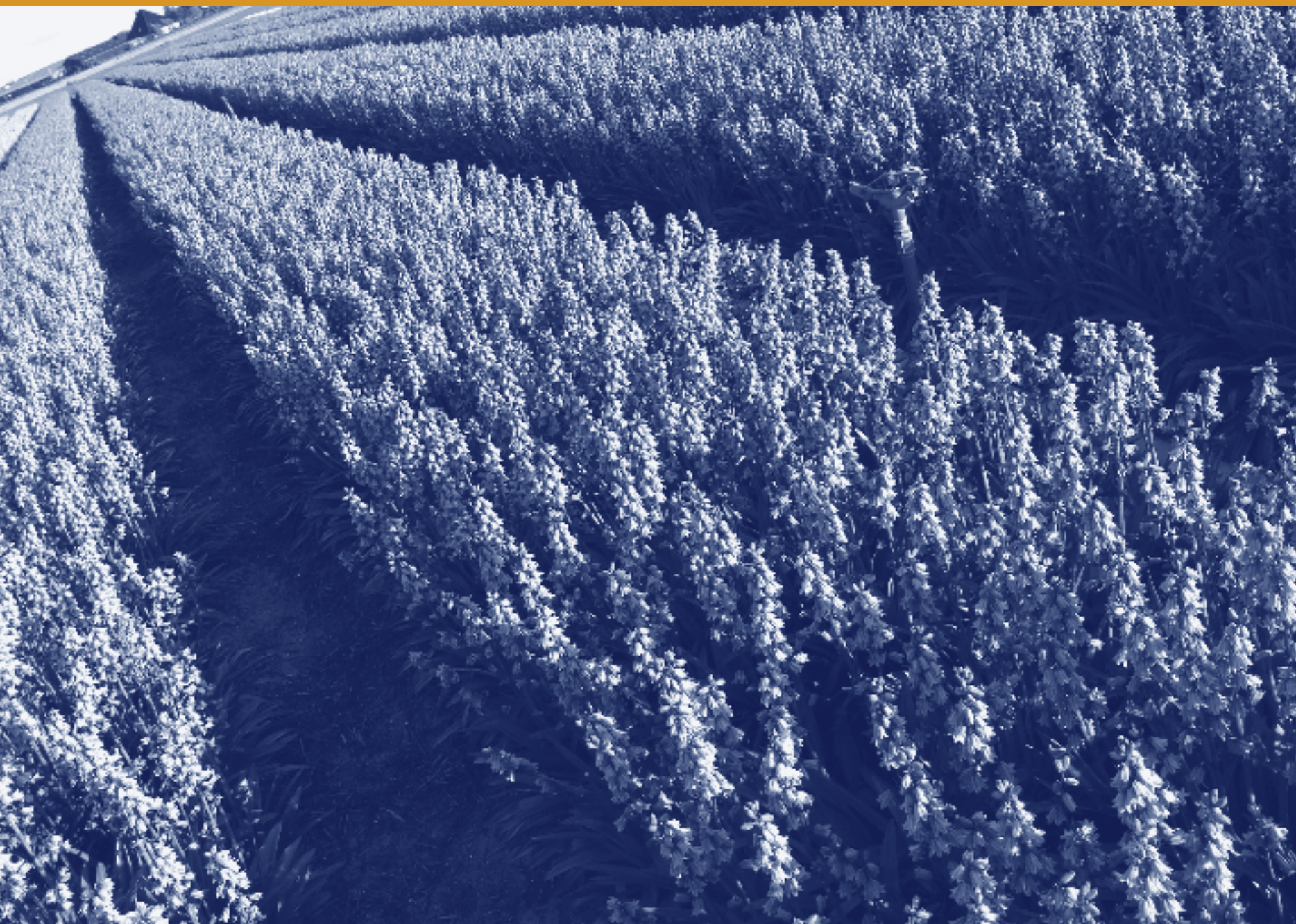
Growth in the number of registered '.nl' domain names continued. In the course of 2004, there was a rise of

more than 30 per cent, so that by the end of the year, a total of 1,332,688 domain names were registered. There was also a 15 per cent increase in the number of participants, which stood at 1,830 by the end of the year.

