afnic

Annual Report **2012**

Overview

Editorial
Responsible Change.

"Responsible change" are the two words that best seem to describe Afnic's achievements in 2012.

Change first of all, because it would be to our discredit, and even dangerous, to remain static in a global Internet environment undergoing far-reaching transformations. For example, the forthcoming opening of the new gTLDs organized by ICANN will have an immediate impact on the market, and change the entire environment for Afnic's business. It will naturally lead us to expand our offerings based on a core business in which we have recognized skills.

Jean-Pierre Dardayrol
Chairman of Afnic

Responsible because the process designed to turn market changes into business opportunities must be selected and then implemented, taking into account the tasks that our Association was designed to carry out, first and foremost as the Registry for the *.fr* TLD.

More than ever, Afnic is a responsible stakeholder committed to a secure and stable Internet, open to innovation, in which the French Internet community plays a major role. It is in relation to that community, its members and to the Government that the Association is responsible for managing the *.fr* TLD as a public resource, whether in terms of our involvement in its development, funding or quality of service.

2012 was marked by three major events:

• **Afnic's contract as the Registry for the .*fr* TLD was renewed for a period of 5 years.** The trust shown in us is based on the far-reaching commitments we have made, including the implementation of a cost accounting system for the .*fr* TLD and the creation of a fund to support the development of the Internet (FSDI);

• **With respect to the new gTLDs, the Association succeeded in convincing 17 French candidates of the quality of its offer**, making us the principal technical operator of French registries in terms of the number of customers;

• **That development dynamic is complemented by the establishment of a process of global risk management and enhanced governance**, particularly with the appointment of Board of Directors' committees (Finance and Risks, Registry Policy).

2013 promises to be the year in which the policy options approved in 2012 come to fruition. Creation of the Fund to support the development of the Internet (FSDI), insertion in the "root" of at least one of the new TLDs in which the Association is involved, wide-reaching initiatives to promote the .*fr* TLD and transfers of R&D results: Afnic will remain central to the Internet and to the challenges facing all of our stakeholders, particularly in terms of security.

Highlights 2012

January 12: opening of the period for the submission of nTLD applications to ICANN.

May 11: Afnic files its applications for the management of the *.fr* TLD and 10 other French Overseas TLDs.

May 31: end of the period for sending applications to ICANN for new TLDs. The offer as the technical operator of the Afnic registry is chosen by 17 French projects.

June 22: publication by ANSSI and Afnic of *Internet Resilience - 2011: situation report*.

June 28: Afnic's contract is renewed for five years as the Registry for the *.fr* TLD by decree, issued by Ms. Fleur Pellerin, French Minister for the digital economy.

July 3: IDN registration is open to all after a sunrise period of three months.

October 4 and 9: *Registrar Days.* Two days to take stock with the registrars of the major changes of the year and discuss prospects.

October 29: the Paris Court of Appeal confirms that, with regard to the anonymity of Whois data, Afnic's liability was excluded, and that the association was not required to take protective measures in respect of domain names in case of litigation.

November 14: 60% of *.fr* domain names are IPv6 compatible.

December 1: entry into effect of the new articles of association designed to enhance Afnic governance methods.

December 6: domain names under the *.fr* TLD pass the 2.5 million milestone.

December 10: Afnic extends its opening hours and sets up a 24/7 telephone client support service.

December 31: more than 20,000 zones managed by Afnic are DNSsec signed zones.

> *Assignments: to help develop a secure and stable Internet, open to innovation, in which the French Internet community plays a major role.*

Founded in 1997 as an Association governed by the provisions of the Law of 1 July 1901, in 2012 Afnic was designated as the Registry for the *.fr* TLD. As such, it ensures the governance and technical management of the top-level domain for France.

Afnic also manages the other French TLDs: *.pm* (St. Pierre and Miquelon), *.re* (Reunion), *.tf* (French Southern and Antarctic Territories), *.wf* (Wallis and Futuna) and *.yt* (Mayotte).

Its status as an Association allows Afnic to include government officials, registrars and users in its governing bodies.

Afnic's purpose is to helps develop a secure and stable Internet, open to innovation, in which the French Internet community plays a major role.

It fulfills this goal through its assignments: to excel in the provision of essential resilient services for the core Internet infrastructure in France, and to develop and share its expertise in order to facilitate the transition towards the Future Internet.

Ever since its inception, Afnic has responsibly managed the French TLDs that have been entrusted to it. Involved from 2008 onwards in the ICANN program to create new TLDs, Afnic has established itself as a major player in France as a technical operator of registry activities.

True to its heritage as a *"Network Information Center"*, Afnic is also a skill center for Internet technologies. It has an ongoing research and development program, performs knowledge transfer and shares expertise with partners located in France as well as abroad.

Governance: nomination of Board of Directors' committees.

STRUCTURE

The composition of the Afnic Board of Directors reflects the aim of its founders to involve government officials, registrars and users in the management of French TLDs to serve the public interest. The structure of the Board has not been modified since its inception.

The chairman of Afnic is elected for a term of three years, renewable once. Representatives appointed by the State have five seats on the Board, on a par with member representatives who are elected for a renewable period of three years, i.e. registrars (2 seats) and users (2 seats). The president of the International College, elected by its members, is by right a member of the Afnic Board of Directors. Afnic trustees receive no remuneration for their duties.

On December 31, 2012, the **119 members** of Afnic were distributed as follows:

Distribution of Afnic members as at 31/12/2012

- Founder members
- Honnor members
- Registrars option 1
- Registrars option 2
- Legal entities
- Individuals
- International College

4 % — 3 % — 30 % — 8 % — 18 % — 8 % — 29 %
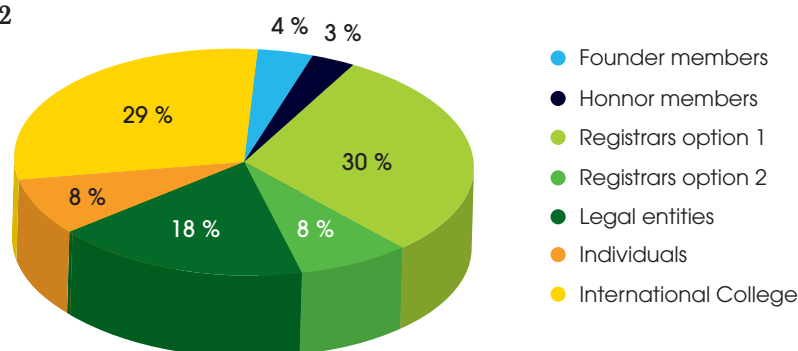
COMPOSITION OF THE AFNIC BOARD OF DIRECTORS AS AT DECEMBER 31, 2012

Government officials appointed by the State:

For the French National Institute for Research in Computer Science and Control (**INRIA**)
- Mr. Jean-Pierre Dardayrol (*Chairman*)
- Mr. Stéphane Ubeda

For the **Ministry of Industry**
- Ms Mireille Campana

For the **Ministry of Electronic Communications**
- Ms Anne-Lise Thouroude

For the **Ministry of Research**
- Mr. Patrick Donath

Elected representatives per college

For the **registrar** college
- **ASCIO**: Mr. Eric Lantonnet
- **MAILCLUB**: Mr. Frédéric Guillemaut

For the **user** college
- **ACFCI**: Mr. Thierry Hinfray
- **ISOC France**: Mr. Gérard Dantec

For the **International College**
- **Conakry University**: Mr. Abdoulaye Diakité

A government commissioner:

Mr. Perica Sucevic, appointed by the Ministry of Electronic Communications.

Movements in 2012:

Appointed members:

- INRIA: Mr. Stéphane Ubéda replaced Mr. Bruno Sportisse

Elected members:
- ASCIO: Mr. Eric Lantonnet replaced Mr. Peter Cousyn

ENHANCING INTERNAL CONTROL

In 2012, Afnic significantly enhanced its internal control system, in terms of governance (creation of Board of Directors' committees), risk management (identification, qualification and management of global risks, information system security policy) and finance (implementation of a new cost accounting system). These developments complement the cross-company actions already carried out over several years to define our quality, traceability and archiving processes, develop and monitor strategic indicators, and evaluate customer satisfaction. More generally, the Association is engaged in a continuous improvement initiative allowing it to permanently ensure that its operating modes are consistent with recognized best practices as well as with the applicable legislation.

AN INNOVATION IN 2012: THE CREATION OF BOARD OF DIRECTORS' COMMITTEES

The establishment of Board of Directors' committees is an important development in its operation and in the ways in which Afnic trustees interact with permanent staff.

The purpose of the committees is to assist the Board of Directors in decision-making on issues affecting the life of the Association. The

The ethical rules of the Board of Directors

In 2007 the Afnic Board of Directors adopted a Code of Ethics which defines the following commitments in particular:

• **Duty to act in good faith**: the trustees shall at all times promote the attainment of Afnic's corporate purpose. They cannot take on responsibilities, in any form whatsoever, directly or indirectly, in companies or businesses that compete with those of Afnic, particularly in the form of advisory services;

• **Duty of professional secrecy and confidentiality**: the trustees shall maintain professional secrecy and absolute confidentiality with respect to any document or information of any kind obtained in the course of or in connection with the performance of their duties;

• **Conflict of interest**: the trustees shall refrain from placing themselves in a situation involving a conflict of interest between their personal or professional interests and those of Afnic.

members of each committee are responsible, within the scope of their remit, for organizing policy options and providing enlightened insight, advice and guidance to the members of the Board in order to facilitate decision-making.

Each committee is established by decision of the Board of Directors and mainly consists of three voluntary trustees. Upon request of the Committee, other trustees of the association, Afnic employees or external experts may participate in certain activities.

The two thematic committees created in 2012 were:

• **The Finance and Risk Management Committee**, whose tasks include monitoring and analyzing financial documents; examining the suitability of the accounting methods chosen and their correct application; monitoring the proper implementation of internal procedures for collecting and controlling accounting data, and verifying the existence of internal control systems and their proper application. At 31/12/2012

the members of this committee were Mr. Thierry Hinfray (ACFCI) and Ms Anne-Lise Thouroude (Ministry of Electronic Communications) after the departure of Mr. Peter Cousyn (Ascio) who had not yet been replaced on that date.

