

"Openings"
2014 Annual Report

June 2015

afnic

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1. Editorial



*Mr. Emmanuel Sartorius
Afnic President*

For Afnic, openings are both a virtue and a necessity. The Internet we promote with our association is meant to be open and transparent, meaning we are open to innovation, to our customers and partners, and in our governance.

In many ways 2014 was a year of opening, in every sense of the term.

- *Opening of the new .frogans, .ovh, .paris and .bzh namespaces, which are now part of the French Internet landscape, and illustrate Afnic's position as the leading technical registry operator in our country;*
- *Opening of the registration of domain names with 1 & 2 characters under the .fr TLD, thereby eliminating the last restrictions on registration under the French ccTLD;*
- *Opening of discussions to transition oversight of the domain name root system, and organization at the national level of discussions on Internet Governance;*
- *Moving to new, more open, more transparent premises, where we can finally welcome our clients and members properly;*
- *Opening of services to members, to revitalize membership;*
- *Opening of new services, such as the launch of Afnic Conseil, which presents a range of analytical services and technical and marketing expertise on domain names;*
- *Opening of discussions with the Fondation de France for the creation of the Afnic Foundation for Digital Solidarity.*

These are just a few examples of the vast workload undertaken by Afnic in 2014. Our association has also established a new organization to improve the promotion of our skills, our agility, closeness to customers, and the working conditions for the careers and professional fulfilment of our 80 employees.

The domain name market has now reached maturity. With the double-digit growth of the boom years now behind us, we are in the middle of a period of consolidation.

The .fr TLD is no exception to that fact, even though its growth rate of 5% in 2014 is still more dynamic than that of the overall French domain name market (4.9%) and the European average (2.2%).

Just as the Afnic Foundation for Digital Solidarity is being set up, via which the profits from managing the .fr namespace will be used to finance mutually supportive Internet projects in France, it is

important that the momentum of the .fr TLD be maintained. That is why Afnic launched a wide-scale promotional campaign in 2014 entitled réussir-en.fr ("Succeed with the .fr TLD"), reduced its .fr fees by 5%, and geared up to maintain the expansion of the French ccTLD.

At our side, the new French namespaces, whether for geographical or corporate use, will enhance the coherence of the fast-changing French Internet landscape, a market sector in which Afnic intends to be one of the key players for the benefit of the French Internet community as a whole.

2. 2014 Highlights

2.1. February

- Signature of the registry agreements between ICANN and the City of Paris, and between ICANN and the www.BZH association. The one hundred pioneers for the *.paris* TLD are announced on the occasion of the visit to Paris of Fadi Chehadé, ICANN CEO.
- Afnic popularizes the uses of the *.fr* TLD and the new namespaces with the chambers of commerce and industry in the West of France (Normandy and Quimper).

2.2. March

- March 10: the first edition of the French Forum on Internet Governance, co-organized by Afnic. 400 people attend the meeting held in the premises of the Economic, Social and Environmental Council (CESE).
- March 14: the US Department of Commerce announces its intention to transition the oversight of IANA functions. Afnic immediately announces its decision to hold a special consultative committee meeting to involve the French Internet community in decisions about the future of the oversight of the root of the domain name system.
- March 31: Afnic adopts a new organization, and moves to new premises more suitable for its growth and the changes in its work methods.

2.3. April

- The *.frogans* and *.paris* nTLDs are registered by IANA in the root.
- April 23 and 24: Mathieu Weill is a member of the French delegation led by Secretary of State Axelle Lemaire to the "Netmundial" meeting in São Paulo. The meeting results in an international, multi-stakeholder agreement on the definition and method of operation of Internet governance.

2.4. May

- Afnic continues its tour of the Chambers of Commerce and Industry in the West of France by visiting Brest, and takes part in the Entrepreneur Trade Fair in Lyon.
- The Afnic Scientific Council days attract nearly 100 participants in Paris.

2.5. June

- Afnic welcomes all of its European counterparts for a Jamboree in Paris, bringing together nearly 100 professionals from European ccTLD registries for joint work on all of the political, administrative and technical issues involved in our business lines.
- Afnic attends the ICANN meeting in London, and for the first time welcomes a French minister in office, Axelle Lemaire, at its French night.
- June 26: the first domain name under the *.bzh* nTLD is available on the Web: "*pik.bzh*"

2.6. July-August

- The fees for *.fr* domain name operations drop by 5% as from 1 July.
- Afnic publishes its first carbon audit and announces its intention to reduce the greenhouse gases produced as part of its business, in line with the EU target of -20% over the next 10 years.

