

*"Collectively creating the
future of domain names"*

Annual Report 2017

May 2018

afnic

Contents

1. Editorial.....	3
2. 2017 Highlights	5
3. The Association	7
4. Exceptional momentum for the <i>.fr</i>	8
5. New gTLDs: revenue slightly down, but growth in the portfolio	9
6. Afnic develops its internal organization	10
7. Afnic undertakes to modernize its IT systems.....	11
8. The Afnic Foundation for Digital Solidarity: 70 projects supported in 2 years	12
9. A sound financial position thanks to business development and cost control.....	14
Financial Report (Annex).....	17

1. Editorial



Mr. Emmanuel Sartorius
Afnic Chair

"Collectively creating the future of domain names"

We could have reviewed 2017 in terms of transition, that highly specific phase during which an organization changes from one business model to another. This was the case for Afnic not so long ago, when the association went from a single product model, the *.fr*, to a multi-registry model, with all the budgetary and organizational consequences we had to accept.

But if we look closer at it, despite the many changes that took place in 2017, and while several major projects were launched, we can still not yet refer to it as a transitional year.

For Afnic's teams and members it was more a question of preparing for the near future, both for the association (and I shall come back to that issue), but also and above all of supporting all of its stakeholders, first and foremost the French users of the Internet, in the digital transformation now taking place.

I already evoked one year ago two major events that took place in 2017 with an impact on our association. The departure of Mathieu Weill, who had marked Afnic after eleven years as Chief Executive Officer, and the renewal of our association as the registry for 2017-2022.

The consequences of these two events deserve to be addressed in greater detail this year.

First of all, the appointment process of the new Chief Executive Officer was carried out by the Board of Trustees in accordance with the planned timetable and procedures and resulted, after an open, transparent and demanding process, in the appointment of Pierre Bonis as Chief Executive Officer on 1 September 2017.

His appointment has led to an analysis of the changes in the internal organization of our association, the objective being to strengthen the collegiality of the Executive committee and to distinguish, by the creation of two new departments, two areas that for us seem to be major issues in improving our preparation for the future. Specifically, the creation of a partnerships and innovation department as well as a human resources, work environment and legal department was decided in 2017, and became effective in 2018.

Following the renewal of Afnic as the registry for the *.fr* it seemed to us necessary to give a new impetus to the promotion and development of the TLD suffix for France. To do so, Afnic has relied on its partners, first and foremost the registrars with whom we have developed joint commercial operations. But Afnic has also embarked on new partnerships with professional organizations, Chambers of Commerce and

Industry, Chambers of Trades and Crafts, as well as with the French government as part of its digital transformation program for SMEs. The reinforcement of the dialogue and discussions with these partners has allowed Afnic to provide them directly with advice, solutions and arguments to support French companies in their online presence. The success of *Réussir avec le web*, used and distributed by all of our partners and which has already allowed several thousand people to self-assess the online presence of their company, is a good example.

The requirements of simplicity, attractiveness and exemplarity that we have made our strategic priorities led us to launch in 2017 a major project to modernize our information system. Scheduled over 3 years, this project should allow us to build the Internet registry of the future.

Through this project, our ambition is to build a more flexible, more modular Internet registry that is easier to upgrade and incorporates the expectations of our registrar customers and TLD suffix registers. The changes in security and data protection requirements, notably through the introduction of the General Data Protection Regulation (GDPR) and the transposition of the European Directive on the security of network and information systems (NIS) has also provided us with an opportunity to integrate from the computer design stage onwards features which are essential to building confidence in the Internet.

This is a major change, which involves significant mobilization and development of the skills of many of our association's employees. However, this work is not done to the detriment of the maintenance and development of our current system. This was the subject in 2017 of several major go-lives, and on which the work of continuous simplification and security will continue.

Afnic has been preparing for these challenges for several years, and effectively launched these projects in 2017, in a favorable context. The *.fr* had a very good year with 5.2% growth, and Afnic continued to develop its management portfolio of generic TLDs, with the integration of the *.museum*, and secured the launch of a new offer for ccTLDs.