• **The Registry Policy Committee** the purpose of which is to examine the existing policies and propose any changes; to identify work priorities; to ensure compliance with any consultation process required prior to any vote by the Board of Directors; to ensure integration of the interests and needs of the Internet community by Registry policies; and to analyze and comment on the preliminary draft and draft registry policies. At 31/12/2012 the committee members were Messrs. Gérard Dantec (ISOC France), Patrick Donath (Ministry of Research) and Frederic Guillemaut (Mailclub).

Strategy: responsibly manage the change required by the developments in our environment.

STRENGTHS AND OPPORTUNITIES

As the Registry for the *.fr* TLD, Afnic is a recognized market player for domain names in France. The Association consolidated its leading position in 2012 by providing its core expertise – that of a technical registry operator – to 17 projects for new gTLDs.

In direct contact with the main market players since its inception, the Association is an integral part of its ecosystem, as evidenced by the six hundred-plus letters received in April and May 2012 supporting its application to be designated as the Registry for French TLDs.

The studies carried out annually show that Afnic enjoys an excellent reputation with its customers, and that its active participation in international forums means it is recognized by its peers.

In a market undergoing profound changes caused by the forthcoming production of hundreds of new TLDs and the developments in Internet usage, Afnic has key competitive advantages enabling it to seize business opportunities as and when they occur. That ambitious aim in turn implies the ability to develop its business lines and practices, ensure increasingly stringent risk management and enhance its quality of services.

SALIENT ACHIEVEMENTS OF THE 2012 ACTION PLAN

Each strategic priority adopted by Afnic corresponds to a certain number of lines of action, each of which is subdivided into actions. In 2012, the main achievements by strategic priority were as follows:

• **Technical Registry Operator**: Afnic took part in 17 projects for new gTLDs, built capacity to support them in the delegation process, and manage the gTLDs after their insertion into the DNS root at year-end 2013;

• **Preference for the *.fr* TLD**: the market share of the *.fr* TLD significantly increased, reaching almost 35%; the Association was designated as the Registry for the *.fr* TLD; the first commitments of the State / Afnic agreement were implemented;

• **Operational Excellence**: excellence programs were defined and launched, preparations were made for the move (choice of new premises);

• **Resilience**: implementation of a second Datacenter; the report on the Resilience of the Internet in France was published in partnership with the French National Agency for the Security of Information Systems (ANSSI); global risks were identified and qualified;

Investment	Resilience *Certified ISO 27001 in 2014* *International recognition*	Innovation *FSDI financed up to €2,5m per year* *from 2015 onwards par*	
Growth	Preference for the *.fr* *10% of Afnic turnover invested* *in .fr promotion*	Recognized profitable technical operator *20-25 other TLDs, 15% of turnover,* *business profitable as of 2015*	Operational excellence EFQM 400-500 in 2015

• **Expertise and innovation**: publications issued included Special Reports, continuation of research and development projects, the "technology backdrop" survey, and the Afnic Industry Report on Domain Names.

AFNIC STRATEGIC PRIORITIES 2012 - 2015

For the period 2012 - 2015, Afnic has focused its strategy on the following 5 priorities.

1) Confirm the preference for the *.fr* TLD

The *.fr* TLD has a number of advantages: as the French national top-level domain name it creates a link with France, with French-language content, and with the French market. Asserting the preference of French users for the *.fr* TLD a key strategic priority for Afnic action, without excluding the opportunities provided by the opening to Europe.

2) Be the main technical operator for new TLDs in France

The market for domain names will undergo significant changes with the opening of hundreds of new gTLDs from 2013/2014 onwards. By capitalizing on its core business, Afnic is positioned as the technical registry operator for companies that have decided to back gTLD projects.

3) Be a major player in the resilience of the Internet

As a key infrastructure operator for the Internet, Afnic intends to play a leading role in optimizing the resilience of the infrastructure, i.e. its ability to resist any form of attack or malfunction. The process of global risk management fits into this context.

4) Promote our expertise

Afnic teams have unique expertise covering a wide scope of activities around its business lines. Afnic aims to disseminate those skills among the Internet community at large, and intends to promote them in particular through publications, research and development projects, and specific services.

5) Be recognized for our operational excellence

As the benchmark player in France, Afnic intends to serve as a reference on the national and international markets, whether in terms of customer satisfaction, governance or the career development of its employees. Afnic aims to have that excellence recognized by independent third parties by 2015.

A dynamic .fr TLD despite a market slowdown.

A RAPIDLY CHANGING GLOBAL ENVIRONMENT

Analyzing the Internet environment has resulted in the identification of a certain number of developments occurring globally that are liable to fundamentally change the relations between users of the "network of networks".

If only at user level, a report dated February 2013 by the Cisco Company (1) indicated that the number of mobile devices used to browse the Internet (smartphones, tablets, laptops, phones, etc.) should exceed the number of human beings by the end of the year. This development, which could be clearly seen in 2012, is a defining trend in terms of Internet content access and viewing modes.

"Facilitation" of access to the Internet promotes the high-speed development of networks and social media. With 693 million monthly users, Facebook is the most popular social network in the world, far ahead of his challenger Google+ (343 million) and Twitter (288 million). Between the three of them, however, these three giants represent over a billion monthly users, according to a Trendstream study (2).

The social networking phenomenon, just as the development of "Apps" on tablets and the consultation of websites using mobile devices, are all emerging or affirmed uses that are liable to affect user practices in terms of domain names. Facebook and Twitter can both be used without accessing other domain names than those of the two companies; "Apps" do not require any domain name at the user level; mobiles create specific constraints in terms of usability that can condition the format of domain names (as evidenced by the success of "URL shorteners").

Other developments are also technically remarkable, such as the deployment of IPv6, accelerated by the "exhaustion" of the available stock of IPv4 addresses. According to an article of the G6 France association published in November 2012 (3), measurements of IPv6

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(1) Mobile Internet devices 'will outnumber humans this year'
http://www.guardian.co.uk/technology/2013/feb/07/mobile-internet-outnumber-people
(2) Google+ Passes Twitter To Become 2nd Largest Social Network
http://www.thedomains.com/2013/01/28/google-passes-twitter-to-become-2nd-largest-social-network/
(3) 1% of Google users with IPv6
http://g6.asso.fr/blog/2012/11/21/1-des-utilisateurs-de-google-en-ipv6/

traffic on the exchange point in Amsterdam (representative of a large part of European traffic) showed that IPv6 traffic had increased by almost three since June 2012 alone, representing 0.35% of overall traffic on the date of publication of the article. The same text mentioned that 1% of users accessing Google servers used IPv6 connectivity, a figure which is exponentially increasing: it stood at 4.6% for France (5.29% in early March 2013).

The persistent if not increasing importance of domain names in the functioning of the Internet is also evidenced by the build-up of attacks targeting the DNS. Security has never been so deeply rooted in Afnic minds and action plans as in 2012. The deployment of DNSsec is an example – often successful – of the leading role that can be played by national TLD Registries in adopting new technologies and new standards.

Faced with fast-changing uses and the growing level of danger in the Internet environment, domain names must increasingly demonstrate the "customer benefits" they provide. The future creation of hundreds of new top and second-level domain names is an answer to this problem, allowing the emergence of even more meaningful Internet addresses. But it also carries with it a complexity factor that will have to be managed in order not to distract users from the necessary and highly effective tool of domain names as a means of "addressing" content on the Internet.

CONTRASTING DEVELOPMENTS WORLDWIDE

In 2012 the market for domain names faced a certain degree of slowdown worldwide, with a growth rate of 9% on average, against 10% in 2011. The trends were also contrasted according to the nature of the name spaces, generic TLDs (*.com, .net*. etc.) suffering the most with

growth limited to 3.4% (10.8% in 2011). In fact, the geographic TLDs or ccTLDs "drove" the market the most with a 17% increase in the volume of stock. However, this performance masks a number of specific phenomena such as the build-up of the *.cn* TLD (China, +90%) after several years of severe "purges", the opening of certain TLDs such as *.pt* (Portugal, +28%) or the success of *.co* (Colombia, +25%) and .me (Montenegro, +14%) which achieved significant volumes by being marketed as gTLDs. Last but not least, the .tk TLD (Tokelau) reached 8 million domain names in 2012 because it is totally free.

These "special situations" bias the assessments that can be made of the actual dynamics of the different types of TLDs. If we exclude the *.tk* TLD, the average growth of ccTLDs is closer to 11%, against 15% for the *.fr* TLD.

THE FRENCH MARKET, REFLECTING INCREASED GLOBAL DYNAMICS

The same phenomena observed worldwide can be seen in France, but in an even more pronounced manner: the *.fr* TLD is growing strongly (+15%), recuperating market share from the other TLDs, including the .com, which lost more than 3% in volume.

According to estimates crossing data from the Afnic base with those of the ZookNIC Company, the market share of the *.fr* TLD amounted to 35.94% at December 31, 2012 against 32.3% one year earlier. Nevertheless, the TLD most filed in the country still seems to be *.com*, with 43% of domain names against 46% at year-end 2011. Third position is held by .net (7% market share), followed by the TLDs *.org, .eu, .info, .biz* and *.mobi*.

The dynamic growth of the *.fr* TLD since the end of 2011 can be explained in particular by several changes that took place during the period, including the opening of the extension

to Europe in December 2011, and the complete opening of domain names with accented characters from July 2012 onwards.

According to these same estimates, the total number of domain names registered in France under the *.fr* TLD and the major gTLDs reached more than 7 million in December 2012. In all, the *.fr* TLD increased by 320,000 domain names in 2012 and crossed the 2.5 millionth milestone for registrations, while *.com* lost 100,000 domain names over the same period.

## CHANGES IN DOMAIN NAME CREATION AND RENEWAL RATES

The pace of creation and the renewal rate are the two key metrics for assessing the health of an extension. The graph below shows the trend for the creation of domain names under the *.fr* TLD is clearly on the upside, even if it is subject to regular seasonal variations or affected by more macro-economic events such as the financial crisis. Afnic is all the more vigilant about this issue because of the close correlation between the number of new registrations and the number of start-ups.