The year 2004 will go down in SIDN's history as the year in which the basis was laid for the foundation's reorganisation. I would like to thank my predecessor (Interim CEO Dirk van Kappen), SIDN's Management Board and everyone working at SIDN for all they have done to enable 2005 to be the year of fundamental change. The effects of the changes scheduled for the current year will be felt by everyone at the organisation, including the entire management team and myself.

I am very proud to have been entrusted the stewardship of this professional and innovative organisation from January 2005. I look forward to working with my colleagues to ensure that SIDN operates as efficiently as possible and that the '.nl' domain is always modern, stable and secure.

Roelof Meijer
CEO, SIDN



Review of 2004

.nl-domain names

New organisational structure

Domain names have an increasingly important role in the economy. The domain name market has matured over the years and the growth in the number of registered domain names continues unabated. These developments have implications both for the environment within which SIDN operates and for the foundation's internal processes and structure.

'nl' domain names

In 2004, there was a net increase of 327,396 in the total number of registered '.nl' domain names: up from 1,005,292 to 1,332,688. The rate of growth was therefore 32.6 per cent – considerably higher than was seen in 2002 or 2003 (17.4 per cent and 25.1 per cent, respectively).

At the close of the year, some 15,314 '.nl' domain names were registered to holders based outside the

Netherlands (1.1 per cent of the total number of registered '.nl' domain names). This compared with 4,304 (0.4 per cent of the total) at the start of the year. The number of personal '.nl' domain names continued to decline in 2004, from 592 to 497.

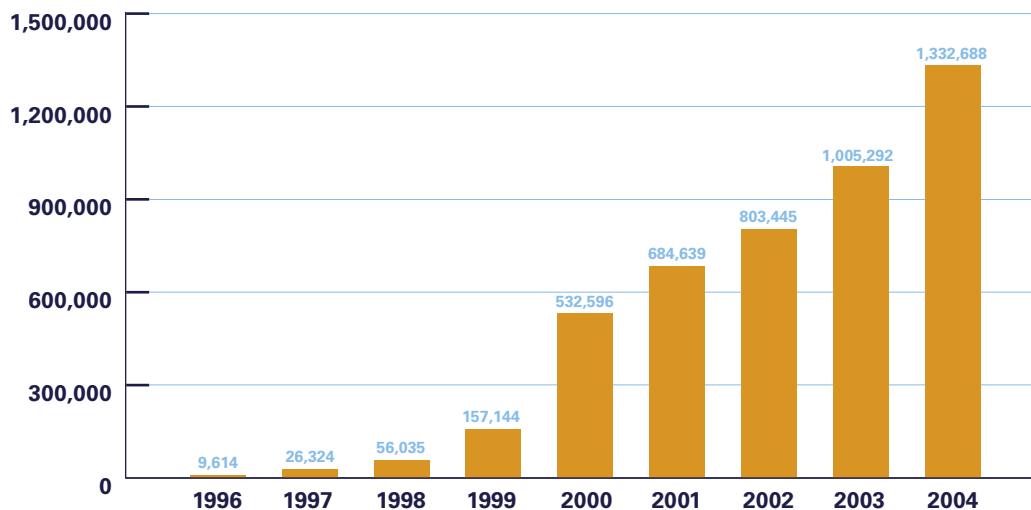
During 2004, there was a monthly average of 53,513 register transactions (new domain name registrations, relocations, name changes, domain name holder changes, cancellations and name server changes). This was well up on the corresponding figure for 2003, namely 38,332. Most of the additional transactions were new registrations.

New organisational structure

In recent years, the provision of services in connection with the '.nl' domain has developed into a mature industry. SIDN's evolution has had to match this development in both qualitative and quantitative terms. However, in the course of 2003, it became clear that SIDN's organisational and management model did not allow sufficient scope for further development.

Despite being somewhat removed in operational terms, the Management Board had direct responsibility for the foundation's day-to-day activities. As a result, the organisation could not respond to changing circumstances as adroitly as it wished. In early 2004, it was therefore decided to create a structural distinction between supervision and operational management. A new model was developed, with a Supervisory Board at the top of the hierarchical pyramid and a CEO at the

Figure 1
Growth in the number of
'nl' domain names since 1996



Review of 2004

Personnel

Management Board

SIDN's participants

operational helm. The foundation's constitution was amended accordingly.

At the same time, prompted partly by advice from external consultants, the first steps were taken towards internal restructuring of the organisation. Since 1 December 2004, SIDN has been divided into the following departments:

- Registration & Services
- ICT
- Policy & Business Development
- Control & Support
- Central Support Services (HRM and Security).