2. 2017 Highlights

January - March

In January, Afnic published an issue paper on blockchains, popularized by the Bitcoin payment system, which explores the possible uses of blockchains in domain name registry activities.

The same month, Afnic announced new features for its solution for detecting and monitoring abuse affecting domain name portfolios: *Abuse Report*.

In February, for the 5th consecutive year, the *.fr* was present at the Paris Trade Fair for Entrepreneurs, within the *Foliweb* section, alongside our partners Jimdo and Neocamino.

In March, the publication of Afnic's 2016 customer satisfaction survey, conducted in partnership with the People Vox Institute, highlighted the excellent results in terms of the quality of its services: more than 100 registrars participated in this edition and expressed an even greater overall level of satisfaction of 98% (against 96% for 2015). They also endorsed Afnic's professionalism, 97% endorsed Afnic's performance (up 3 percentage points compared with 2015) and 98% stated they trusted the association.

The latest edition of the Afnic Industry Report on Domain Names in France demonstrated the good health of the *.fr* in 2016, with 627,000 new registrations over the year, a stable market share of around 35%, and higher growth (+0.9 points) than the average for the 28 ccTLDs in the European Union.

April - June

On April 5, in a decree published in the Official Journal of the French Republic, the French Minister of State for Industry, the Digital Sector and Innovation, appointed Afnic as the Registry for the *.fr* TLD for a term of 5 years from 25 June 2017.

At the end of April, Afnic's Board of Directors appointed Pierre Bonis as acting Chief Executive Officer, following the departure of Mathieu Weill, who had been at the head of the association since 2005. At the same time, Afnic's Board of Trustees announced the implementation of the planned succession plan for the recruitment of the new Chief Executive Officer.

In May, Afnic launched *FRWATCH*, which allows registrar customers to identify domain names using their brands and thus measure the amount of traffic they are losing. *FRWATCH* is also the only solution that provides DNS queries on non-existent domain names.

On May 18, Afnic organized the 2nd edition of the Afnic Forum at the Cité Universitaire Internationale in Paris on the theme of online presence, which brought together around a hundred digital professionals and users.

In June Afnic published the complete panorama of the domain name market in the world in 2016. In particular, the review noted globally growth was down compared with 2015 (7.1% versus 11.7%), and an erosion in the position of the *.fr*.

On 9 June, the Afnic Board of Trustees approved the new composition of its Scientific Council for the period from 2017 to 2020. The latter has expanded from 8 to 10 members, meaning 4 newcomers.

July - September

In July, Afnor confirmed to Afnic the renewal of its EFQM® R4E 4* recognition (Recognized For Excellence 4 stars), for its quality approach. The ISO 27001 surveillance audit meant that Afnic's certification for the security of the .fr information system was maintained.

On July 6 Afnic organized the 7th edition of its Scientific Council Day on the theme of "Security and privacy on the Internet: what the DNS knows about you!" at the Telecom ParisTech engineering school.

In September, Pierre Bonis was appointed CEO of Afnic by the President of the Association further to the proposal of the Board of Trustees. Afnic took part for the sixth consecutive year in the drafting of the Internet Resilience Observatory in France, published by the French National Agency for the Security of Information Systems (ANSSI).

On September 25, Afnic officially launched *Réussir avec le Web* at the Paris Paris Trade Fair for Entrepreneurs. This new service designed for VSEs/SMEs can be used in less than 10 minutes to assess the digital maturity of companies, and offers them an overall assessment and a personalized action plan to boost their online presence.

October - December

On October 17 the .fr was present at the OVH Summit in Paris through its experts who hosted the conference "Universal acceptance: the impact of changes in domain names since 2014".

In November Afnic published the issue paper "Can the Internet be broken?", which explores the question of the possibility of a general blackout of the Internet and the solutions to improve its resilience.

In December *Réussir avec le Web*, the free digital maturity assessment service launched by Afnic, recorded the arrival of its first 4 partners: the French Polynesia Chamber of Commerce, Industry, Services and Trades, the NAMEBAY registrar, the start-up Botners, and the FranceTPE organization, to promote the online presence of VSEs/SMEs.