The renewal rate for the *.fr* TLD seems to be following a downward trend compared with the levels for 2004-2006; this may be explained by several factors, including the opening to individuals in 2006, which has had a downward effect on the renewal rate (individuals give up their domain names more readily than companies). Since 2006, individuals have represented approximately 50% of the new registrations and 39% of holders at year-end 2012. The second visible factor in 2008-2010 was the economic crisis, which weighed heavily on budgets and encouraged companies and individuals to give up unused names. The graph shows, however, that the renewal rate has stabilized since 2011 at around 81%, a significant level compared with those indicated by Verisign for the .com and the *.net* gTLDs (of around 74%).

Change in the renewal rate for the *.fr* TLD (2008 - 2012)
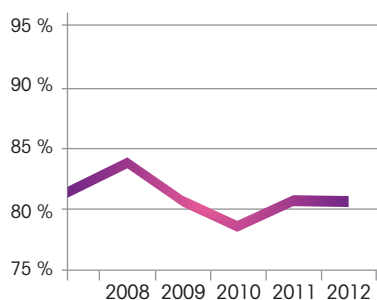
Change in the total number of domain names created with the *.fr* TLD (2008 - 2012)
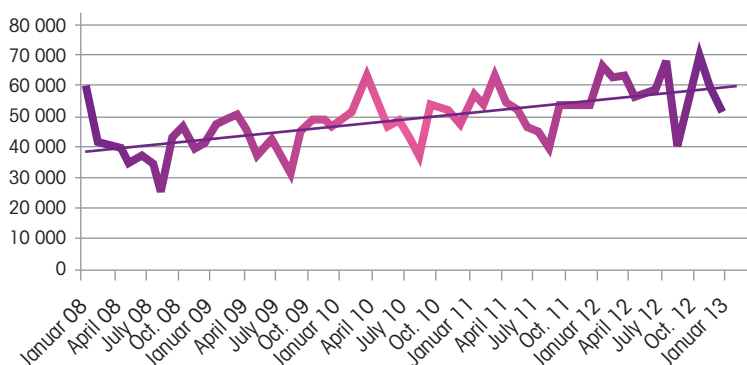
Afnic commits to develop the .fr TLD and the Internet.

When designated as the Registry for the .fr TLD on June 30, 2012, Afnic signed an Agreement with the State to formalize its commitments in the task involved.

The Association undertook to increase its efforts to develop the .fr TLD, notably through the development of a 5-year Strategic Plan which was submitted to the relevant Minister for approval, and a promotion budget corresponding to 10% of the Registry's turnover. Other scheduled actions include the launch before the end of 2013 of the possibility to register domain names with the .fr TLD for several years, and to register domain names consisting of one or two characters. In addition, the price for domain names under the .fr TLD proposed by Afnic, which is already 20% lower than the .com, will fall by at least 5% by the end of 2014. A survey carried out by TNS Sofres in 2012 helped lay the groundwork for the Strategic Plan.

Another set of commitments involves maintaining an optimal quality of service. This has resulted in the publication on the Afnic website of a monthly dashboard reporting on the achievement of quality objectives aligned with international best practices, as well as the 24/7 availability of technical and operational support staff, and an annual satisfaction survey for registrars on the quality of Afnic services. These three commitments were achieved in 2012.

A third category of commitments includes measures to ensure maximum levels of security and reliability. These include the development and implementation of a 5-year strategic plan to support the deployment of DNSsec, an annual budget of 8% of the Registry's turnover for the acquisition of hardware and software contributing to the security and stability of the .fr TLD, and the allocation of 10% of the Registry's turnover to research and development activities as well as experience-sharing at the international level.

Finally, Afnic has undertaken to set up a Support Fund for the Development of the Internet before the end of 2013, and to contribute 90% of the net profit generated by the .fr TLD to it each year. The total value of financing over the next five years is estimated to be as high as 8 million euros. The fund's governance will be independent, its purpose being to finance research initiatives focusing on the development of the Internet.

FSDI

The Support Fund for the Development of the Internet will receive an additional contribution of more than €1 million for the period from 1 July 2012 to 31 December 2013. The management and allocation of funds to candidates will be entrusted to an umbrella Foundation in accordance with the policy guidelines laid down by Afnic. The Fund's finances cannot be allocated to projects related to business sectors in which Afnic is involved.

Afnic is fully aware of the needs of rights holders, and has therefore also proposed to pay 150 euros (out of the total cost of 250 euros) to claimants using the SYRELI dispute resolution procedures if the ruling is in their favor. Before the end of September 2013, an additional dispute resolution procedure providing for the intervention of third parties will be set up by Afnic, in partnership with WIPO.

Afnic, the leading technical Registry operator in France for new gTLDs.

A PROCESS LIABLE TO RADICALLY CHANGE THE DOMAIN NAME MARKET

Entrusted by the U.S. government with the task of managing the DNS "root" system, ICANN announced in June 2008 in Paris its decision to launch an ambitious program to create new gTLDs. After several postponements, the call for applications process was finally launched in January 2012.

The official list of 1,930 applications received was published on June 13 and the classification order of priority was drawn by lots on December 17. Even taking into account the applications for the same terms, and any objections to some of them by private individuals or government authorities, we can reasonably anticipate the creation of a thousand new gTLDs in the two to three years to come. Now that the major milestones have been identified (end of the objection period, signing of contracts, pre-delegation testing, etc.), the actual launch of the first new gTLDs should take place around the third quarter of 2013. For many players, therefore, 2012 was a decisive moment in the preparation of their projects.

This phenomenon will lead to far-reaching changes in the domain name market, all the more so in that for the new gTLDs, ICANN has withdrawn the principle of "vertical separation" prohibiting registries from acting as

ACCREDITATION RANKING OF GTLD CUSTOMERS

The lowest number has the highest priority.

Processing order of Afnic gTLD customers in the ICANN process

.PARIS	200	.SNCF	1076
.BZH	204	.FROGANS	1209
.LANCASTER	617	.AQUARELLE	1686
.CANALPLUS	784	.LECLERC	1625
.OVH	827	.BANQUE	1850
.BOSTIK	869	.AQUITAINE	1840
.TOTAL	870	.MUTUALITE	1862
.ALSACE	1020	.MMA	1869
.CORSICA	1030		

registrars and vice versa. This means the cards are going to be redistributed among market players, creating a vital issue for ccTLD Registries as a result: they are going to have to keep up with the expansion of the generic extension market in order to benefit from the same economies of scale as their "gTLD" competitors and yet maintain international standard in terms of quality of service.

Based on that fact, since 2008 Afnic has focused on promoting its core business – that of a technical Registry operator. The results of this strategic policy option are obvious: with 17 clients, the Association is now the leading French player in the new gTLD segment.

THE CHANGES FOR AFNIC MEANT BY THE NEW TLDS

Afnic has developed an offer to support its gTLD customers both during the preparation of their applications and during the later stages, up to the technical delegation and the subsequent technical management of the TLDs. These developments will change the Association's business at several levels.

Transition to a "multi-Registry" system

While continuing to act responsibly as the Registry for the .fr TLD, Afnic will gradually expand its "portfolio" of TLDs, a change that will transform its information system and procedures while allowing the association to diversify its sources of revenue.

Alignment with international standards

Although Afnic's "new gTLD" customers today are all located in France, the working environment is that of ICANN. The standards set by ICANN contracts in terms of quality of service, security or process, are transformed de facto into international standards, which Afnic must satisfy and even exceed. A certain number of actions initiated as part of the commitments made with respect to the .fr TLD in the State/Afnic agreement support the measures taken for the gTLDs and vice-versa, the level of synergies between the assignments of the Registry and the activities of the technical Registry operator often being very high. The initiative involved in global risk management or the preparation of the re-design of the billing system are good examples of these synergies.

Adaptation of the structure and team

The Afnic team is regularly reinforced by the arrival of new talent, allowing the Association to absorb the additional workload caused by the new gTLDs, and prepare for the future. This partly explains the number of recruitments made in 2012, as well as the investments in hardware and infrastructure.

Customer diversification

Since its inception, Afnic had only one type of customer i.e. registrars, who file their domain names on behalf of their own customers. In 2012, this situation expanded with the arrival of customers backing gTLD projects, whose needs are different from those of registrars. The creation of "key account" managers is just one of the changes necessitated by Afnic's positioning on this new segment.

Overview one year after the start of registrar accreditation.

The Law of 22 March 2011 changed certain aspects of the legal framework for domain names in France: one of the changes introduced by the new system includes the requirement for the .*fr* Registry to accredit its registrars.

Afnic has set up an accreditation procedure and issued a practical guide for registrars. Launched at the end of 2011, the accreditation of registrars already active at the time of entry into effect of the law ended in the first half of 2012.

One of the expected consequences of this change has been a reduction in the number of registrars. Many "minor" players have preferred to become resellers for accredited bodies. The small volume of portfolios concerned has mitigated the impact in terms of concentration. At 31/12/2012, there were 504 registrars accredited by Afnic, against 697 on 31/12/2011. The top 10 registrars accounted for 77% of the domain names filed under the .*fr* TLD against 75% on 31/12/2011.