2.7. September /October

- Opening of reservations to register domain names under the *.paris* nTLD.
- Afnic and the French National Agency for the Security of Information Systems (ANSSI) publish their industry report on the resilience of the Internet in France.
- Launch of the campaign to promote the *.fr* TLD, designed to maintain the momentum of registrations and uses of the French ccTLD, targeting entrepreneurs and young people in particular. The "*reussir-en.fr*" website is opened.
- Opening of the *.ovh* nTLD, resulting in the registration of more than 50,000 domain names in less than 24 hours.

2.8 November

- Inauguration of Afnic's new premises in the presence of Axelle Lemaire, Secretary of State for the Digital Economy, Steve Crocker, Chairman of the Board of ICANN, the Mayor of Montigny le Bretonneux, the vice-president of the Saint-Quentin en Yvelines Metropolitan area authority and of Patrice Martin-Lalande, co-chair of the "Internet and Digital Society" parliamentary group. The inauguration also provides an occasion to organize a round table on digital solidarity as input for the policy analysis on the Afnic Foundation, the purpose of which is to fund projects in this area.

2.9 December

- Afnic expands its "*Afnic Conseil*" Internet & domain name consultancy and expertise activities;
- Opening of registration for domain names with 1 & 2 characters under the *.fr* TLD
- General availability of domain name registration under the *.paris* and *.bzh* nTLDs
- Afnic is "Recognized for Excellence certification" at 4 star-level for its quality approach by the European Foundation for Quality Management.
- The Board of Directors of the Fondation de France accepts the principle of the creation of a Foundation under its aegis, entitled the Afnic Foundation for Digital Solidarity, funded by 90% of the profits from the management of the *.fr* TLD by Afnic.

3. The Association

This year the association's activity was marked by five board meetings, plus the now traditional strategic seminar in September, 3 consultative committee meetings including one extraordinary meeting, and the ordinary general meeting in June, coupled this year with an extraordinary general meeting and an agenda to change the purpose of the Association.

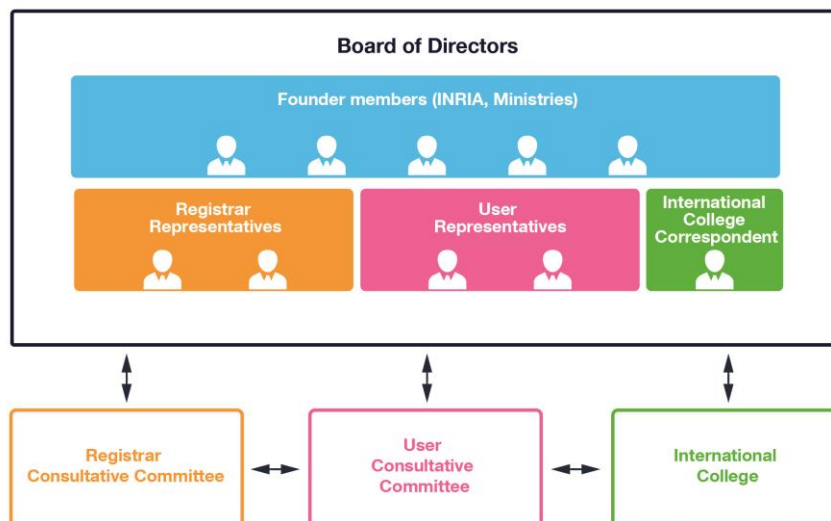
As a result, in addition to their statutory responsibilities, throughout the year the directors were called upon to facilitate meetings of the colleges for which they are the elected representatives, in particular to prepare the consultative committee meetings, but also to provide their expertise and insights on the Internet governance issues with which Afnic is concerned.

For the first time, an anniversary dinner for Association members who joined 10 and 15 years ago was held, to thank its oldest and most faithful members.

The board welcomed the arrival of three new directors:

- Geoffroy Hermann, head of network and security office at the Enterprise Directorate-General, who was appointed as a representative of the Ministry in charge of electronic communications;
- Eric Lantonnet, CEO of Namebay, who was elected to the general meeting in June to represent the registrar's members;
- Loïc Dufлот, deputy director of ICT networks and uses at the Enterprise Directorate-General, was designated as the representative of the Ministry for Industry.

COMPOSITION OF THE BOARD OF DIRECTORS



In 2014, the Afnic Board of Directors commissioned an external audit of its operation, continuing on from the self-assessment it carried out in 2011 which resulted in the creation of Board of Directors' committees, in order to have further discussions on finances and risks, registry policies and commitments.