3. The Association

In 2017, 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 more particularly on the various avenues for Afnic's diversification and on the project to radically modernize its information system.

Two of the Board meetings were specifically dedicated to recruiting a new CEO with the interview of the candidates.

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

The assessment of the overall risks of the association, the monitoring of finances, the analysis of its contracts and commitments, and changes in registry policy made necessary, in particular by the implementation of the General Data Protection Regulation (GDPR), were central to the committees' concerns.

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

2017 marked the end of the work of the operational working group (OWG) which brought together voluntary members from the "users" and "registrars" colleges on the theme of *The Study of the motivations for the uses of the domain names*. This working group led to a survey conducted at the end of 2017, the results of which were presented in early 2018.

In addition, an extraordinary consultative committee meeting on the subject of the General Data Protection Regulation (GDPR) welcomed a large audience (nearly 80 participants) to share Afnic's analysis and positioning within the framework of its activity, but also to discuss more widely with specialists such as the France's data protection authority (CNIL) or the French Association of Personal Data Correspondents (AFCDP).

The **International College** held its annual meeting and focused on two main themes: the communication and marketing of national TLD suffixes and the automation of registers, with for the first time a presentation of a technical solution proposed by Afnic and tailored for small-scale registers: the "transition" offer.

4. Exceptional momentum for the *.fr*

With 3,166,105 names at 1 January 2018, the *.fr* grew by 5.2% in 2017 and had a renewal rate of 83%. This growth is of course driven by the economic context, which is that of an upswing, but it is important to note that the *.fr* did better than all of the other European ccTLDs in 2017. It is the most dynamic TLD suffix among the members of the Centr, an organization that brings together all the national registers in Europe (in and outside the European Union). The growth of the *.fr* was also higher than that of the French domain name market (which stood overall to 3.2%). The national TLD suffix has therefore increased its share of its domestic market.

This dynamic was accompanied by a build-up in the promotion of the *.fr*, which has focused on three major strands:

- The awareness of VSEs / SMEs through the *Foliweb* system and Afnic's presence at trade fairs, which in 2017 had direct contact with more than 12,000 VSEs / SMEs, providing them with practical workshops, advice and tools to develop their online presence in France.
- The significant increase in the number of partnerships with our registrars involving promotional operations for the *.fr*. This trend, which continues to develop year after year, is now a tool in its own right for promoting the *.fr*, and has a direct impact on the vitality of domain name creations.
- The launch of the self-assessment tool *Réussir avec le web* - www.reussiravecleweb.fr - which was widely acclaimed from the very beginning, since less than a month after its launch, four partners had already joined us and by the end of 2017, more than 1,000 respondents to the questionnaire had been registered.

Following the momentum in registrations, the services associated with *.fr* have experienced sustained growth, including the domain name security service *FRLOCK*.

A study commissioned with Kantar TNS at the end of the year on the reputation of the *.fr* showed that the national TLD suffix continues to be well and widely known. Indeed, the *.fr* has a good image for **97%** of the respondents. This good image is based on 4 main assets: trust (for **86%**), reliability (for **85%**), proximity (for **83%**) and durability and solidity (for **83%**).

5. New gTLDs: revenue slightly down, but growth in the portfolio

2017 was a contrasted year in terms of the new gTLDs managed by Afnic. From a purely accounting point of view, activity outside the *.fr* saw a drop in turnover of just over 6%, indicating various facts.

The main TLD suffixes, in terms of inventory, managed by Afnic saw their performance stagnate, which had a direct impact on the revenue they generated. After the launch periods of the new gTLDs, and support for the sales momentum by the attribution of domain names with high semantic value, these gTLDs, mainly geographical, are entering a quieter period, in which the drop in commercial and marketing support is now being felt.

However, the renewal rates for the GeoTLDs managed technically by Afnic remain above 70%, which is much higher than the average for the new gTLDs. We are therefore witnessing a form of consolidation, with low growth, but a fairly high retention rate of new users.