Change in the number of Afnic registrars (2004 - 2013)
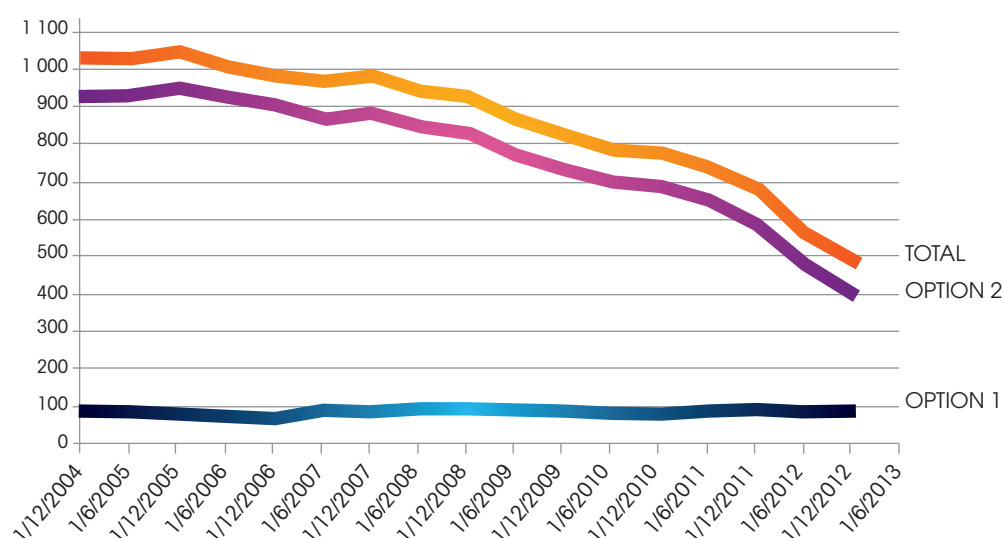
Accreditation criteria

The criteria registrars must meet to obtain accreditation are defined in French Decree no. 2011-926 of 1 August 2011. A registrar requesting accreditation by Afnic must demonstrate that it:

• Manages the principles and operating procedures for the Internet domain name system;

• Manages the equipment and technical rules needed to register domain names with the Registry;

• Has set up a verification procedure for identification data provided by domain name applicants so that it may answer any questions of the Registry;

• Has the required human and technical resources to ensure the updating of any administrative and technical data provided by domain name applicants for identification purposes;

• Has the required computer equipment and software to ensure the security of personal data provided by domain name applicants, and safeguards these data in compliance with the requirements of French Law 78-17 of 6 January 1978;

• can receive the public under suitable conditions.

Operational performance in line with increasingly high levels of requirement.

Through the State/Afnic agreement and the ICANN contract, Afnic's activity must meet increasingly high requirements in terms of quality of service. In turn, this major trend implies a far-reaching change in infrastructure and an improvement of the registration chain. The phenomenon is further accentuated by the development of the *.fr* TLD and the DNS activity it supports.

IMPROVING PERFORMANCE

The performance of the registration chain is measured by the availability rate for the creation of *.fr* domain names combined with the lead-time for processing those operations. Its development is a perfect illustration of the difficulties encountered and the progress made in 2012 in enhancing the chain and the infrastructures involved:

ON-GOING DEPLOYMENT OF THE ANYCAST NETWORK

The deployment program for the Anycast network continued in 2012 with the installation of a new node in London. The objective is to improve performance through greater proximity between *.fr* users and servers, as well as enhance the overall resilience of the TLD through increased redundancy of its DNS servers.

IPV6 OPERATIONAL UNDER THE *.FR* TLD

Recent measurements by Afnic (November 2012) show that 60% of *.fr* domain names are IPv6-compatible, an increase of 19 points compared with 2011. Based on the figures released by Google, France is one of the most advanced countries in terms of IPv6.

Q1	Q2	Q3	Q4	**Year**
96.2%	93.4%	89.9%	97.6%	**94.3%**

The rate was 98.4% in the first months of 2013.

Identifying, qualifying and managing global risks.

STRUCTURING GLOBAL RISK MANAGEMENT

2012 was marked by the significant development of attacks targeting the DNS, especially attacks by denial of service (DoS). As a Top-Level Domain Registry, Afnic is one of the players potentially threatened by the threat, which should not be underestimated. Global awareness has led to stricter requirements in terms of security.

These technical risks, however, are not the only hazards with which a Registry such as Afnic may be confronted. The activities of the Association were transformed in 2012 with its designation as the Registry for the *.fr* TLD and the filing of applications for new gTLDs (changing it from a "mono-Registry" to a "multi-Registry"). As a result, conventional registrars now coexist with the future holders of new gTLDs, linked by new types of contracts expressing new needs.

To ensure the development of its activities is sustainable and its objectives can be achieved, Afnic ensures the prevention and control of the risks to which it is exposed. In this respect, the Afnic Security Council is the structure for the coordination of and cooperation in all activities related to security.

ANALYTICAL APPROACH

In order to attain control of its global risks, in 2012 Afnic implemented an identification and analysis process of the main threats with which it may be confronted. By continually updating this repository, Afnic has deployed a risk management system designed to eliminate or reduce the probability of their occurrence and mitigate their impact.

The results of this global analysis were presented to the Board of Directors in September 2012. The objective is to address the risks identified as being the most critical and having the greatest impact on Afnic activities. Action plans have been defined and implemented as a result. Monitoring the action plans will be part of the regular global risk review by the Board of Directors.

CONSTANT VIGILANCE

Risk management requires a global approach and the increasingly detailed integration of all the existing and emerging vulnerabilities that can interfere with the proper operation of the structure. This integrated approach to the overall strategy of the company has become a major factor affecting all of the organizational principles, processes and practices used by Afnic. The Association's commitments also integrate the principles of organization, action

and transparency based on a security culture shared by its entire staff. These principles give rise to regular training and also integrate the management systems of the Association.
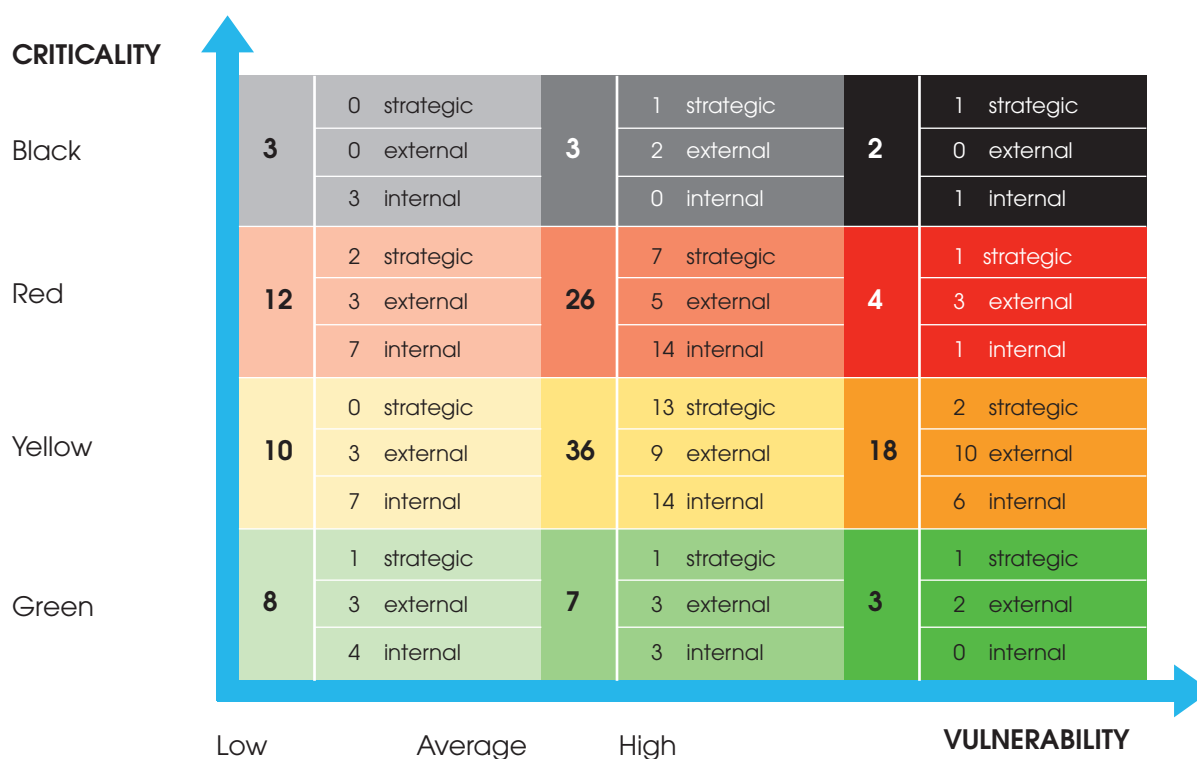
ANALYZING RISKS, DEPLOYING AN ACTION PLAN

Afnic has produced scenarii to be applied to each major risk, and set a timetable for action. Of the 132 risks currently identified, ten of the most critical ones will be addressed in 2013.

THE APPROACH

Risk mapping was performed with the following objectives:

• Identify all risks according to their impact on and occurrences in the strategic objectives of Afnic,
• Measure the importance of these risks in order to define possible action plans to reduce or control them,
• Develop a graphical representation of the risks according to their impact on Afnic activity,
• Give impetus to a process of organized risk management,

Typology and distribution of identified risks

CRITICALITY						
Black	3	0 strategic / 0 external / 3 internal	3	1 strategic / 2 external / 0 internal	2	1 strategic / 0 external / 1 internal
Red	12	2 strategic / 3 external / 7 internal	26	7 strategic / 5 external / 14 internal	4	1 strategic / 3 external / 1 internal
Yellow	10	0 strategic / 3 external / 7 internal	36	13 strategic / 9 external / 14 internal	18	2 strategic / 10 external / 6 internal
Green	8	1 strategic / 3 external / 4 internal	7	1 strategic / 3 external / 3 internal	3	1 strategic / 2 external / 0 internal

Low   Average   High   **VULNERABILITY**

• Encourage the development of internal control reporting,
• Encourage communication around business risks for the sake of clarity for shareholders and the authorities.

This groundwork has helped determine the processes on which a global vision of Afnic activity can be based, and accurately identify the risks associated with our strategic objectives.

The risks have been analyzed from five points of view in particular:

• Strategic risks,
• Financial risks,
• Operational risks (internal fraud, external fraud, system security, customers, products and business practices, damage to tangible assets, business and system malfunctions, process deployment, delivery and management, employment practices),
• Compliance and reputation risks (legal and regulatory issues, risks of administrative, judicial, disciplinary sanctions, reputational risks, ethical risks),
• Exogenous risks (hacking, malicious acts, etc.).

