

*"Driving the
development of online
presence"
Annual Report 2016*

June 2017

afnic

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1. Editorial



Mr. Emmanuel Sartorius
Afnic Chair

"Afnic is driving the development of online presence"

The new impetus Afnic experienced in 2015 was confirmed and amplified in 2016, both in terms of the development and diversification of Afnic's business activities and in terms of our accounts.

The Association's net book income further improved this year as a result of a long-term policy of cost control, without hindering the investments needed to maintain and develop all of our business lines.

In terms of France's country-code TLD, the *.fr* passed the symbolic milestone of 3 million domain name registrations last December. Over and above the message to the French Internet community about the solidity and dynamism of the *.fr*, that performance has had a positive impact on the profitability of the Association and its ability to provide resources for digital solidarity through the Afnic Foundation.

Once the Afnic Foundation for Digital Solidarity was established, the first financing decisions were taken in 2016. The diversity of the projects supported, their undoubted social utility, and the deployment of a genuinely inclusive Internet, illustrate more than ever the extent to which the *.fr* operated by Afnic is a common good, designed to serve French people in general.

The new gTLDs have also improved their profitability and are gradually gaining ground in the French Internet landscape. They are contributing more each year to the association's earnings and to the recognition of Afnic as a benchmark technical registry operator in France.

As a result, by the end of 2016 we had rebuilt the Association's reserves to a level comparable with that of 2012, with a new round of investments scheduled from 2017 onwards.

The procedures for consulting the members of our association were also enhanced during the year. In order to further involve our members in decisions about operational changes to Afnic, "operational working groups" (OWGs) were set up in February 2016.

These OWGs, which bring together user members, registrars and Afnic services, are designed to find technical and operational solutions to problems raised by members. For example, as of 2016, this new method of consultation greatly simplified the procedures for changing registrants under the .fr.

These OWGs illustrate how Afnic's associative and multi-stakeholder model enables the deployment of collective intelligence, in order to find pragmatic solutions for users.

Backed by the association's resulting wealth, Afnic set out to develop the online presence of French small and medium-sized businesses, by taking up the challenge of helping one million of the country's companies to finally have an online presence.

To do so, and as part of the plan to promote the .fr, Afnic has multiplied the number of partnerships with institutions, companies and associations, in particular by contributing to the work of the French National Council for the Digital Economy on growth and connected SMEs.

The Association also maintained its strong commitment throughout the year as an active member of ICANN, and, in its own way, helped achieve a result for which our community has been waiting nearly twenty years: the end of the US government's tutelage over the root of the domain name system, through the contract that bound it to ICANN.

This decision is the result of nearly three years of work to find alternatives to that control, and to strengthen ICANN's good governance as a result. Afnic is proud to have been at the forefront of the contributors to that work, thanks to the commitment of Mathieu Weill as co-chair of ICANN's International Task Force on Accountability.

The Board of Directors, on this and many other issues, provided assistance and support, as did the members of the consultative committees. It was therefore a truly collective success for the association.

Finally, I cannot finish this editorial without mentioning two events that occurred in 2017, but which directly affected the association. The first was the renewal of Afnic as the registry for the .fr on 5 April. The second was the departure of Mathieu Weill, who was appointed Head of the Digital Economy department of the Ministry of the Economy on 1 May 2017. As Afnic's Chief Executive Officer, Mathieu managed to lead the association for 12 years in times of continual change, and to promote its development. At its meeting on 13 April, the Board of Trustees paid tribute to his work in these terms:

"On the occasion of the departure for new duties of our Chief Executive Officer, Mathieu Weill, the Afnic Board of Trustees unanimously wishes to express their gratitude for the work he has accomplished since 2005 at the head of the association.

Mathieu Weill's work enabled Afnic to grow strongly during this period, as well as expand its expertise, diversify its business activities, and enhance its reputation in both France and abroad.

Mathieu Weill successfully oversaw those major changes by involving both the association's staff and all of its stakeholders.