This external audit found overall that the Board worked well, with the following highlights:

- *Well organized, structured governance;*
- *The Board addresses all of the matters that fall within the scope of its responsibility;*
- *The debates are structured and decision-making is effective;*
- *Board / executive management relations are excellent;*
- *The professionalism and involvement of the management team make Afnic governance more dynamic.*

The audit report contains recommendations designed to allow the Board to work towards a long-term vision and project for the association, in particular by facilitating the work and integration of new directors. Greater momentum in Association membership was also recommended (it had 104 members at year-end 2014), by applying the program detailing the new services for members.

An extraordinary general meeting modified the purpose of the Association, to take into account the forthcoming creation of the Afnic Foundation for Digital Solidarity. Article 2 of the Articles of Association now states that the purpose of the Afnic is also:

“To support, through the creation of a fund or any directly or indirectly managed structure:

- *the development of the Internet, training and awareness-raising about its uses;*
- *its promotion and recognition in France”.*

For the first time, Afnic also organized a special Consultative Committee meeting, in the sense that it was open to all, not just to the members of the association, but to the whole of the French Internet community, and on a single theme. In May 2014, the first meeting of that special committee focused on the transition of the oversight of the IANA function.

4. On-going growth and functional innovations for the .fr TLD

The .fr TLD continued to grow in 2014, with an increase of 5% over the year. This performance, although below that for 2013 (8.3%), is nevertheless higher than the average performance for European gTLDs (2.2%) and global growth in the domain name market (4.3%).

These figures confirm that the market for domain names is now mature, and that the double-digit growth of previous years will probably be difficult to achieve in the foreseeable future.

In accordance with the commitments made by Afnic as part of the agreement with the State, in its capacity as a registry, the fees for .fr operations decreased by 5% on 1 July 2014. Based on the current dollar / euro exchange rate, the .fr namespace is now 35% cheaper than the .com. The reduction was made possible by the search for productivity gains and cost control in order to maintain the gross operating margin of the .fr TLD and therefore the endowments made to the Afnic Foundation for Digital Solidarity.

Production costs for .fr domain names decreased from € 4.03 in 2013 to € 3.52 in 2014.

Parallel to this effort, Afnic launched the *reussir-en.fr* campaign which was allocated an unprecedented budget (over 500,000 euros) to boost domain name registrations under the .fr TLD. With SOHO / SME and young people as the main targets, the campaign, backed by the *reussir-en.fr* website as its core feature, has three objectives:

- Explain the use of domain names, with the launch of "MOOC¹";
- Enhance the image of the .fr TLD by an advertising campaign on the social networks;
- Facilitate registration through partnerships between registrars and Afnic, by directing users to .fr landing pages containing packaged offerings: my .fr email, my .fr blog, my .fr resume, my .fr e-commerce website, etc.

A new "**registry lock**" service was offered to registrars in October 2014. The option can be activated at the registrar's request for any of their domain names, in order to protect them by suspending the automation of technical operations. In this way, any change in server or holder must be expressly confirmed by the registrar to the Afnic customer relationship officers.

The security of the .fr TLD was also strengthened by the significant increase in the proportion of domain names signed with the **DNSSEC** protocol, which rose from 3.8% in late 2013 to 6.9% in late 2014. If the promotion is now known to our registrars and has resulted in interesting growth in the use of **DNSSEC**, much remains to be done before the technology becomes widespread and service providers activate it on their networks. The project will therefore be continued in the coming years.

At year-end 2014 Afnic **opened the registration of domain names with 1 & 2 characters under the .fr TLD** in three phases over a total period of four months. The eagerly expected opening allowed all of the domain names with 1 & 2 characters to be allocated (with the exception of certain accented names still available for registration) preserving their affordability (no auctions were held), equal rights (with a Sunrise period), and entrepreneurial freedom (a Landrush period with a sliding scale).

If any speculation in domain names took place and disappointed some stakeholders, thanks to this organization it was kept under control.

¹ MOOC: massive open online course.

5. New TLDs: an operational reality for Afnic

With regard to GeoTLDs, the launch of the *.paris* namespace was successful, with the initial selection of one hundred pioneers, followed by the general availability in December which resulted in nearly 10,000 names being registered.

The *.bzh* GeoTLD followed with a general availability resulting in the registration of nearly 4,000 domain names.