Examples of risks included in the global risk repository

STRATEGIC RISKS	OPERATIONAL RISKS	EXOGENOUS RISKS
• Change in regulations • Change in competitive environment • Loss of a partnership	• Supplier / sub-contractor deficiency • Loss / failure of an information system • Loss of key personnel • Strike • Contractual commitments not met • Unavailability of basic services • Etc.	• Competition • Terrorism / external malicious acts • Hacking • Etc.

REPUTATIONAL RISKS	FINANCIAL RISKS
• Deficient media management of a crisis • Denigration • Non-compliance with ethical rules • Complaint against an executive	• Malfunction of an administrative or financial process • Deficiency of a partner • Fraud • Lack of governance • Etc.

Because it is central to Afnic's line of business, the Association's information system required more in-depth analysis: all of the conventional issues involved in the audit of information systems have been covered.

AFNIC SECURITY COUNCIL

Risk management requires the establishment of a governance and supervisory structure. The Afnic Security Council validates and supervises the means implemented by Afnic to achieve its strategic security objectives:

• Resilience of its systems,
• Scalability / responsiveness to security incidents,
• Integrity of Registry data,
• Availability of the registration chain,
• Confidential treatment and non-commercial use of personal data,
• Physical security of the premises.

The Security Council meets regularly, issues recommendations after incidents, checks the efficiency of the organization and the systems used with respect to security.

Actions implemented in 2012 - Operational schedule for 2012

May - June
• Approval by Executive Management of the global risk analysis process,
• Presentation to the trustee appointed by the Board of Directors,
• Implementation of the control structure,
• Scheduling of scoping meetings,
- Executive Management,
- Security department,
- Business Lines: all of the business lines must take part in this process. It seems necessary, however, to define an order

that is best suited to the responsibilities and constraints involved,
• Organization of the general questionnaire informing staff of the process and the organization of meetings,
• Scheduling of analysis meetings with all of the participants.

July
• Preparation of briefs,
• Organization of action plans per business line,
• Preparation of internal and external communication.

September
• Finalization and identification of priorities and presentation to the Board of Directors,
• Launch of essential actions for the fourth quarter of 2012. Mainly the immediate reduction of risks considered to be major.

November
• Inclusion in the 2013 action plan.

2012, *laying the foundations of common tools for a secure and stable Internet.*

HIGH-LEVEL R&D, IN TOUCH WITH OUR ENVIRONMENT

The Afnic R&D team is involved in many fields. It monitors technological developments of the Internet, contributes to the work of international bodies and carries out various programs designed to share team expertise.

Technology Backdrop Survey: a glimpse into the future

The results of the second "Technology backdrop" survey were published in October 2012. Overseen by the Afnic Scientific Council and carried out by the INIT Company, the survey sought to find a common vision of technology trends. Based on forecasts made by Internet professionals and users, the survey indicates in particular that over the next ten years media such as tablets, smartphones and TV will definitely take precedence over desktops or phones for Internet access.

Create standards for measuring the resilience of the Internet – the Internet resilience observatory in France

Published jointly by Afnic and ANSSI in June 2012, the report aims to provide a number of indicators – from the Border Gateway Protocol (BGP) and DNS points of view – and to make an initial assessment of the level of resilience of the French Internet. The initial results obtai-

ned underlined the fact that the French Internet is well placed in terms of resilience. Afnic's approach is inspired by the four years of the Swedish model, plus the results of the association's own experience. Ultimately, Afnic's objective is to allow the entire community to measure the resilience of the Internet on the same basis and the same criteria.

A new standard for the Internet of Things

The result of international cooperation in which GS1 France and Afnic played a leading role, the new version 2.0 of the ONS standard (Object Name Service), also known as the Federated ONS, was ratified and then published in December 2012. GS1 France and Afnic wish to continue their efforts to support the ecosystem of the Internet of Things in adopting the ONS. Access to additional product information ("Extended Packaging"), identifying a product's origin and enhancing its traceability, fighting against counterfeiting or organizing product recall are a few examples of the use of ONS in logistics and the supply chain. The ONS standard is helping the emergence of a new generation of services for consumers and businesses.

The selection and monitoring of Afnic R&D projects

One of the underlying principles of Afnic R&D, laid down as of its inception in 2007, is that its objectives must be in line with Afnic

An association open to the world

Afnic is involved in the work of many international organizations on a wide range of issues including:

• The governance of the Internet (ICANN, CENTR, Forum for Internet Governance, etc.),
• The drafting of technical standards and protocols: IETF ("Internet Engineering Task Force"). Afnic was a partner in its 83rd Congress in Paris from 25 to 30 March 2012,
• The management of IP services (European IP networks (RIPE),
• The management of problems and incidents related to the security and stability of the DNS (DNS-OARC).

Afnic also supports:

• The New Generation Internet Foundation (FING), which helps companies, institutions and local authorities anticipate changes related to technologies and their uses,
• The Internet Society (ISOC), whose role is to promote the development, evolution and use of the Internet for the benefit of all people throughout the world,
• The development of the BIND software used by most of the DNS servers.

strategy and resources as defined during the preparation of the annual budget, with multi-year forecasts for projects lasting more than one year.

The typical life cycle of an innovative project usually starts with the production of ideas. At Afnic, this process starts informally first of all with continuous input by electronic means to a shared suggestion box. The suggestion box is periodically consolidated, especially during so-called "brainstorming" meetings to which all the stakeholders in innovation (R&D, Marketing, Operations, etc.) are invited, and ideas for potential innovations are identified. A pre-selection of ideas is then made based on an initial set of criteria (strategic, market, feasibility, budget, etc.), which are then submitted to in-house evaluation and arbitration by an executive committee, in line with the exercises for developing Afnic strategy, action plans and annual budgets.

The annual R&D action plan resulting from this process is then presented to the Afnic Scientific Council before being approved and endorsed by Afnic executive management and the Board of Directors as part of the annual action plan.

Once a project has been launched, throughout its life cycle, a progress report is regularly produced in-house, in the course of periodic reviews of the action plan and during meetings of the Scientific Council. These regular assessments allow the R&D team to continue, modify, or if appropriate, abandon projects with good reason in each case.

Finally, each completed project is subject to a detailed assessment, with particular emphasis on its actual spin-off and possible knowledge transfer thereafter.

THE AFNIC INTERNATIONAL COLLEGE, A VECTOR FOR CO-DEVELOPMENT

Backed by a non-recurring contribution from the French Ministry of Foreign and European Affairs, in 2012 the International College Fund provided €200,000 of support for projects designed to:

• Reinforce the Internet infrastructure in Africa through the development of academic interconnection networks,
• Improve marketing, promotion and distribution practices for domain names and related services,
• Strengthen the resilience of the African Internet by helping African Registries to benefit from the Anycast service operated by AFRI-NIC (the Africa Network Information Center) allowing them to improve the resolution of domain names,
• Strengthen the operational capacity of staff working in African registries,
• Finance individual support grants so that African staff can participate in important events for the governance of the Internet.

For recipients that resulted in:

• Capacity building,
• 3 training courses under the auspices of the AFTLD with the support of the NSRC in Ouagadougou (Burkina Faso), Livingston (Zambia), and the AFTLD in Khartoum (Sudan),
• 1 Information Society training course in Brazzaville, Congo,
• 10 Fellowship grants to take part in Internet events: 2 for ICANN44 (Prague) and ICANN45 (Toronto), 6 for EuroSSIG (European Summer School on Internet Governance, in Meissen, Germany) and 2 to train ccTLDs on communication.6 grants for EURO-SSIG training (European Summer School on Internet Governance) in Meissen (Germany), 2 for SDLI training (Congo),
• Support for the development of national networks dedicated to technology, teaching and research,
• iRENALA, Madagascar,
• RITER, Côte d'Ivoire,
• Strengthening the resilience and quality of service of the Internet in West Africa,
• Implementation of 2 Anycast nodes for the cloud of the L server of the Internet root,
• Implementation of an Anycast node for the DNS server for the .ci TLD (November 2012).

Managing the International College Fund

An integral part of the Afnic program, the Fund is administered and managed by the Fund committee and the Fund director. The Fund committee is the decision-making body that oversees the Afnic International College Fund, both in terms of strategic policy options and in the allocation of subsidies.

The composition of the Fund Committee is as follows:

• The president of the Afnic International College Fund;
• The Afnic CEO;
• The director of the Fund;

• Two members of the International College, appointed by the president of the International College for a term of three years.

The director of the Fund is appointed by the president of the Afnic International College further to a proposal by the Afnic CEO. The director of the Fund and his/her team manage the Fund of the Afnic International College on a daily basis and implement the decisions of the Fund committee. They are the "main contacts for project managers."

The Fund committee and director may be assisted by independent experts selected on the basis of criteria established by the committee. They are responsible for providing advice on the technical quality of the projects received and their relevance in terms of achieving the Fund's objectives, based on a set of criteria approved by the committee. The details of the matrix are available online (1).

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(1) Guide for Proposers: http://www.afnic.fr/medias/documents/College_International/Fonds_du_College/FCI2013/afnic-fonds-ci-guide-proposant-2013.pdf

Recruiting the talents required for the strategic redeployment of Afnic.

## A FAST-GROWING TEAM BONDED BY AFNIC VALUES

Afnic developments have led the Association to work on different areas in Human Resources, such as policies for recruitment, training, skills management, and actions designed to promote employee development. One policy focuses on change management, through a redefinition of the Association's values as well as a number of actions designed to inform the team about the overall strategy in order to strengthen internal cohesion. Satisfaction surveys have been carried out with employees and a "team building" seminar was held in November. Similarly, employees have been closely associated with the process of choosing the location of the future premises of Afnic.

2012, A LANDMARK YEAR IN TERMS OF RECRUITMENT

To meet the needs resulting from its new activities, Afnic hired ten new recruits with various technical, legal and administrative profiles. 10 other recruits are already on the agenda for 2013. These new recruits were given an induction to ensure they joined the team under optimal conditions. Special efforts were also made to facilitate the flow of information in-house and to ensure each employee has a good understanding of his/her role within the team.