Over and above his remarkable track record, the Board wishes to acknowledge the personality and commitment of Mathieu Weill, as well as his receptiveness and responsiveness to all of our stakeholders."

2. 2016 Highlights

January - March

For the fourth consecutive year, the *.fr* was present at the Trade Fair for Entrepreneurs, this year in a new partnership with Jimdo, the European leader in online presence.

Afnic was closely associated with the implementation of a study on the deployment of IPv6 in France. The report, commissioned by the Minister of State for the Digital Sector, identifies the methods of monitoring the progress of this protocol, and the obstacles to its deployment.

Pierre Bonis, Deputy CEO of Afnic, was elected to the Board of Directors of the Council of European National Top Level Domain Registries (CENTR).

Afnic became a partner with the eAccessibility Tour de France and supported the cycle of events set up by the BrailleNet association to facilitate access for people with disabilities and senior citizens to digital services and tools.

The Afnic Foundation for Digital Solidarity launched its first call for projects with € 2 million to finance actions in the field illustrating the Inclusive Internet.

April - June

Afnic was rewarded by the Senate for its quality approach. On April 4, Mathieu Weill, Chief Executive Officer, received the European Foundation for Quality Management's 4-star award from Gérard Larcher, President of the French Senate.

Afnic with its program "Réussir en *.fr*" took part in the first fully virtual VSE / SME fair, SME Online, and facilitated several workshops on the online presence of small and medium-sized enterprises.

May was marked by the first edition of the Afnic Forum, which brings together Afnic registrars, professionals from the digital sector and users around the issue of simplicity in developing online presence.

On June 7, the Ministry of Industry launched the public consultation on the extension of the registry contract for the *.fr*. Afnic published its reply and called on all interested stakeholders to express their expectations with respect to Afnic in its role as manager of the *.fr*.

Afnic obtained ISO 27001 certification for the information system it operates for the *.fr*

The annual meetings of Afnic's International College brought together more than 20 international associate members, chaired by Lala Andriamampianina, elected representative to the Board of Trustees. Promoting national digital identity through the work of ccTLD registries is the theme common to these meetings.

On June 10, the Board of Trustees was renewed. Lala Andriamampianina (international college) Sébastien Bachollet (users' college) and Eric Lantonnet (registrars' college) were reappointed for a new term of office, while Benjamin Louis (users' college) and Tristan Colombet (registrars' college) joined the Board.

Emmanuel Sartorius was re-elected for a second term of office as Chair of the Board of Trustees.

The reform of the Articles of Association was unanimously adopted, clarifying in particular the respective powers of the General Assembly, the Board of Trustees, the Chair and the Chief Executive Officer.

As part of its work on the transition from the oversight of the IANA Function and the strengthening of ICANN accountability, Afnic published the first data on the integration of diversity in ICANN decision-making bodies.

Afnic celebrated the 10th anniversary of opening the *.fr* to individuals, and discussed the various steps in simplification that have marked the decade.

July - September

The latest edition of the Internet Resilience Observatory in France was published by French National Agency for the Security of Information Systems (ANSSI), as usual with the assistance of Afnic.

For the sixth consecutive year, Afnic organized its Scientific Council Days in early July, bringing together researchers and practitioners from France and abroad to work on the future scenarios of the DNS Industry and the Internet.

Afnic won the call for tenders launched as part of the World Bank's "WARCIP" program to accompany its Mauritanian counterpart in the modernization and automation of the *.mr* ccTLD.

Afnic published its second Carbon Audit© highlighting the results of the initiative to reduce the carbon emissions caused by its activities, with a 9% reduction in Afnic's emissions between 2013 and 2015.

In September, Afnic replied to the public consultation launched by the French Electronic Communications and Postal Regulatory Authority (ARCEP) on the Internet of Things, and focused part of its R&D work on that theme.