In terms of brand extensions, a genuine dynamic has taken shape, particularly around the *.snCF*, the suffix for the French national railway board, with a very extensive communication campaign for the launch of *oui.snCF*. If the effects of such an approach are difficult to assess at this time, it is certain that the surface area and the impact of the communication of the SNCF on its namespace are helping to advertise the new gTLDs with the public. This approach is promising and shows, as is the case for the *.mma* and *.leclerc* to name just two of our customers, concrete uses of brand extensions are being developed and helping the sustainability of this activity in the medium term.

Finally, in 2017, Afnic continued its commercial action as a technical registry operator, by approaching several new potential customers.

Since the previous campaign on opening new gTLDs, this is the first time that Afnic has revived a policy of developing the number of TLD suffixes it manages.

For example, the *.museum* has been entrusted to Afnic by the MuseDoma association, which has been in charge of the domain name since 2001, so that our association provides the technical and commercial support to relaunch the namespace. In taking care of the *.museum*, Afnic now also manages a so-called "legacy" generic TLD, that is to say older than those that appeared with the opening of the new gTLDs.

The development of registry operator activity has also been towards ccTLDs, through the development of a new offer entitled *Transition*. Initially built to meet a demand from Beninese partners, this offer takes into account the specific situation of African ccTLDs. It enables the rapid automation of operations, with Afnic providing direct technical support via its own infrastructure, while maintaining the independence and strong identity of the registry for which we work, since it operates on the spot its WHOIS database, its customer database, and determines its registry policy. Lastly, this limited time offer makes it possible to prepare the on-site automation of the registry, over a 2-3 year timescale.

This offer, which made its first sale in the first quarter of 2018, allows Afnic to be a complete registry operator, serving customers from all categories of registry.

Lastly, our registry advice service continued to grow and, after the completion of a full consultancy service to Mauritania in 2016/2017, provided Burkina Faso with comprehensive support for the automation of the *.bf*. This multi-month service started in 2018.

6. Afnic develops its internal organization

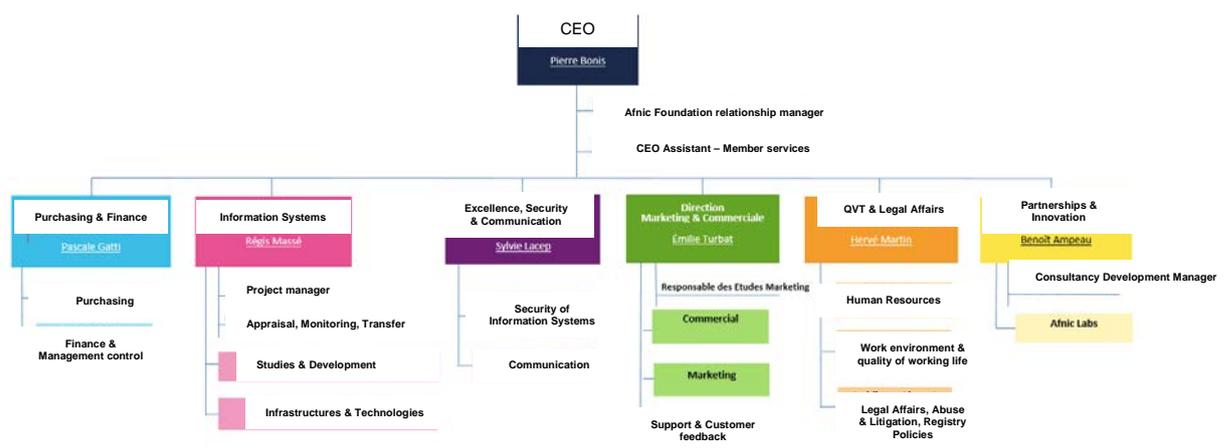
The internal organization of Afnic set up in 2014 had changed little since, and several factors that occurred at the end of 2016 and in 2017 led to the implementation of a change in our organization so that Afnic aligns its modes of operation with the strategic priorities decided by the Board of Trustees.