Development in the number of employees (including fixed-term contracts and cooperative training)

- Arrivals
- Departures
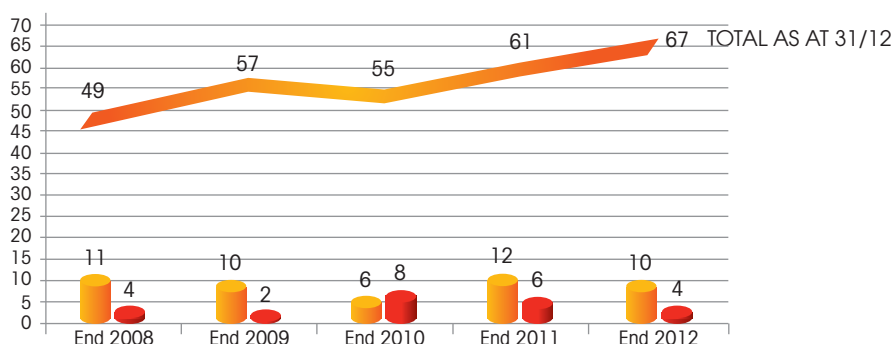
Afnic values

- Constant acting every day with integrity,
- Using our skills to serve the Internet community,
- Making people the focus for our work,
- Forming a team to help achieve a common good: the Internet,
- Facing change with determination and resolve.

SETTING-UP A TIME SAVINGS ACCOUNT

The introduction of a time savings account now allows employees to accrue paid leave or receive compensation, immediate or deferred, in return for periods of leave or rest not taken.

SIGNING OF THE NEW WAGE AGREEMENT

As part of the Compulsory Annual Negotiations, a new wage agreement was signed in December (effective in 2013) essentially setting up a bonus objective system for all employees.
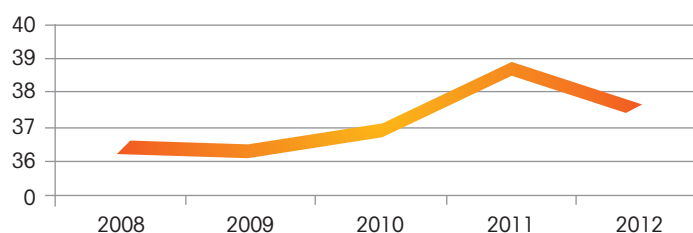
TRAINING, AN ASSET FOR AFNIC PERFORMANCE AND THAT OF ITS EMPLOYEES

Afnic considers training to be a major focus for its policy of Human Resource management. Each year the Association spends more than 3% of its payroll on continuing vocational training programs.
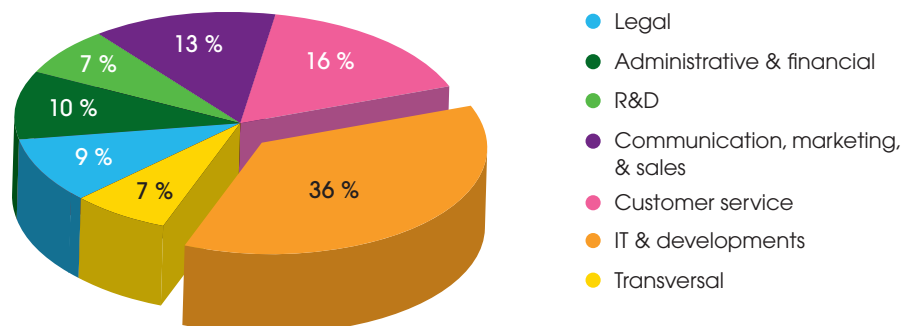
Afnic applies an ambitious training policy in line with its strategy, with developments in domain name services and with technology. The policy is also designed to develop the skills of Afnic employees and promote their employability.
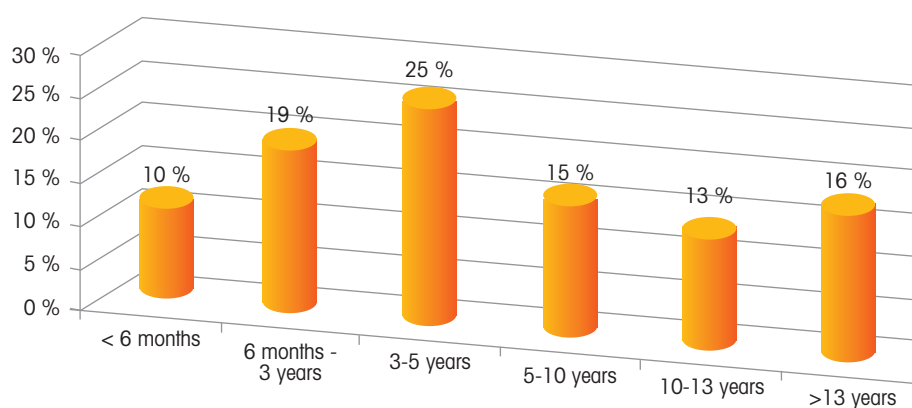
TEAM FACTS AND FIGURES

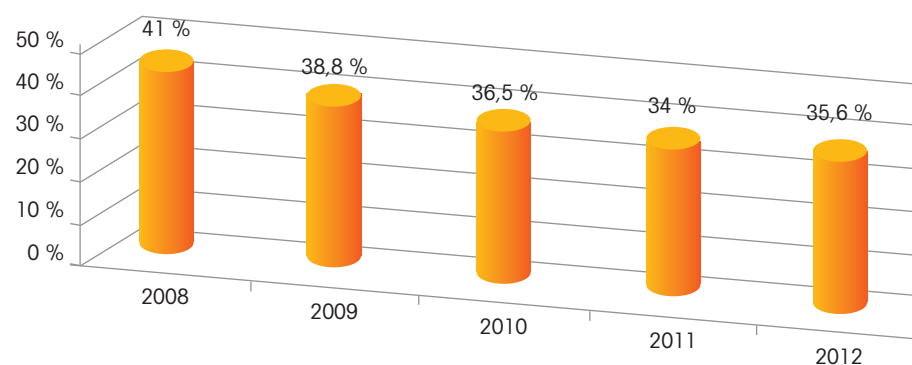**Average age of employees as at 31/12/2012**

Distribution per busines line/activity

- Legal
- Administrative & financial
- R&D
- Communication, marketing, & sales
- Customer service
- IT & developments
- Transversal

Distribution of employees by seniority as at 31/12/2012

Category	Percentage
< 6 months	10 %
6 months - 3 years	19 %
3-5 years	25 %
5-10 years	15 %
10-13 years	13 %
>13 years	16 %

Percentage of women in headcount as at 31/12/2012

Year	Percentage
2008	41 %
2009	38,8 %
2010	36,5 %
2011	34 %
2012	35,6 %

More services focusing on customer satisfaction, a priority for Afnic.

In order to satisfy the needs of its customers and the Internet community, Afnic continued its efforts in 2012 to expand or qualitatively improve its range of services. This strategy was materialized by the extension of opening hours for the helpdesk or the implementation of the SYRELI dispute resolution procedure (opened in November 2011). A new satisfaction survey with accredited registrars has confirmed their high level of satisfaction.

AFNIC'S HELPDESK IS NOW AVAILABLE 24/7

The transformation of the customer service initiated in 2011 continued in 2012 with the set-up of a telephone helpdesk open 24/7. The bilingual service is available in French and English, and provides advice and expertise regardless of the location of callers. The extension of the service's opening hours responds to the commitment made by Afnic as the Registry for the *.fr* TLD.
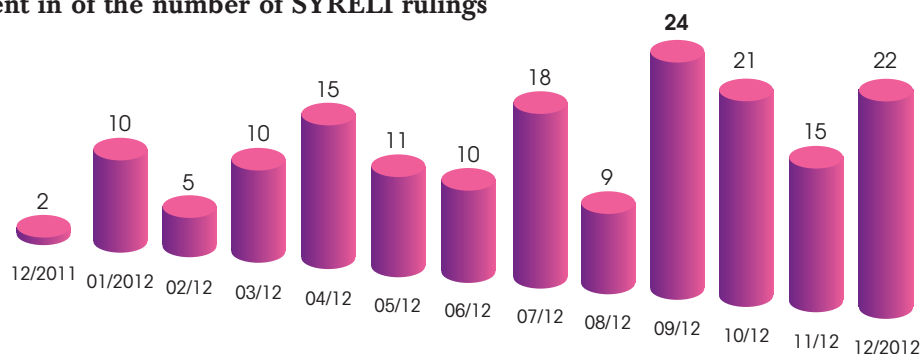
SYRELI: RESULTS AFTER ONE YEAR OF EXISTENCE

The platform implementing the Syreli dispute resolution procedure opened on November 21, 2011. It applies both to the *.fr* TLD and to the other top-level domains managed by Afnic (Mayotte, Reunion, Saint Pierre and Miquelon, the French Southern and Antarctic Territories, Wallis and Futuna).

At the end of its first year of existence, 157 SYRELI claims had been filed, and 138 decisions had been handed down by Afnic. There has been a gradual acceleration in its use, with values approaching or exceeding twenty rulings per month since the summer of 2012. This trend shows that an increasing number of

Development in of the number of SYRELI rulings

12/2011	01/2012	02/12	03/12	04/12	05/12	06/12	07/12	08/12	09/12	10/12	11/12	12/2012
2	10	5	10	15	11	10	18	9	24	21	15	22

rights holders know about the procedure and do not hesitate to use it.

Claimants request the transfer of the domain name in question in most cases (93%); only 7% of them request the deletion of the name without any transfer. After the SYRELI procedure, two-thirds of the claimants' motions were accepted by the Afnic College, the other third being refused.