A new dispute resolution procedure under the *.fr* was set up in partnership with the World Intellectual Property Organization (WIPO), entitled Expert ADR. It complements the Afnic offer by providing claimants with access to experts outside Afnic to resolve their disputes.

October - December

Through its "Réussir en *.fr*" program, Afnic joined the Foliweb initiative, which is designed to provide entrepreneurs, craft workers, VSBs and SMEs with simple tools to develop their online presence. The awareness of several hundred organizations and people will be raised every month about the advantages of an online presence, based, among other things, on the *.fr*

October: The Government and the Congress of the United States put an end to their governmental control over the IANA function and transferred it to ICANN which is continuing its transformation in order to become an organization fully accountable to all Internet stakeholders.

In the presence of the French Minister of State for the Digital Sector, the Afnic Foundation for Digital Solidarity revealed the first projects funded by the Foundation.

In November, Afnic published the "Practical Guide for holders of domain names under the *.fr*".

Afnic also published the results of the 6-month survey of the scientific and technical community on the future of the Internet, entitled "Technology Backdrop Survey".

Afnic updated the Naming Policy of the *.fr* in order to simplify the procedures for the transfer of domain names between holders.

On 13 December, the number of registrations under the *.fr* crossed the symbolic milestone of three million.

3. The Association

In 2016, the association's activity was marked by the holding of five meetings of the Board of Trustees to which was added the strategic seminar in September. The latter focused on the possible alternatives to the DNS and their technical evaluation, drawing on the work of the Scientific Council.

Two **Consultative Committee meetings** approved and supported the deployment of Afnic's technical roadmap.

Two operational working groups (OWGs) brought together voluntary members from the "user" and "registrar" colleges on the following topics:

- *Simplification and enhancement of the security of the procedures for the transfer of a domain name between holders under the .fr.*

This working group resulted in a new procedure involving more registrars in connection with their customers, without Afnic having to question holders about their consent by e-mail direct.

This simplification, long awaited by registrars and registrants, was accompanied by a significant change in tariffs, since the change in ownership procedure is no longer billed by Afnic registrars. It simply involves updating the database, done under the responsibility of the registrars, to whom the accountability for ensuring holders agree to the operation has been transferred.

- *Reduction in the disruption of the .fr registration chain due to domain name retrieval activities.*

Retrieving domain names that have just expired is not prohibited by the Afnic Naming Policy. However, this activity, which consists in trying to register a domain name at the very second it falls into the public domain, requires polling our database at high frequency, and can cause disruptions for other users.

An OWG therefore focused on this issue, resulting in the launch of a new ".FR RUSH" service from Afnic, consisting in a special infrastructure (and fee) for domain name retrieval uses. At the same time, excessive technical workloads imposed on the standard registration chain incur penalties and limitations on the number of connections of the registrars concerned.



The **Afnic Board of Trustees** worked on developing and overseeing the deployment of Afnic's strategy, in particular through its committees.

Assessing the association's overall risks was a key concern and the Board then focused on mitigating them. This was an essential step, in particular within the framework of the ISO 27001 initiative launched by Afnic in 2015, resulting in the certification of the .fr in May 2016.

The Board's Appointments Committee revised the emergency succession plan in the event of the departure of the Chief Executive Officer. This document is part of the broader approach to risk reduction and is an essential document for organizing the transition and recruitment of a new Chief Executive Officer further to the departure of Mathieu Weill.

As part of its policy of making the association more attractive, the Board has also decided to lower membership fees for individual user members to 50 euros per year.

4. A new ambition for the .fr: driving the development of online presence

The .fr continued to grow in 2016, with an increase of 2.21% over the year, which is slightly above expectations. This performance is lower than last year, however, and is part of a fundamental trend of a slowdown in world growth of the domain name market, which equally applies to France.

Against this background, and although the .fr remains one of the most dynamic namespaces of comparable size in Europe, a special effort must be made towards craft workers and retailers, and more generally towards VSBs and SMEs.