As for brand TLDs, the launch of the *.ovh* namespace was extremely dynamic with more than 50,000 domain names registered in less than 24 hours. The volume was due to the free purchase policy decided by OVH which had no impact on Afnic income, the latter being calculated on the number of domain names registered by the registry and not on their sale price.

Finally, the atypical *.frogans* namespace dedicated to supporting Frogans technology without seeking to achieve volume registrations, is also operational.

A total of four new TLDs for which Afnic is the technical registry operator were made fully operational in 2014, meaning that in all, six nTLDs went live (*.aquarelle* and *.alsace* were not open to the public at year-end 2014, but they were technically operational).

At the end of the year, with the exception of five of our customers², all had signed the ICANN registry agreement, and Afnic technical services had passed all of the pre-delegation tests scheduled by ICANN.

72,912 domains names were registered by Afnic under the new TLDs for which the association is responsible, which, added to the technical and administrative milestones achieved by our customers during the year, tripled the turnover for this business line, which now stands at € 959,000.

² Including Aquitaine, which abandoned the *.aquitaine* project because of the territorial reform under way in France.

6. Internet governance: Afnic on the frontline

Following on from 2013 and the Snowden affair, one of the highlights of 2014 was the return of Internet Governance as a focal point of discussion.

The year was marked in particular by two events:

- On March 14, the US Department of Commerce announced its willingness to transfer the oversight of the IANA function to the "community", setting conditions on the organization of the transition and the modalities for its future oversight, and designating ICANN to conduct the discussions on the future organization;
- On 23 and 24 April, the Brazilian government held a multi-stakeholder meeting on Internet governance in São Paulo, attended by a delegation from France.

In its role as facilitator for the French Internet community, Afnic served as an intermediary and organized discussions in France on these two points:

- By actively participating in the organization of the first French Forum on Internet Governance (FGI), which was held on March 10 held in the premises of the Economic, Social and Environmental Council (CESE);
- By organizing a debate within the Cap Digital competitiveness cluster with Fadi Chehadé, the ICANN CEO, during his visit to Paris;
- By organizing a special Consultative Committee meeting on the issue of IANA transition;

In addition, Afnic was involved in international debates and took part in all the international meetings of the year, including:

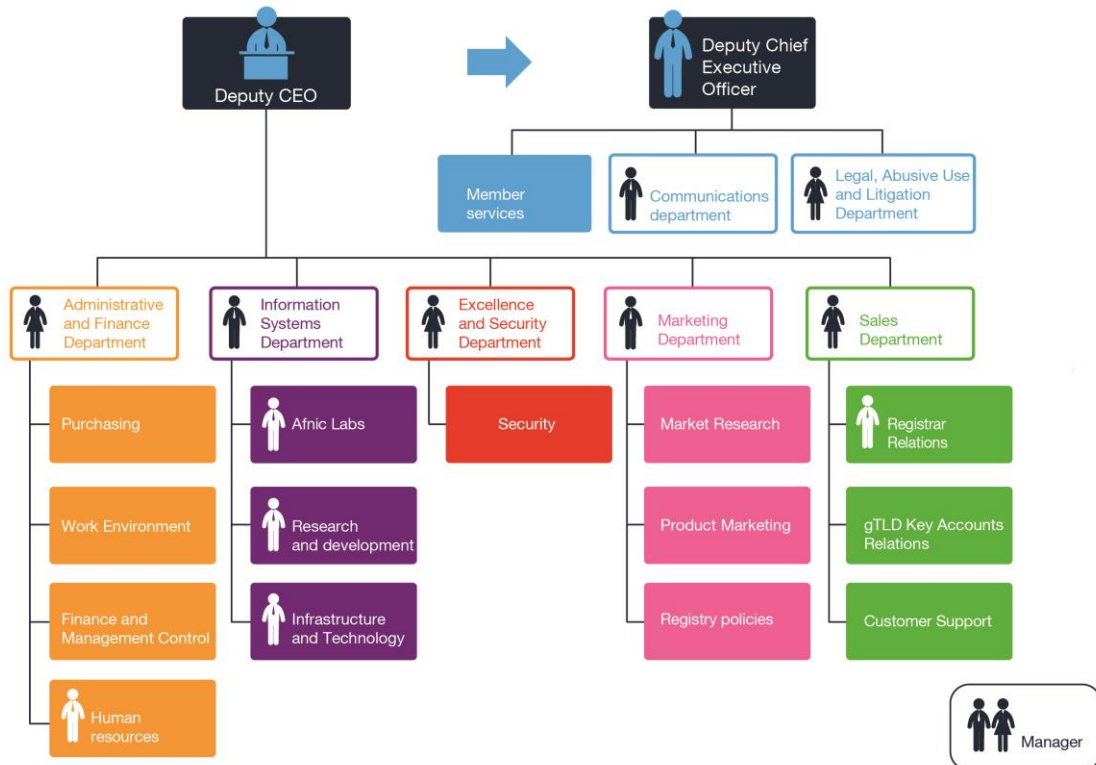
- *Netmundial in São Paulo*;
- All of the ICANN public meetings;
- European dialog on Internet Governance (EuroDig), in Berlin;
- The Global Forum on Internet Governance (FGI world) in Istanbul.