At the end of 2016, the departure of the Marketing Director provided an opportunity to revive the discussions on the complementarity between the commercial and marketing approaches, and resulted in the merger of the two departments under the authority of Emilie Turbat, now Marketing and Commercial Director. This development makes it possible to reinforce the client focus of marketing and, by setting-up cross-business steering committees with the ISD, enables finer management of Afnic's technical roadmap.

The departure of Chief Executive Officer Mathieu Weill last May and the appointment of Pierre Bonis (former Deputy CEO) in September led to a reorganization of the Executive Committee, in which the tasks and responsibilities were redistributed as follows:

- Establishment of a Partnerships and Innovation Department which underlines, in terms of organization and resources, the importance given by Afnic to carrying out research and development work. The focus is on building partnerships with the economic, industrial, and academic sectors to offer new solutions and exploit emerging technologies such as the Internet of Things.
- Creation of a Human Resources, Work Environment and Legal Department, to oversee the forward-looking management of jobs and careers at Afnic, and support staff so that they can develop the skills necessary for the changes that Afnic will have to face in the years to come.
- Change in the scope of the DAF, which becomes the Purchasing and Finance Department. The streamlined department has tasks that are highly consistent, revolving around financial management, budget monitoring, and management control.
- Attachment of the Communication Service to the Department of Excellence and Security, which now includes the necessary resources for training in change management, through the communication service.

Outside the Executive Committee (CODIR), and to support the project to modernize its IT systems, creation of a position of Senior Project Manager, whose role is to coordinate cross-business the teams of Afnic inside and outside the ISD for this project, described below.



7. Afnic undertakes to modernize its IT systems

As we have seen, Afnic's tools, both software and hardware, allow the association to maintain a position of *leader* in France, in an otherwise competitive market. The plasticity of the solutions provided by Afnic also allows it to serve several types of customers, such as gTLDs and ccTLDs. However, even though we continued our performance and cost control policy in 2017, which is reflected later in the financial section of this report, it appeared necessary to follow up on the substantive review in 2016 of the development of our computer systems, and more specifically our shared registration system.

This focus, which is designed to improve our development lead-times with respect to our customers, reduce our maintenance costs, and finally take into account all the requirements of security and respect for privacy from the software design stage onwards, underwent real acceleration in 2017.

Several hypotheses were studied in detail, and intensive discussions were held with external partners, in order to precisely define the outline and the procedures for a major project to overhaul our computer systems. These discussions with some of our counterparts allowed us to better understand the challenges and difficulties they face, and to compare the benefits of co-developing a solution with external partners, and those of a mainly internal development.

At the end of 2017, after studying and assessing several scenarios and following up discussions with potential external partners, the Board of Trustees decided to formally launch the *Avenir* project, for which Afnic in-house teams are fully responsible.

This is a three-year project, which should result in an almost complete rewrite of our registration system, making it more modular, lighter, more scalable, less expensive and better able to serve the diversity of our customers.

To achieve these objectives, the teams of the ISD were expanded, in terms of hires, but also by setting up an ambitious technical training plan, and by the increased use of external development services for aspects not directly related to our core business, so that Afnic teams can focus on the business value of the project.

The specific feature of this approach is that it must not interrupt or slow down the changes made to our current system. An action plan has therefore been presented to Afnic's consultative committees in order to prioritize developments for our registrar and registry customers, and to continue to respond to user requests, as shown by the launches of *Réussir avec le web* or the *FRRUSH* service in 2017.

8. The Afnic Foundation for Digital Solidarity: 70 projects supported in 2 years



Mr. Jean-Michel Hubert, President of the Afnic Foundation for Digital Solidarity

Two calls for projects, 650 applications and 70 projects supported in two years, the Afnic Foundation for digital solidarity has now reached its cruising speed.

1.7 million euros have already been earmarked to support those who want to make the Internet and its uses serve a more equitable, inclusive and egalitarian society.

The creation of digital checks, a computer recycling laboratory, tablets for dependent people, a support platform for college students or a game to learn budget management are all examples of achievements that turn the commitment of the Foundation for the development of a more inclusive Internet into a tangible reality.