The generally accepted diagnostic of a French backlog in digital equipment and the on-line presence of these market participants had, from the beginning, fueled the strategy behind the development plan for the .fr. However, 2016 enabled Afnic to forge new partnerships, both commercial and institutional, in order to reach more of those SMEs that have no online presence or only a secondary online presence.

Afnic contributed to the report "*Connected growth, SMEs counter-attack*"¹ remitted at the beginning of 2017 by the French National Council for the Digital Economy to the Minister of the Economy and Finance. The report emphasized more than usual the importance of supporting all French market participants in the development of their controlled online presence, guaranteeing national and international visibility, making it possible to develop turnover.

Similar conclusions have been reached by the studies produced by several major players and associations in the digital sector and this is why Afnic has developed its network of partners to present the greatest number with the advantages of an online presence based on the .fr.

After Jimdo in 2015, while remaining active in the Transition Numérique Plus association, Afnic also signed a partnership with the Foliweb initiative² at the end of 2016.

In order to better understand the expectations of, and difficulties faced by VSBs and SMEs in developing their presence on the Internet, Afnic has also partnered with Digital Journey, an initiative launched in New Zealand to assess the digital maturity of businesses³, and has undertaken to transpose the approach to France, with the help of its members, who worked in a consultative committee on the questionnaire used by Digital Journey.

Finally, as a further indication of the greater competitiveness of Afnic's organization, **the production cost of a domain name under the .fr continued to decline, from 3.50 euros in 2015 to 3.43 euros in 2016.**

¹ https://cnumerique.fr/wp-content/uploads/2017/03/Avis_CNNum_PME.pdf

² <http://lesfoliweb.fr/>

³ <http://www.digitaljourney.nz/>

5. New gTLDs: growth better than expected

With growth of 26% in the number of domain names stemming from the new gTLDs managed by Afnic, this line of business is proving to be a cost-effective source of revenue for the future.

Turnover generated by the new gTLDs increased by 6.3%. At the same time, a continuous effort to control costs significantly increased the profitability of the business line, which is close to balancing.

That being said, growth must be maintained by means other than the increase alone in the stock of domain names managed within the new gTLDs.

This is why Afnic has developed the marketing of complementary services specific to the gTLD market, such as *Abuse report*⁴, which allows registries of new gTLDs to meet ICANN's requirements with respect to domain name fraud and abuse management.

Afnic has asserted its role as a consultant for Internet registries, offering several support services and redefining development strategies for gTLD customers as well as ccTLDs. This new line of business, linked to the experience gained over 5 years in the negotiations with ICANN on behalf of our registry customers, is destined to develop.

In any case, it supports the cost-effectiveness of business lines other than the *.fr*, and allows Afnic to position itself as a benchmark player for a possible future opening by ICANN of applications for new gTLDs.

⁴ <https://www.afnic.fr/fr/produits-et-services/nouveaux-gtld-solutions-de-registre/abuse-report.html>

6. Internet governance: transition of the oversight of the IANA function finally adopted

The United States have kept their promise, made in March 2013 to transfer to the global Internet community the oversight of the root of the Internet Domain Name System.

After three years of debate, during which all of the stakeholders were able to demonstrate their willingness to meet the challenge involved in a new organization of the Internet root, the transition is now irreversible.

Afnic actively participated in all of these debates, especially in the international working group on the reform of ICANN, whose work was co-chaired by Mathieu Weill, then Afnic's Chief Executive Officer.

In order for the US government to keep its promise to withdraw from the oversight of the root, thereby recognizing there is no reason why it should have a discretionary, disproportionate power in relation to all the other States, the mechanisms and organizations that must now take on this task must be exemplary, transparent and, above all, fully international. ICANN, which will be at the heart of the new root oversight system, will have to implement all the changes identified by the working group, in particular the internal and external checks and balances for its decisions.