Afnic has been particularly active on the issue of the change and reform of ICANN, closely linked to that of the transition oversight of IANA functions. For instance, since December 2014, Mathieu Weill has co-chaired the multi-stakeholder International Working Group which is developing a proposal to reform the governance of ICANN³.

³ Cross community working on enhancing Iann accountability
<https://community.icann.org/display/acctcrosscomm/CCWG+on+Enhancing+ICANN+Accountability>

7. Skills to suit Afnic's new scope

Afnic Flowchart



Cost control, diversification, keeping our contractual commitments with the State, strengthening our quality and security policies, developing member services, are just some of the factors in Afnic's business that in order to be conducted jointly required a redesign of the Association's operational organization.

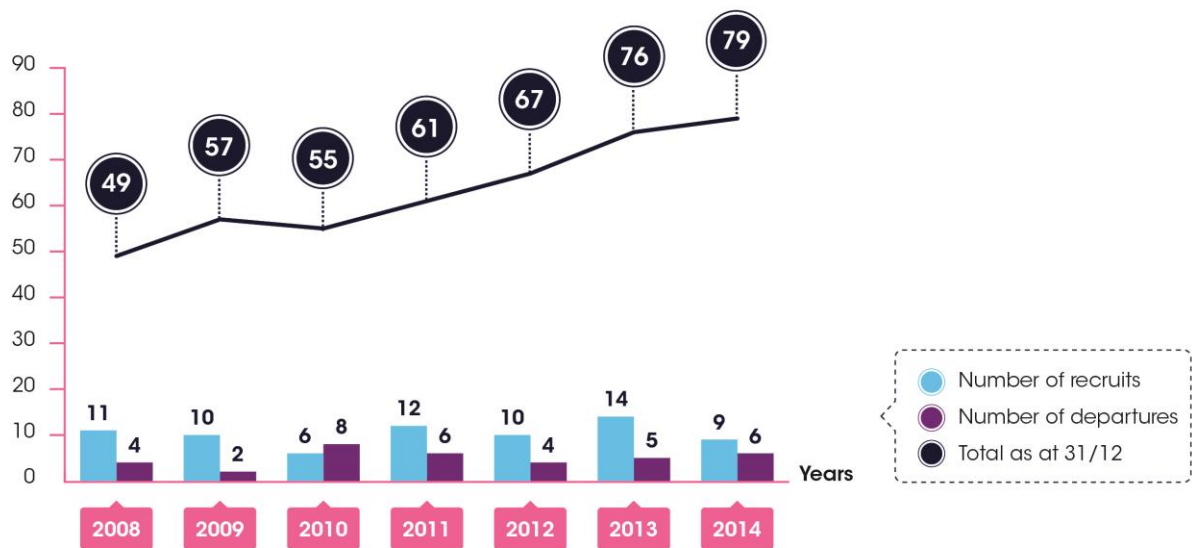
For this reason, on March 31, 2014, Afnic adopted a new organization, the main lines of which are as follows:

- Creation of a sales department combining support activities, registrar customer relationship officers, and major gTLD account managers;
- Creation of a marketing department;
- Creation of an excellence and security division;
- Consolidation of cross-cutting legal, abusive use and litigation, internet community and communication functions under the supervision of the SVP;
- Reorganization of the Administration and Finance Department;
- Reorganization of the Information Systems Division, which now includes Afnic R&D, henceforth named Afnic Labs.

With this new organization, carried out as the number of Afnic employees stabilizes at 80, the association now has a professional marketing approach, and can develop its ability to create new products and services. It is investing more in customer relations, taking into account their diversity. Finally, by reorganizing its Information Systems Division, line staff and R&D teams can work more closely together.