SCOPE, A NEW SOURCE OF INFORMATION ABOUT SYRELI

Since October 2012, Afnic has provided its customers with a new statistics graphics support. Accessible on the Afnic website (under the "Dispute resolution" heading), the purpose of Scope on SYRELI is to summarize the procedure's data and disseminate them as widely as possible.
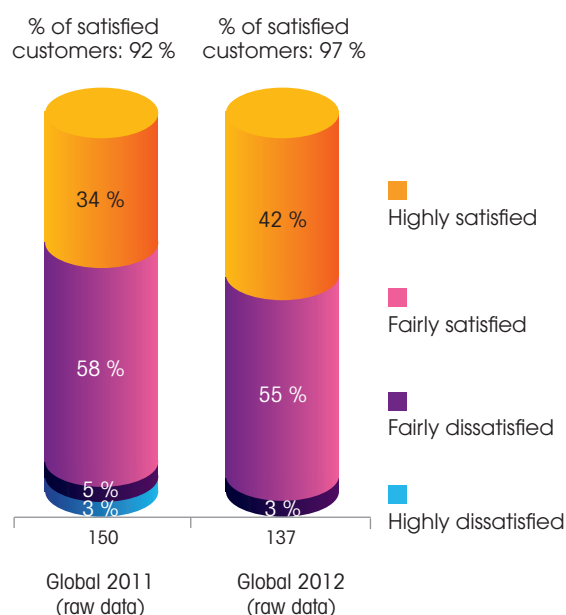
REGISTRAR SATISFACTION INDEX STILL VERY HIGH

As every year, in 2012 Afnic conducted an extensive survey of its registrars in order to know their expectations and their assessment of the quality of its services.
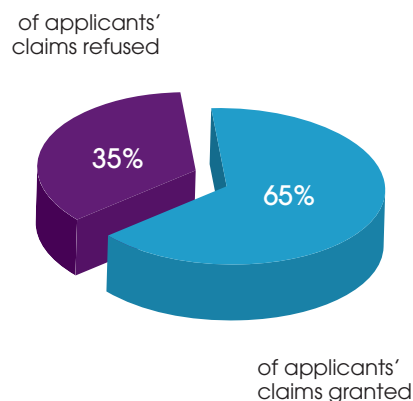Carried out by the INIT company, the 2012 survey indicates a particularly high level of satisfaction of 97% (against a median of 90% in the business services sector), an increase of 5 percentage points compared with 2011. This performance is largely due to a two-sided effort, on the one hand to expand the range of services, and on the other to continuously improve the quality of the existing services. It also illustrates the very positive impact of the establishment in 2011 of customer relationship managers, who are highly popular among registrars because of the greater proximity they represent.
The main expectations identified in 2012 relate to the management procedures used to deploy DNSsec, the ease of finding information on website and the procedures involving email validation of the registrar and/or holder.

What is your overall level of satisfaction with Afnic?

% of satisfied customers: 92 %

% of satisfied customers: 97 %

	Global 2011	Global 2012
Highly satisfied	34 %	42 %
Fairly satisfied	58 %	55 %
Fairly dissatisfied	5 %	3 %
Highly dissatisfied	3 %	

150 Global 2011 (raw data)

137 Global 2012 (raw data)

Breakdown of decisions based on the outcome of the SYRELI procedure

of applicants' claims refused

35%

65%

of applicants' claims granted

Afnic adopts accounting resources for its new business model.

RESPONSIBLE MANAGEMENT

Afnic has always managed its resources taking the least possible risk. The creation of a "Reserve fund" designed to represent one year of payroll and occupancy costs is part of that sound and prudent approach to manage the funds entrusted to the Association through the operation of the *.fr* TLD.

The level of cash reserves reached today reflects the results of this management strategy. It provides Afnic with the financial means to take whatever action is required to satisfy the commitments it has undertaken as part of its assignments as the Registry for the *.fr* TLD, and the policy options it has adopted in order to respond to the changes in its environment.

WHAT CHANGED IN 2012

Two parameters in 2012 fundamentally changed the way in which Afnic manages its resources: the Implementation of a new cost accounting system to clearly identify the flows related to the *.fr* TLD on the one hand, and secondly the commitment to contribute 90% of net income generated by *.fr* business to the Support Fund for the Development of the Internet.

It is preferable to precisely isolate the financial flows (resources, expenditures, investments) related to the activity of a registry under a specific mandate entrusted by the State, from the financial flows generated by the other activities of the Association, including the new gTLDs in particular.

The changes came into effect on July 1, 2012, after Afnic was designated as the Registry for the *.fr* TLD on June 30. The 2012 financial period is therefore special in that it comprises a first half-year under the old framework, and a second half under the new context defined by the State/Afnic agreement.

COST ACCOUNTING: PRINCIPLES AND METHODOLOGY

The cost accounting system implemented is designed to establish an income statement for each family of TLDs as defined above, recounting the revenues and expenses allocated to it. An analytical section corresponds to each of the three categories of families of TLDs (*.fr*, overseas TLDs, gTLDs).

Allocation principles

The allocation technique consists in establishing:
• The causal relationship between costs incurred directly (costs directly attributable

to a single TLD) or which are common (transverse costs involving at least two TLDs), and a TLD,
• The causal relationship between direct and common income, and a TLD.

Direct income and expenses (except income taxes and profit-sharing) are the income and expenditure directly attributable to a TLD. They are recorded in the analytical section of the relevant TLD or family of TLDs previously defined.

Allocation keys for common income and expenditure recognized in analytical cross-sections

For common income and expenditure, the causal relationship is not linked to a lone TLD. For this reason, allocation keys are identified and assigned to the identified cross-sections.

Since Afnic's activity consists in managing domain names regardless of the TLD involved, the allocation key according to the size of the portfolio of domain names can be used to fairly assess the share of Afnic resources used by each TLD. For the TLDs already open for registration, i.e. the .fr TLD and the Overseas TLDs, the number of domain names managed at the end of the financial period (31 December of year N) seems to be the allocation key which most accurately represents the Association's activity.
For the TLDs that are not yet open for registration, however, the key cannot refer to the number of domains managed, and a 3-year estimated cost is therefore used. This is because a great deal of the work involved in redesigning the information systems and various change support costs incurred by Afnic since mid-2012 will eventually be applied to TLDs other than those currently managed by Afnic.

The main principles of the cost accounting system are therefore as follows:

• The allocation key chosen between the different TLDs open and managed by Afnic (.fr TLD and the Overseas TLDs) is the number of domain names at 31/12/N, preferably in sales or time spent;
• A 3-year estimated cost for domain names is preferred for "preparing for the future" costs, also covering the TLDs not yet open (gTLDs);
• The figures used are based either on Afnic data as provided in its applications to calls for tender for the selection of Registries or on the statistics provided by Afnic's various gTLD customers in applications submitted to ICANN (Q48a);
• Costs common to all the TLDs managed by Afnic are allocated according to a composite key based on the time spent by employees on each of the categories, payroll being the main cost in the Afnic income statement.

CONTRIBUTION TO THE SUPPORT FUND FOR THE DEVELOPMENT OF THE INTERNET: MECHANISMS AND FORECASTS

The agreement between the State and Afnic was signed on 9 July 2012. The agreement provides for financial obligations, including the transfer of part of the earnings from the .fr TLD to the Support Fund for the Development of the Internet.
On April 18, 2013 the Board of Directors adopted the methodological note that will be used to determine the earnings of the .fr TLD. The Agreement having been signed July 9, 2012, the analysis of financial obligations was carried out from July 1, 2012 to 31 December 2012, and not by reference to half of the annual results for 2012. In this way, for the period of 1 July 2012 to 31 December 2012, the amount of the transfer to the Support Fund for

the Development of the Internet, recognized as an expense and deducted for tax purposes, amounted to €165,238.

Aggregated with the earnings for the 2013 financial period, the sum will be paid at the end of the 2013 fiscal year to the FSDI account, held by a foundation recognized to be of public interest.

COMMENTS ON THE 2012 FINANCIAL STATEMENTS

A strong upswing of growth in turnover

While growth in net turnover has tended to decrease in certain years, the 2012 financial period was marked by a strong upswing in sales revenue to over €13m, i.e. an increase of 20.3%. This growth can be explained by two combined factors:
• The drive of the *.fr* TLD, with some 15% growth in the number of domain names managed, due in particular to the opening of the *.fr* TLD to holders throughout Europe, and to a lesser extent by the opening of IDNs in July 2012;
• The contribution of gTLDs (corresponding to the filing of 17 applications for which we are the technical operators)
It is worth noting that the decrease in registrar fees forecast due to the implementation of accreditation under the *.fr* TLD, has resulted as expected in a drop of 17% in the related income.

Growth in costs on line with the budget voted by the Board of Directors

On a like-for-like basis, i.e. excluding the FSDI, operating expenses totaled more than €11.25m, up 14.8% compared with 2011. This increase is consistent with the budget approved by the Board of Directors €11.2 million). It is due to:

• The growth in wages and salaries (14.45%), reflecting the increase in the size of 63.4 full-time equivalent jobs in 2012 against 56.5 in 2011;
• A high level of use of outside services for IT projects and developments, as well as change management (gTLDs, Next);
• The increase in costs related to Datacenter hosting. Due to the timing of the acquisitions (concentrated in the last quarter), the effect on depreciation expenses was not very significant in 2012.

For the second half, most of the commitments of the State Afnic Agreement were held

The State/Afnic agreement lists the commitments for Afnic, some of which can be verified in the financial statements.
For the second half of 2012, these commitments were met for:
• R&D and transfer actions (12.7% of turnover from the *.fr* TLD for the half-year, for a target of 10%)
• Investments in the security of the *.fr* TLD (18% of turnover from the *.fr* TLD, for a target of 8%).
• Training costs (4.3% of payroll for a target of 3%).
• The transfer of 10% of profit, within the meaning of the Agreement, to the precautionary reserve.

In general, all discrepancies, whether up or down, between Afnic's commitments and their implementation in the financial statements will be smoothed during the term of the Agreement.

Finally, the amount payable to the future FSDI under the State/Afnic Agreement was €165,000k. The amount is linked to the seasonality of Afnic sales, which are increasingly important in the first half.