In this new period, Afnic has continued to actively participate in the work on strengthening ICANN's accountability to all of the stakeholders in the Internet. The association's angle of approach has basically focused on diversity. By publishing the first data on diversity within ICANN⁵, Afnic was able to highlight the following points, which are now the subject of intense discussions within the organization to make it more representative of all the stakeholders:

- The ICANN community continues to be predominantly from North America since 40% of the 190 leaders included in the study are from that region.
- Conversely, Africa, Latin America and Asia are under-represented, while Europe with 24% of the leaders is slightly over-represented.
- The predominance of English speakers is very strong since almost 2/3 of ICANN leaders have English as their mother tongue.
- Only 26% of ICANN's leaders are women.
- The business world and the academic / technical community constitute the majority of ICANN's leaders, since they represent about 80% of the individuals in this study, while civil society and the public sector each account for about 10%.

⁵ https://www.afnic.fr/medias/documents/Dossiers_pour_actualites/2016_Donnees_Diversite_ICANN.pdf

7. Afnic continued its CSR initiative and obtained approval for its security initiative ⁶

In line with its environmental commitments, Afnic set up an action plan as early as 2013 to reduce the carbon footprint of its activities.

The main levers identified, in line with the general principles of cost control, are:

- Control the number of employees travelling abroad and chose the least emissive modes of transport whenever possible;
- Addition of a "green" criterion in calls for tenders, in order to take into account and promote the least emissive solutions in our choices;
- Streamlining orders for supplies to reduce the number of deliveries and favor local suppliers and short routes.

In 2016, the second carbon audit ⁷ demonstrated the relevance of this approach, since Afnic's emissions decreased by 9% in absolute terms between 2012 and 2015. The target of a 20% decrease over 10 years is therefore still within reach.

Prepared from 2015 onwards, the successful ISO 27001 certification audit of Afnic's IT security management system allowed the association to cross a major milestone, both in terms of its commitments to the State, and in its ability to demonstrate its operational excellence and the efficiency of its security initiatives.

With this new certification, in addition to the renewal of Afnic's formal security clearance, as well as the furthering of the EFQM quality initiative, Afnic is reaping the fruits of years of hard work to set up a system ensuring the continuous improvement of its practices and services.

⁶ <https://www.afnic.fr/fr/l-afnic-en-bref/presentation/excellence-11.html>

⁷ <https://www.afnic.fr/fr/l-afnic-en-bref/actualites/actualites-generales/10043/show/publication-du-bilan-carbone-2015-de-l-afnic-baisse-de-9-par-rapport-a-2012-1.html>

8. Afnic Foundation for Digital Solidarity: first projects funded

After a selection process spread over several months, seven projects emblematic of the different areas in which the Afnic Foundation for Digital Solidarity intervenes were presented in September to the Minister of State for the Digital Sector.



The main areas for intervention by the Foundation, decided by its executive committee independently of Afnic, were:

- Digital technology to strengthen social cohesion
- Training to develop an inclusive Internet
- Transforming organizations and places
- Digital technology to serve corporate change
- Digital technology central to change in solidarity systems

In the months thereafter, more than 200 application files were analyzed, resulting in the financing of 35 projects for a total amount in year 1 of more than EUR 850,000.

For the record, Afnic pays the Foundation 90% of the profit generated from its business as the registry for the *.fr*.

The following graph illustrates the growth in the sums allocated by Afnic to the Foundation since 2012:



9. A sound financial position thanks to growth in business and cost control

For the second year in a row, Afnic made a profit by closing the accounts with a net book income of 559,401 euros, i.e. 3.5% of turnover.

Despite a gloomy market environment and fluctuations in the installed base of domain names under the *.fr* (such as the wave of deletions in May), Afnic's turnover grew by 1.9% compared with fiscal 2015.