The 2017 call for projects has kept its promises: 35 winning projects addressing various themes (Employment/integration, Health/Disability, Citizenship, Environment/Housing, Training/Education and Culture/Media) for the benefit of equally diverse audiences (seniors, vulnerable groups, the disabled, people on vocational integration programs or young dropouts).

2017 was also the year in which the Scientific and Steering Committee was set up to support the Executive Committee of the Afnic Foundation. For its members it will provide advice and insights into the choice and implementation of the Foundation's priorities for action over the years to come.



2017 winning projects

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

Growth in the sums allocated by Afnic to the Foundation since 2012:



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

2017 marked the return to solid growth of the market for domain names under the *.fr* which can be interpreted in part as the consequence of the sales momentum launched since 2016 and relayed by our customers.

The recovery in growth also goes hand in hand with the economic upswing at the European level, illustrated by the performance of most of our European counterparts. The growth rate of the *.fr*, however, remains the highest in all of Europe.

Against this background, Afnic posted a growth of 1.2% in sales and a stable net book income of € 533,000.

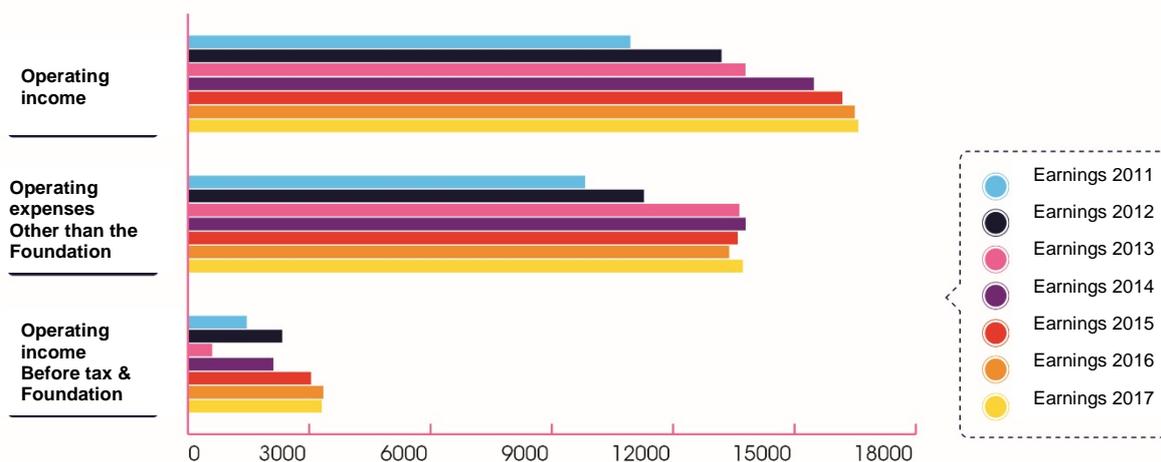
The growth of Afnic turnover stood at 187,000 euros (1.2%), for a total turnover of 16,221,000 euros compared with 16,034,000 euros in 2016 and breaks down as follows:

- Growth in turnover for the *.fr* €277,000, + 1.9%
- Decrease in gTLD turnover of 73,000 euros, -6.5%
- Decrease in sales of Overseas TLD suffixes of 17,000 euros, -6.6%

The net book income of 533,000 euros is higher than the 2017 budget which forecast a profit of 103,000 euros and is stable compared with the income for 2016.

Change in operating income and expenses since 2011 (in k€)

CHANGE IN AFNIC OPERATING INCOME AND EXPENSES SINCE 2011



Fiscal 2017 activity exceeds budget targets

Business was 1.6% higher than the budget target (the budgeted turnover was 15,961,000 euros), i.e. 260,000 euros more.

Afnic sales totalled € 16,221,000, an increase of 1.2% i.e. € 187,000 compared with 2013. This does not include turnover on behalf of the City of Paris.

The *.fr* posted growth in sales thanks to a high increase in create operations (+ 6.4%), coupled with a rise in the inventory renewal rate of 83% over the year, when the expected target was 81.5% (+ 421,000 euros in turnover).