In parallel with these moves, the Council of Participants was further professionalised. In this context, steps were taken towards replacement of the Agenda Committee by a Participants' Advisory Council (PAC) made up of seven participants' representatives. One of the seven, nominated by the Council of Participants, chairs the PAC. PAC members also sit on three subordinate specialist committees, along with staff members from the appropriate departments. The three specialist committees are:

- The Registration Process Committee
- The Technical Committee
- The Naming Policy & Business Development Committee.

Personnel

Six new members of staff joined SIDN in 2004. Meanwhile, two people left the organisation's payroll:

the CEO and the Technical Consultant.

Dirk van Kappen was appointed Interim CEO in February 2004. While with the organisation, he concerned himself particularly with paving the way for implementation of the new organisational structure. In June 2004, Tom Hendriks took up the post of Interim Manager of the ICT Department. Patrick Follon started as Manager of SIDN's Registration & Services Department on 1 December 2004. In this role, Patrick also became part of the organisation's management team. Bart Vastenburg also joined the management team in December when he became Manager of the Policy & Business Development Department.

In 2004, the workforce increased by 6.6 FTEs; the new personnel were engaged in interim management, day-to-day operations and project management. The number of people employed by SIDN increased from twenty-eight (26.6 FTEs) to twenty-nine (27.3 FTEs).

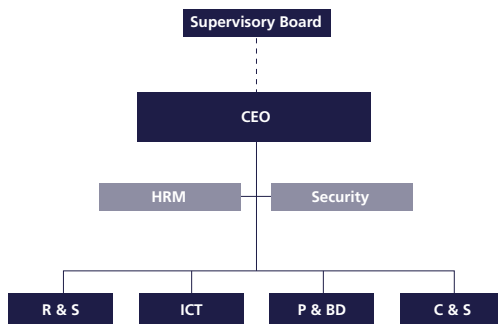
Management Board

In 2004, SIDN's Management Board met on five occasions. On 20 September 2004, Patrick Follon stepped down from the Board, leaving five other members. Anita Regout took over as Secretary. There were no other changes to the composition of the Management Board.

SIDN's participants

By the end of December 2004, SIDN had 1,830 participants: 232 more than at the start of the year. Out of the total number of participants on

Figure 2
SIDN's new organisational structure



Review of 2004

SIDN en de buitenwereld

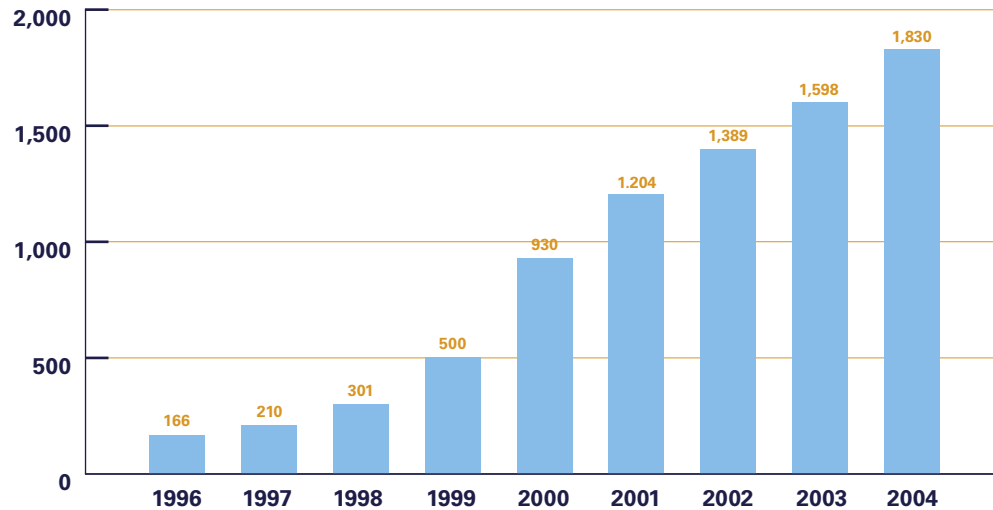


Figure 3
Annual increase in the number
of category I participants



a) Kees Prins (SIDN) and Laurens Jan Brinkhorst (Ministry of Economic Affairs) sign the letter of intent

31 December, sixty-six were based outside the Netherlands, compared with fifty-five on 1 January.

The Council of Participants (CoP) met three times in 2004. The meetings were prepared by the Agenda Committee. Each meeting was preceded by a morning workshop. The themes addressed at the 2004 workshops were (Expansion of) SIDN's National and International Relations, Internationalised Domain Names (IDN) and SIDN and IPv6.