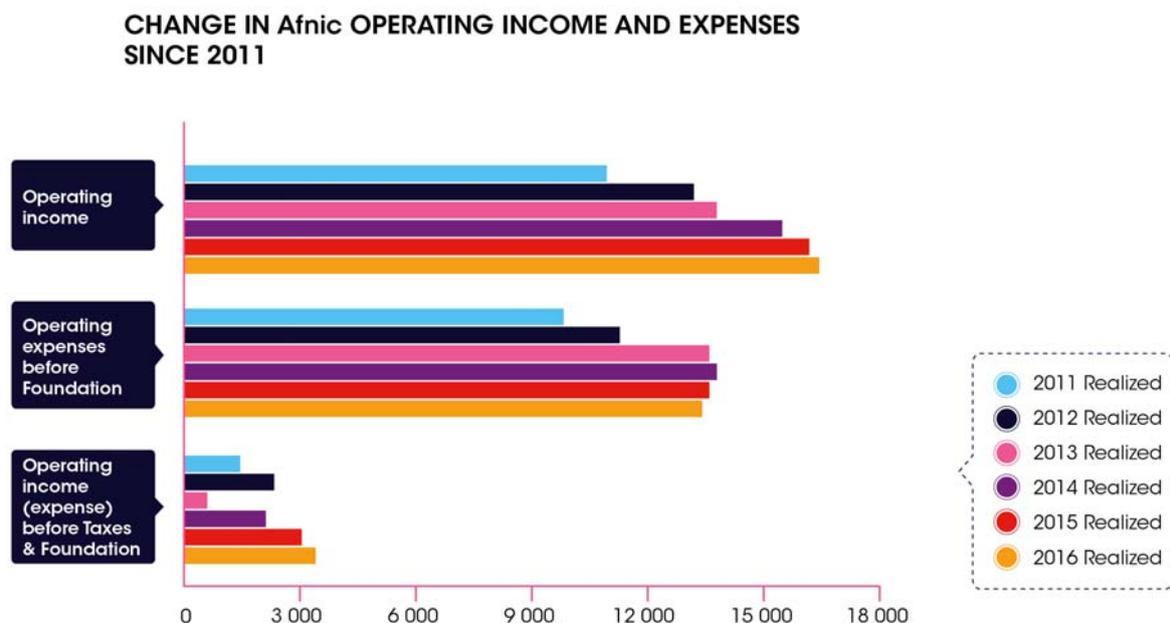
The growth in Afnic's revenue of 301,372 euros, compared with 2015, breaks down as follows:

- Growth of 1.4% in the *.fr* or 203,216 euros
- Growth of 6.3% in gTLDs or 66,364 euros
- Growth of 14.3% for overseas ccTLDs or 31,792 euros.

The net book income of 559,401 euros was higher than the budget forecasts.

The strategic objectives of rebuilding Afnic's reserves and limiting the loss caused by gTLDs have been attained.