Additional services for the *.fr* also exceeded the budget target of 75,000 euros thanks to the good scores for the *FRRUSH* and *FRLOCK* services. This income absorbed the end of invoicing in "Trade" transactions during the year, generating a shortfall of only 144,000 euros compared with 2016.

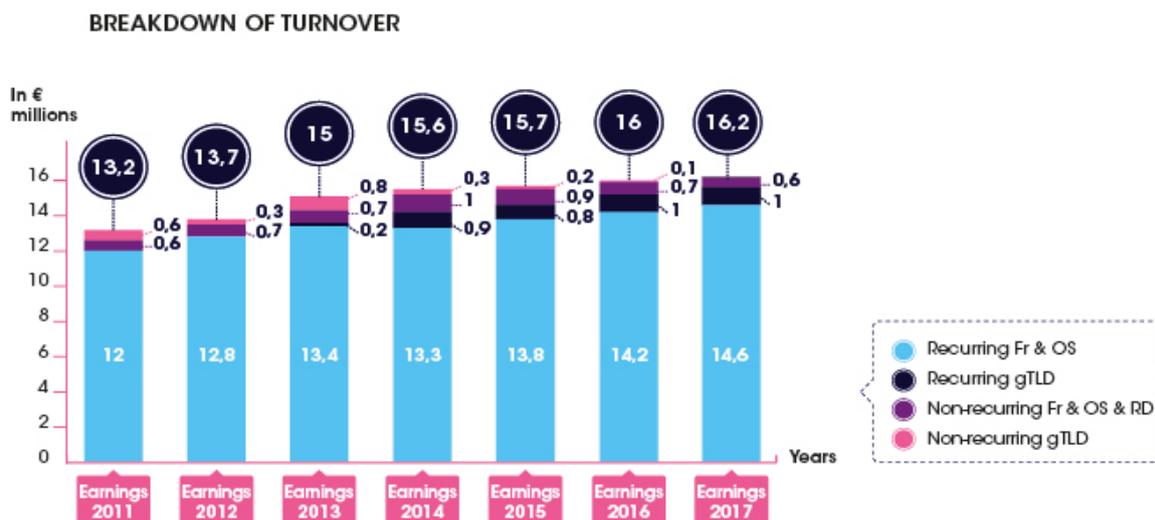
The major increase in create operations can be partly explained by the success of the sales operations conducted with our registrars, which serve to relay the interest of the *.fr* TLD among VSEs, a source of growth in the installed base.

The overseas TLD suffixes suffered a decline in create operations and a foreseeable loss of stock after the end of the abnormal number of registrations from China recorded in the 2nd semester of 2016.

On the gTLD side, the results were mixed for 2017:

- GeotLDs, with the exception of the *.bzh* which posted growth of 12% in create operations, grew slowly. The question of their price positioning and communication strategy remains.
- "Corporate" or brand gTLDs have encouraging prospects in terms of use, such as the *oui.snfcf* operation, or Leclerc's communication on *e.leclerc*.
- Concerning consulting activities (activities outside the *.fr*, which explains why the issues is addressed in this report) income for the year was down 40,000 euros compared with that for 2016, explained in part by the postponement of an operation in West Africa for 2018, which has since started.