The provision of training in DNS management and domain registration for new and established participants was continued in 2004. Five courses on each topic were organised during the year, all of which were well attended.

At the participants' request, a list of the top hundred participants has been available on the restricted-

access participants' area of the website since February 2004. Updated on a daily basis, the list shows the participants who have registered the most '.nl' domain names.

At the end of 2004, SIDN's new publication, Portal, was launched. Portal is a quarterly newsletter for SIDN participants. It is intended to keep participants up to date with what is happening at SIDN.

SIDN and the wider world

In 2004, the Ministry of Economic Affairs commissioned the consultants Stratix to undertake a study, which resulted in a report entitled The Implications of Non-availability of the '.nl' Domain. At the SIDN Congress in April 2004, Minister Brinkhorst said: "Additional assurances are required regarding the continuity of the '.nl' Internet domain. SIDN has now indicated that it would welcome assistance from the government in assuring such continuity." Several rounds of consultations have since taken place with the ministry, which concluded with Minister Brinkhorst and Kees Prins, Chairman of SIDN's Management Board, signing a letter of intent in 2005. In this document, the ministry acknowledged SIDN's role and responsibilities as the '.nl' domain's independent registry, put on record its satisfaction with the existing model of self-governance and self-regulation, and reassured SIDN that there were no plans to intervene in the sector by means of legislation. The two sides undertook to work together with a view to agreeing additional measures to safeguard the stability of the '.nl' zone on the Internet.



b) Impressions of the SIDN Congress 'What Would You Do With A Million?'

Review of 2004

The SIDN Congres
Legal matters

SIDN has been active on the international stage ever since its formation. The foundation participates in various forums within ICANN and CENTR. In 2003, SIDN also became the first European registry to join ICANN's ccNSO, which met officially for the first time in July 2004.

Bart Vastenburg, SIDN's Policy & Business Development Manager, was appointed to two ccNSO workgroups during the year: the GAC Liaison Working Group and the ccNSO Secretariat Working Group. He also joined ICANN's Budget Advisory Group, which is advising the organisation's management regarding the size and makeup of ICANN's budget for 2005-2006. At the ICANN meeting in December 2004, there was a joint session between the ccNSO and ICANN's Government Advisory Committee (GAC). The Dutch government is represented on the GAC by the Directorate General for Telecommunications and Post, which is part of the Ministry of Economic Affairs. A model has been put forward, which would provide a framework for even closer cooperation between the registry and the government.

Various SIDN personnel attended CENTR's central meetings, administrative workshops and legal matters and regulatory meetings. In addition, developments within RIPE and the IETF were closely monitored at SIDN.

The SIDN Congress

On 15 April 2004, SIDN organised a congress and associated festivities in The Hague under the title What Would You Do With A Million? The congress

was attended by 278 guests from the Netherlands and other countries.

Who controls what where domain names are concerned? Who is responsible for what globally, in Europe and in the Netherlands? These were the issues addressed at the congress, which was opened by Kees Prins, Chairman of SIDN's Management Board. The speakers at the congress were Laurens Jan Brinkhorst (Minister of Economic Affairs), Frans de Bruijne (Director of the European Commission's Communication Networks Security and Software Applications in the Information Society Directorate-General), Paul Twomey (President and CEO of ICANN), Marc van Wesemael (EURid General Manager) and Mirjam Kühne (Internet Society). The addresses were followed by a debate chaired by Paul Witteman. The discussion panel included Mark Frequin (Director-General of Telecommunications and Post at the Ministry of Economic Affairs), Paul Verhoef (ICANN's Vice-president for Policy Support), Martijn van Dam (Dutch Labour Party MP) and Kees Prins. A comprehensive report on the congress proceedings and panel discussion was published on the public section of the SIDN website. At the end of the congress, the festivities to mark the registration of the millionth '.nl' domain name were attended by around six hundred people.