Change in Afnic's operating income and expenses since 2011



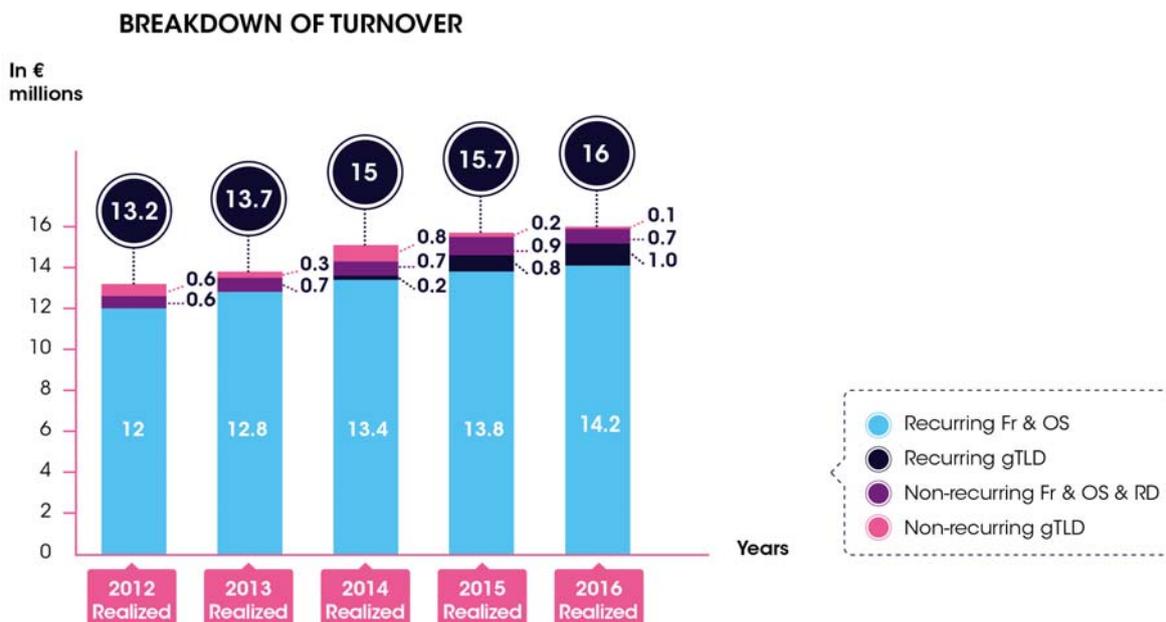
In May 2016, the *.fr* posted a significant drop in its installed base after the deletion of 42,869 domain names by one registrar. One of Afnic's strategic objectives, the symbolic milestone of the 3 million domain names registered under the *.fr*, was nonetheless crossed by the end of 2016.

The *.fr* continued to perform well in its market segment, but the slowdown in creations has continued. The renewal rate which fell sharply in May 2016, bringing it below the 81% mark should improve in January 2017, ranging from 81.5% to 81.7%.

For the overseas ccTLDs the beginning of the year 2016 was marked by the speculative wave on the Chinese market. For example, for the *.re*, creations represented 1.5 times the combined trend from 2014 and 2015. For this reason, our "overseas" turnover for 2016 increased by 14.3% compared with fiscal 2015. We expect a significant wave of deletions during the 1st quarter of 2017.

With regard to gTLDs, the suffixes continued to grow both in terms of revenues (6.3%) and in the installed base of domain names (26%). This being said, all of our TLDs now having gone live, our next growth drivers will depend on our capacity to offer our customers new products and services but also on our winning new TLD registry customers.

Breakdown of turnover since 2012



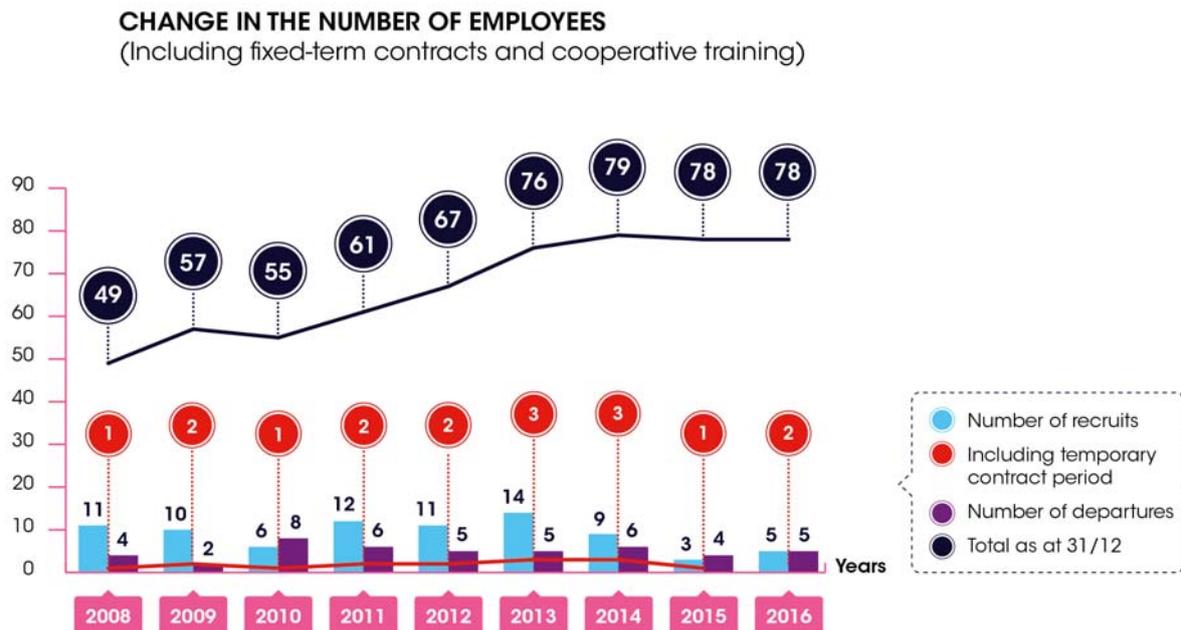
By restating € 431,969 of charges re-invoiced for the same value to the City of Paris customer as part of the contract for the operation of the *.paris* gTLD, Afnic's total operating expenses amounted to € 12.9 million, a decrease of € 137,162 in the previous year.