Breakdown of turnover since 2011



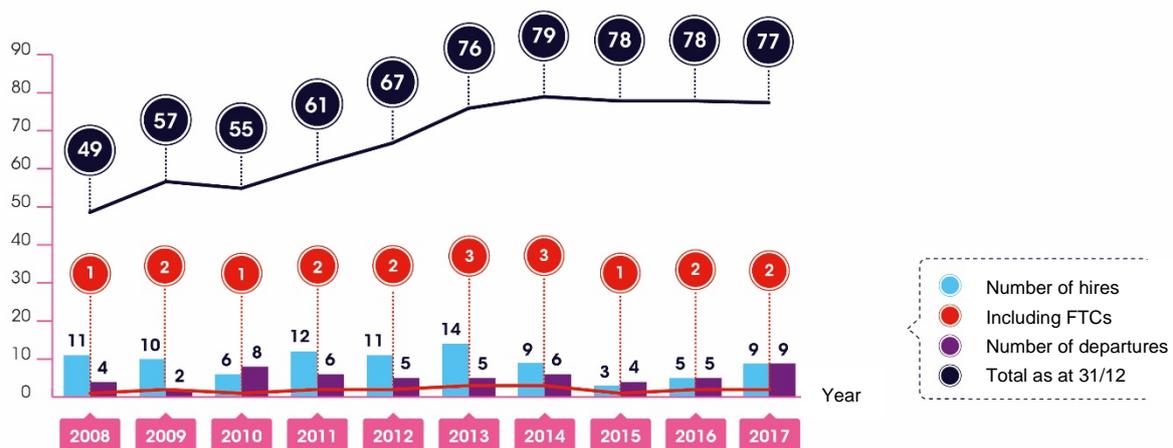
By restating €333,000 of charges invoiced for the same value to the City of Paris customer, Afnic's total operating expenses amounted to €12.9 million, i.e. at the same level as those for 2016 and €1,034,000 lower than the estimated budget.

The highlights of 2017 per expense item are:

- Staff costs: a historic turn over of 11.5% or 9 outgoing employees including the departure of the Chief Executive Officer, Mathieu Weill, and the Marketing Director. The 2 positions filled by in-house promotions, the hiring of 9 employees accompanied by the Noria effect led to a payroll gain of 127,000 euros compared with 2016.
- ISD external expenses: a decrease in costs of 10% (271,000 euros) mainly due to a decrease in the use of outsourcing, and a sharp decline in amortization expenses due to the tax effect of the write-back of accelerated depreciation with the withdrawal of the tax incentive scheme to accelerate the amortization of license acquisitions. In addition, the application of the 2015 ordinance and the systematic reopening to competition of our suppliers often leads to a decrease in the rates charged by them.
- Communication/marketing costs increased (+184,000 euros) to support the momentum of the .fr through commercial actions with our registrars but also with targeted promotional actions, local actions, with a qualitative return in terms of recognition and impact on domain name create operations.
- Cross-business expenses (operating costs, travel) increased by 8.3% (+ €160,000) due to the increase in the cost of recruiting staff, the handling of two legal issues including the study of an international partnership as part of the project to overhaul our information system, and the increase in travel expenses to support the sales momentum.
- A cost price of .fr domain name which continued to fall to 3.34 euros

Change in headcount since 2008

CHANGE IN HEADCOUNT (including FTCs and dual training)



Financial Report (Annex)

Simplified Balance Sheet

In k€		31/12/2017 Net	31/12/2016 Net
-	Assets		
-	Non-current assets	1 935	2 309
-	Operating receivables	4 357	4 018
-	Cash at bank and in hand	16 756	14 798
-	TOTAL ASSETS	23 048	21 125

In k€		31/12/2017 Net	31/12/2016 Net
	Liabilities		
	Accumulated surplus	6 946	6 386
	Annual profit (loss)	533	559
	Tax-driven provisions	228	413
	SHAREHOLDERS' EQUITY	7 707	7 359
	PROVISIONS	175	202
	DEBTS	15 166	13 564
	TOTAL LIABILITIES	23 048	21 125

Simplified income statement

In k€	31/12/2017	31/12/2016
Turnover	16 555	16 466
Other income	117	9
OPERATING INCOME	16 672	16 475
Other purchases and external expenses	4 936	4 623
Taxes, duties and similar payments	427	410
Salaries, wages and staff welfare expenses	7 353	7 506
Other expenses including depreciation	2 576	2 392
OPERATING EXPENSES	15 292	14 930
OPERATING INCOME	1 380	1 544
FINANCIAL INCOME	97	188
EXTRAORDINARY PROFIT (LOSS)	277	-19
Employee profit-sharing	373	365
Corporation tax	849	788
PROFIT OR LOSS	532	559

Change in accumulated surplus