Legal matters

In 2004, six disputes were referred to the Arbitration Body for the Resolution of Disputes concerning '.nl' Domain Names (the WIPO Arbitration and Mediation

Review of 2004

Websites

Service availability

New developments



c) Covers of the first two editions of Portal

Center). This compares with three cases in 2003. The arbitration body's rulings were published on the DomJur website (www.domjur.nl) and elsewhere. By the end of 2004, the DomJur website contained information on 212 cases. More than eight hundred people subscribe to the monthly e-mail newsletter.

During the year, three cases were dealt with by the Complaints and Appeals Body (C&AB), compared with nine in 2003. The rulings were published on the C&AB website. The members of the C&AB were all re-nominated and accepted new terms of office.

Websites

The public section of the SIDN website was visited more than 3.2 million times in 2004, while the restricted-access participants' area of the website received more than 100,000 hits.

The number of visitors to the DomJur website in 2004 exceeded 30,000; for the C&AB website, the figure was more than 5,000.

Service availability

Over the course of the year, the average availability of SIDN services (the public and restricted-access sections of the website, the Whois facility, the web and e-mail forms and the name servers) remained high, at 99.39 per cent.

New developments

During 2004, a great deal of preparatory work was undertaken in connection with plans to introduce a

new registration system (DRSnext) and to overhaul large parts of SIDN's technical infrastructure. In both cases, the motivating factors were ageing systems and equipment, high maintenance costs and insufficient scope for scaling up. The first preparatory phase of the DRSnext project was completed in September 2004. A partner was then sought for the realisation of the new system. In November 2004, SIDN and PinkRocade signed a letter of intent regarding the design and construction of DRS4.0, the first version of the new registration system. This was followed by finalisation of the programme plan in December 2004.

The year under review also saw SIDN readying itself for the introduction of Internationalised Domain Names (IDN). An internal study was conducted to assess the scope for and drawbacks of IDN, and a CoP workshop was organised on 16 September 2004. At the workshop, representatives from other registries talked about their experiences with the introduction of IDN.

In July 2004, a number of country code registries launched registration systems adapted to work with IP version 6 (IPv6). Leading the way were France ('.fr'), Japan ('.jp') and South Korea ('.kr'). SIDN responded to developments in this field by enabling the registration of IPv6 name servers from 25 October 2004. Participants were kept up to date through various channels, including a CoP workshop in December 2004.



Looking ahead to 2005

New organisational structure

New registration system and infrastructure

Accommodation

Consolidation and continued professionalisation are the focuses for 2005. SIDN intends to further strengthen its position as the '.nl' domain registry by signing a letter of intent with the Ministry of Economic Affairs and a memorandum of understanding with ICANN. Implementation of the new management model and new organisational structure will be completed in the first half of 2005. By the summer, the new Supervisory Board will be in place and SIDN will have an entirely new management team and numerous additional personnel.

The new registration system is due to come into use towards the end of 2005. Two other import projects are planned for the second half of 2005. First, SIDN will organise a draw for the release of forty previously reserved or excluded domain names. Second, the foundation will consult the local Internet community regarding various topical issues, with a view to producing new regulations on the registration of '.nl' domain names in 2006. SIDN also intends to remain a prominent player on the international stage.

New organisational structure

With effect from 1 December 2004, SIDN's operational departments took on a new organisational structure. However, not all the posts in the new structure had been filled by the close of the year. In 2005, the foundation's workforce is expected to increase to roughly thirty-eight.

Adoption of the new constitution, transfer of executive responsibility from the Management Board to the CEO

and establishment of the Supervisory Board are all scheduled for the first half of 2005.

The new participants' structure will be introduced from March 2005, with further refinements in the course of the year. It will then be possible to finalise the membership of the three specialist committees on which Participants' Advisory Council members and SIDN personnel will sit. The restricted-access area of the SIDN website will be updated in line with the new arrangements.

New registration system and infrastructure

For a large part of 2005, much of SIDN's available capacity, particularly in the Registration & Services and ICT Departments, will be devoted to design and realisation of the new DRS system.

In parallel with the implementation of DRS4.0, a new infrastructure will be created. Under the new set-up, there will be separate environments for production, development, emergency fallback and testing by participants.

Accommodation

Expansion of the workforce means that SIDN will require additional office space in 2005. In the first quarter of the year, the foundation will take over another floor of the block that houses its existing offices. The Registration & Services Department will then be based on the 'new' lower floor.