After spending 3 years raising employees' awareness about operational excellence and continuous improvement, Afnic has moved from cost control to efficiency.

The breakdown per item of 2016 expenses, compared with 2015, gives:

- Staff costs: the workforce stabilization policy set the workforce at 78 employees by the end of 2016, i.e. hiring 5 employees for 5 departures.
- ISD external expenses: a 3.9% decrease in costs mainly due to a reduction in the use of subcontracting, a decrease in depreciation costs due to the tax effect of the write-back of accelerated depreciation but also to the greater use of virtualization.
- For the second year in a row, lower communications / marketing costs by refocusing outlay for "Réussir en .fr" on outreach work and field operations, limiting purchases of advertising space. These field operations cost less but have greater qualitative impact.
- The on-going re-internalization of legal affairs coupled with the decrease in the number of customer claims has allowed to divide by two the fees incurred by the legal affairs, fraud and litigation department.
- Cross-business expenses (operating expenses and travel expenses) increased by 10% exclusively due to the increase in the rents & charges item. After 3 years of decreasing rent discounts, 2016 was the first full year of rents and charges. The latter will stabilize in 2017.
- The cost of a domain name under the .fr continued to fall to settle at 3.43 euros thanks to cost control and growth in the installed base.

Change in headcount since 2008



Financial Report (Annex)

Simplified Balance Sheet

In € thousand	31/12/2016 Net	31/12/2015 Net
Assets		
Non-current assets	2 309	2 625
Operating receivables	4 018	4 742
Current assets	14 798	13 638
TOTAL ASSETS	21 125	21 005

In € thousand	31/12/2016 Net	31/12/2015 Net
Liabilities		
Accumulated surplus	6 386	6 070
Profit (loss) for the year	559	316
Regulated provisions	413	368
EQUITY	7 359	6 754
PROVISIONS	202	171
DEBT	13 564	14 080
TOTAL LIABILITIES	21 125	21 005

Simplified income statement

In € thousand	31/12/2016	31/12/2015
Turnover	16 466	16 100
Other income	9	56
OPERATING INCOME	16 475	16 156
Other purchases and external expenses	4 623	4 667
Duties, taxes and similar payments	410	434
Salaries, wages and payroll taxes	7 506	7 441
Other expenses including depreciation	2 392	2 532
OPERATING EXPENSES	14 930	15 073
OPERATING INCOME (EXPENSE)	1 544	1 083
FINANCIAL INCOME	188	240
EXTRAORDINARY PROFIT OR LOSS	-19	1
Employee profit-sharing	365	308
Corporation tax	788	700
PROFIT OR LOSS	559	316

Change in accumulated surplus

CHANGE IN ACCUMULATED SURPLUS SINCE 2012