*gTLD business has accelerated with
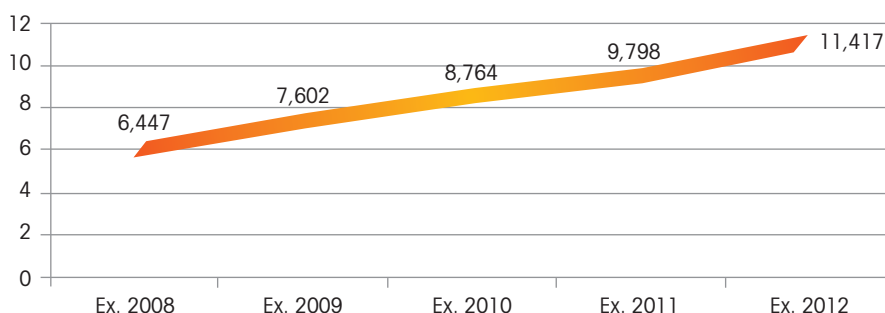the filing of applications*

Net income for the year rose sharply to €1.1 million (€1.3 million before FSDI) against €770,000k in 2011. This profit before FSDI represents just under 10% of sales against 7.1% in 2011 and 8.1% in 2010. Thanks to this positive result, the reserves of the Association remain above the management objective. This sound situation is needed in order to prepare Afnic for the far-reaching changes to come in its business model, including the transfer of most of the income from the *.fr* TLD to the FSDI on the one hand, and the continued investment in gTLDs on the other, since their wide-scale launch will probably not take place before 2014.
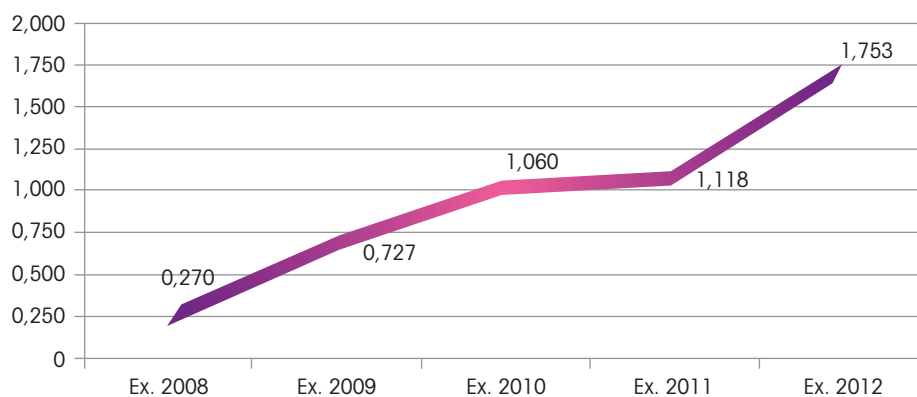
Change in operating income (€ million)

	Ex. 2008	Ex. 2009	Ex. 2010	Ex. 2011	Ex. 2012
	6,717	8,329	9,823	10,916	13,17
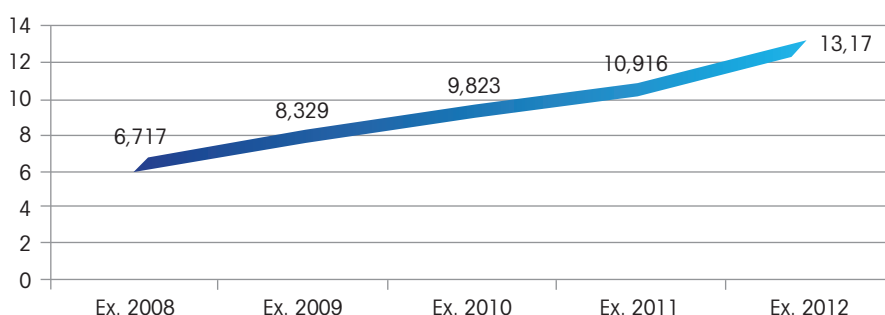
Change in operating expenses (€ million)

	Ex. 2008	Ex. 2009	Ex. 2010	Ex. 2011	Ex. 2012
	6,447	7,602	8,764	9,798	11,417

Change in operating profit (€ million)

Structure of Afnic resources in 2012

26,8 %
60,5 %
8,9 %
3,1 %
0,7 %

Reminder 2011

27,9 %
62 %
5,2 %
4,4 %
0,6 %

- Membership/ fait fees
- Creations
- Maintenance
- Miscellaneous
- Subsides for projects
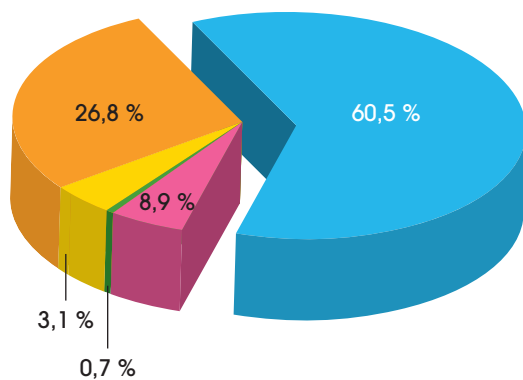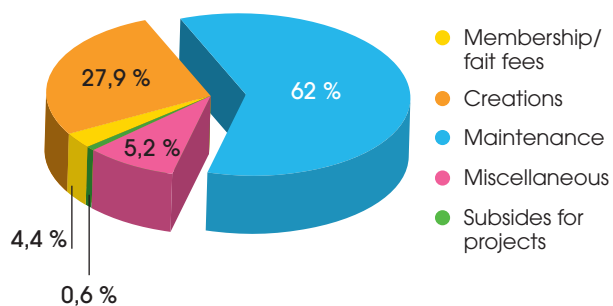
Change in intangible and tangible assets in € thousand
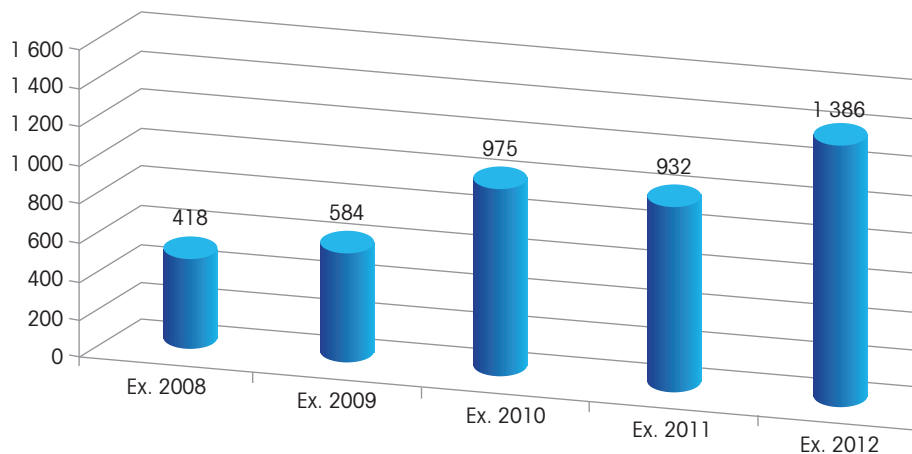
Financial report.

SIMPLIFIED BALANCE SHEET

In € thousand	31/12/2012	31/12/2011
	Net	Net
ASSETS		
Intangible assets	549	451
Tangible assets	1 305	885
Financial assets	123	93
NON-CURRENT ASSETS	**1 978**	**1 429**
Trade receivables	12 573	10 157
CURRENT ASSETS	**12 573**	**10 157**
TOTAL ASSETS	**14 551**	**11 586**
LIABILITIES		
Equity	5 692	4 923
Year-end results	1 108	770
Other association funds	332	281
ASSOCIATION FUNDS	**7 132**	**5 973**
PROVISIONS	**47**	
DEBT	**7 371**	**5 613**
TOTAL LIABILITIES	**14 551**	**11 586**

SIMPLIFIED INCOME STATEMENT

In € thousand	31/12/2012	31/12/2011
Turnover	13 034	10 832
Other income	136	84
Operating income	**13 170**	**10 916**
Other purchases and external expenses	4 383	3 744
Duties, taxes and similar payments	390	312
Salaries, wages and payroll taxes	5 588	4 888
Other expenses including depreciation	1 056	854
Operating expenses	**11 417**	**9 798**
Operating profit	**1 753**	**1 118**
Financial income	204	148
Financial expenses	0	0
Net financial income	**204**	**148**
Income before taxes	**1 957**	**1 266**
Extraordinary income	113	135
Extraordinary expenses	211	251
Extraordinary profit or loss	**-98**	**-117**
Employee profit-sharing	194	111
Income tax	557	267
Profit or loss	**1 108**	**770**

Forward planning: Afnic's Role in the coming years.

OVERVIEW OF OBJECTIVES FOR 2013

For Afnic, 2012 was a year in which we confirmed our status as a Registry, and asserted our new policy options. 2013 promises to be a period in which these initial results will be born out.

Firstly, this will be through the implementation of the various commitments of the State/Afnic Agreement, which provides for the installation of a second Datacenter this year, as well as through our security accreditation, a more important role for the Association in the deployment of DNSsec in France, the opening of registrations of domain names with two characters, and finally with multi-year domain name registration.

The development of the *.fr* TLD (implementation of the marketing plan presented for approval to the Board of Directors) and the creation of the Support Fund for the development of the Internet are among the key objectives for Afnic in 2013.

Strong support for customers backing new gTLD projects should result in 2013 in the insertion of at least one of these new gTLDs into the root managed by ICANN.

Mathieu Weill
Afnic CEO

Finally, the reduction in global risk is one of the major aims of the Association this year, which is part of a long-term policy, as are our actions in terms of quality and continuous improvement.

MARKET TRENDS

The opening of the new gTLDs is the major unknown factor in the medium term as far as forecasts about the development of the domain name market are concerned.

In all likelihood, however, its impact will be moderate in 2013, since most of the TLDs will be inserted into the root from the summer onwards at the earliest, and the first commercial launches will not take place before the end of the year.

We can expect, however, that the cards will continue to be shuffled by stakeholders wishing to position themselves to take advantage of the explosion expected in 2014.

Security issues in turn should continue to grow, making the approach developed by Afnic all the more necessary.

As far as we can tell, the strategy defined and implemented today is allowing the Association to make the most of the business opportunities that occur, our approach being based as ever on our responsibility with respect to the State, to our customers and to the Internet community in general.

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Design and layout: Semiostyle

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