Looking ahead to 2005

Security

SIDN and the wider world

Finance

Security

On the advice of KPMG, SIDN will take a number of steps to enhance security in 2005. These include:

- Appointment of a security officer
- Development and maintenance of a security plan
- Introduction of annual security auditing
- Removal of so-called single points of failure
- Establishment of a mirror location
- Installation of physical security provisions

SIDN and the wider world

At the start of 2005, SIDN signed a letter of intent with the Dutch government (the Ministry of Economic Affairs). During the course of the year, the various topics highlighted in the letter will be addressed and specific recommendations and arrangements developed on a project basis.

With a view to enhancing market insight and customer focus, the foundation will initiate market research, customer satisfaction surveys and customer profile analyses. In addition, internal and external service levels will be defined.

In the second half of 2005, SIDN will consult the local Internet community regarding a number of topical questions, as a basis for the drafting of new regulations on the registration of '.nl' domain names in 2006.

A national consultation exercise will be undertaken, the main themes being the arbitration system, personal domain names, IDN and numeric domain names.

SIDN will remain internationally active in 2005, participating in the global development of the Internet and, for example, in the discussions associated with the World Summit on the Internet Society (WSIS) and the Working Group on Internet Governance (WGIG).

Finance

In many ways, SIDN's budget for 2005 is quite different from previous budgets. It reflects the fact that numerous professionalisation projects whose preparatory phases took place in 2004 will progress to realisation in 2005. Many of the associated capital and operating expenses will have to be met over the coming months. As a result, provision has been made for a one-off deficit in 2005. However, given even 20 per cent growth in the number of registered domain names in 2006 (a conservative estimate), the foundation will once more generate a surplus in that year. Naturally, SIDN's cost base will be structurally increased by the changes taking place.

The budget for 2005 has been allocated to the departments as they were on 1 December 2004, with the departmental managers responsible for their departmental budgets.



Financial summary

Overall turnover in 2004 was € 5,675,744 (2003: € 5,901,860, 2002: € 7,679,353). The net surplus after tax was € 825,601 (2003: € 1,434,801). This surplus was transferred to the general reserve, which thus increased to € 8,432,804.

Despite the continued growth in the numbers of '.nl' domain names and register transactions, the overall turnover figure for 2004 was 4 per cent down on 2003. This was because the foundation reduced its charges with effect from 1 January 2004 and, from mid-2003, started giving discounts on payments made by direct debit.

Operating costs were 18 per cent higher than in 2003, reaching € 4,641,138 (2003: € 3,929,119).

This increase was attributable to the following factors:

- Higher personnel costs (larger workforce, contracting of interim managers, cost of recruiting new personnel)
- Higher consultancy costs (baseline availability quantification, organisational changes, DRSnext, etc)
- Higher communication costs (congress, etc)
- Higher insurance costs
- Reduced system costs
- Reduced bad debt provisions due to adoption of new collection policy

The result for 2004 was substantially better than forecast in the budget (a surplus of € 825,601, compared with a deficit of € 71,962). This was due to actual income being higher than forecast (the budget assumed that growth in the number of domain names would be 14 per cent, whereas it was actually 32.6 per cent), to actual costs being lower than forecast (in particular, depreciation was lower due to lower capital expenditure) and to financial income being higher than anticipated.

Arnhem, 17 May 2005

Financial summary

Balance sheet as at 31 December 2004 (before appropriation of surplus)

Summary annual accounts 2004*

All amounts in euros

Balance sheet as at 31 December 2004 (before appropriation of surplus)

	2004	2003
FIXED ASSETS		
Material fixed assets		
Machinery and installations	8,195	79,276
Other fixed operating means	561,753	667,424
Tangible fixed assets in progress	209,000	0
	<u>778,948</u>	<u>746,700</u>
CURRENT ASSETS		
Receivables		
Account receivables	4,905	8,266
Taxation and social security contributions	261,816	93,927
Other receivables	421,584	391,629
	<u>688,305</u>	<u>493,822</u>
Cash at bank and in hand	<u>7,570,915</u>	<u>7,523,177</u>
	<u>9,038,168</u>	<u>8,763,699</u>
Capital and reserves		
General reserve	7,607,203	6,173,402
Result	825,601	1,433,801
	<u>8,432,804</u>	<u>7,607,203</u>
Current liabilities		
Liabilities to suppliers	85,264	276,176
Taxation and social security contributions	46,879	657,941
Other liabilities	473,221	222,379
	<u>605,364</u>	<u>1,156,496</u>
	<u>9,038,168</u>	<u>8,763,699</u>

* The financial summary is based on the annual accounts for 2004. The full accounts, together with notes, are available from the public section of the SIDN website.

Financial summary

Profit and loss account for 2004

Profit and loss account for 2004

	2004	2003
Net turnover	5,675,744	5,901,860
Costs		
Personnel costs	2,420,441	1,874,380
Depreciation tangible fixed assets	296,833	281,719
Other operating expenditure	1,923,864	1,773,020
	<u>4,641,138</u>	<u>3,929,119</u>
Operating result	1,034,606	1,972,741
Interest received	223,948	204,864
Result from ordinary operating activities before taxation	1,258,554	2,177,605
Taxation	432,953	743,804
Net result	825,601	<u>1,433,801</u>

Financial summary

Cash flow summary

Cash flow summary

	2004	2003
Cash flow from operational activities		
Operating result	1,034,606	1,972,741
ADJUSTMENTS FOR		
Depreciation of tangible fixed assets	296,833	281,719
VARIATION IN WORKING CAPITAL		
Receivables	(194,483)	104,308
Current liabilities	(551,132)	729,642
	(745,615)	833,950
Cash flow from ordinary operations	585,824	3,088,410
interest received	223,948	204,864
Tax paid on profits	(432,953)	(743,804)
	(209,005)	(538,940)
Kasstroom uit operationele activiteiten	376,819	2,549,470
Cash flow from investment activities		
Investment in tangible fixed assets	(329,081)	(777,455)
Cash flow from investment activities	(329,081)	(777,455)
Increase in funds	47,738	1,772,015

Auditors' certificate

To: The management of the Foundation for Internet Domain Registration in the Netherlands

As instructed, we have audited the 2004 financial summary of the Foundation for Internet Domain Registration in the Netherlands, of Arnhem, as contained in this annual report. The said financial summary is based upon the 2004 annual accounts of the Foundation for Internet Domain Registration in the Netherlands, which we have previously audited, and regarding which we issued an unqualified audit certificate on 16 March 2005. The management of the Foundation for Internet Domain Registration in the Netherlands was responsible for production of the financial summary; it has been our responsibility to form an independent opinion of them.

It is our opinion that the financial summary is consistent in all material respects with the annual accounts upon which it is based. With a view to obtaining a true and fair view of the foundation's financial position and of the result secured, and forming a proper understanding of the scope of our audit, we recommend that the financial summary be read in conjunction with the annual accounts upon which it is based and with the auditors' certificate that we issued on 16 March 2005.

Arnhem, 17 mei 2005
PricewaterhouseCoopers Accountants N.V.



appendix

Directors, managers and officers as at 31 December 2004

Directors, managers and officers as at 31 December 2004

Management Board

C.M. Prins chair
A.M.P. Regout secretary
P.A.M. Oude Ophuis treasurer
P.E.C. Ancion-Kors
T.S. Scargo

Special advisors

P. Beertema
R.J.T. Lindgreen
B. Nederkoorn

Council of Participants

H. Bennink chair

Complaints and Appeals Body

A. Oskamp chair
J.M. Gardeniers secretary
R. Eissens
A. Meijboom
J.C.M. van Oers

Operations

D. van Kappen (interim) CEO

Registration & Services

P. Follon manager
J. Bakker
M.J. Buurman
A. Fakhraie
B.J. Geerlings
G.J. van den Ham
C.A.M. Jongerius
E. Parijs
J. van Pijkeren
S. Ramanathan
Ch. van Spaandonk
U. Uzegbu
K. Vink
J. Wensink

ICT

T. Hendrixx (interim) manager
A.C. van Bemmelen
H. ten Boden
M.W. Groeneweg
R.A. van der Molen
H.G.J. Roelofs
A.H. Sanders
J.H. Vermeulen

Policy & Business Development

B.E. Vastenburg manager

Control and Support

J.L.L. Hoedemakers manager
M.I.A.F. Jansen-de Wit
S. Pulas-Avci
A.F.J. Takes
I. Temming
N. van Veen Meester
A. Vijge
A. Zwitselaar

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J.F. Kroneman
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