CHANGE IN THE NUMBER OF EMPLOYEES

(Including fixed-term contracts and cooperative training)



8. Rigorous management to improve Afnic competitiveness

2014 was a vintage year for gTLDs, with 6 TLDs live at year-end 2014, and for cost control.

Afnic sales turnover grew by 9.6%, i.e. € 1.274 million:

- Growth of 5% in domain name registrations under the .fr TLD, an increase of € 607,000;
- Turnover multiplied by 3 for the gTLDs, representing an increase of € 698,000;
- sluggish growth for the Overseas namespaces (+ 1.1%).

With regard to gTLDs, the successful launches of namespaces for the City of Paris, OVH and the www.bzh association resulted in an installed base of 72,912 domain names at year-end 2014.

The net result was a loss of € 188,494, but the loss is down compared with that for 2013 (a loss of € 541,849) and less than that in the 2014 forward budget (which scheduled a loss of € 539,000). The loss is explained by the combined effects of an investment effort to launch new gTLD business and the gap of several months between the opening of these namespaces and the build-up of regular income. Afnic should return to a balanced budget by 2015:

- **Afnic sales** totalled € 15.022 million, up 9.6%, or an increase of € 1.274 million compared with 2013.
- Thanks to stringent management, Afnic operating expenses before FSDI expenses totalled € 13.6 million, i.e. the same as for the 2013 fiscal period, representing 92% of the 2014 budget.
- The 2014 results highlight Afnic's efforts in terms of **cost control**.

2014 was a year of investment: the Association invested heavily in infrastructure to benefit gTLDs and enhance the .fr TLD. Additional investments were made to fit out the new premises which it rents and the move which took place in March. Its transformation into a multi-registry operator is now both a reality in the field and visible in its financial position: almost half of the growth in turnover comes from gTLD business.

Finally, the efforts to achieve operational excellence and cost control are starting to bear fruit.

The Association ended the 2014 financial year with a slight deficit, but it was smaller than that for last year, which shows that the Association is on the return path to a balanced budget scheduled for 2015.

9. Afnic keeps its promises



Mathieu Weill
Afnic CEO

We can see this year that the diversification of Afnic's business lines undertaken since 2011 has become an operational reality.

In addition to its conventional task as the registry for the *.fr* TLD, Afnic is now a recognized player in the new TLD market, and, as we indicated a year ago, a multi-registry operator.

The heavy investments in human resources as well as the technology required to help us develop these new business lines are now over, and after three years of losses, Afnic's objective is to return to a balanced budget by 2015.

2014 has shown that the objective is quite within our reach, and that Afnic is capable of adapting to cope with external factors and keep on course.

During the year, Afnic was faced a number of events making the achievement of our initial objectives more difficult. Here are just two of them:

- The confirmed downturn in the domain name market, with a deceleration in growth faster than expected;
- Internal decisions by some of our leading customers to revise the launch calendar for the new gTLDs, and thus postpone the first returns of recurring revenue.

Afnic's teams responded by increasing cost control efforts, in particular that involved in streamlining the Information Systems Division, and the workload shared by all the departments to internalize certain functions and improve productivity.

These efforts alone, however, would not have been sufficient to return Afnic to a balanced budget, especially in a period during which investments still needed to be made.

Afnic therefore worked more closely with its customers, in order to better understand their needs and offer them services enabling them to prepare better for the launch and administration of their namespaces. The development of one-time revenue related to our consulting business, which is the first result of our reorganization, allowed us both to cope with the external factors mentioned above, and strengthen ties with our customers.

These results were obtained by keeping in mind all of Afnic's commitments with respect to the French Internet community, including those forming part of the agreement signed with the State for the management of the *.fr* TLD.

Launched in 2014, the "*reussir-en.fr*" campaign was the largest communication and promotion operation for the *.fr* TLD in Afnic's history, and will continue to develop for several years to come.

With the creation of the Afnic Foundation for Digital Solidarity under the aegis of the Fondation de France, a major step was taken to put the .fr TLD and the income it generates to serve social inclusion on the ground, on a daily basis, the first projects of which will be selected and funded in 2015.

Afnic is committed to excellence in security, confirmed by the launch of the preparatory work for ISO 27001 certification. This work will continue in 2015, and cross-cutting action will be taken by all the teams.

More generally, the work accomplished over the last three years means we can expect 2015 to be marked by our return to a balanced budget and the implementation of all of the commitments made under the State / Afnic agreement for the .fr TLD. Backed by the successes of 2014, every one of Afnic's employees can face that outlook with confidence.

Financial balance sheet

Simplified Balance Sheet

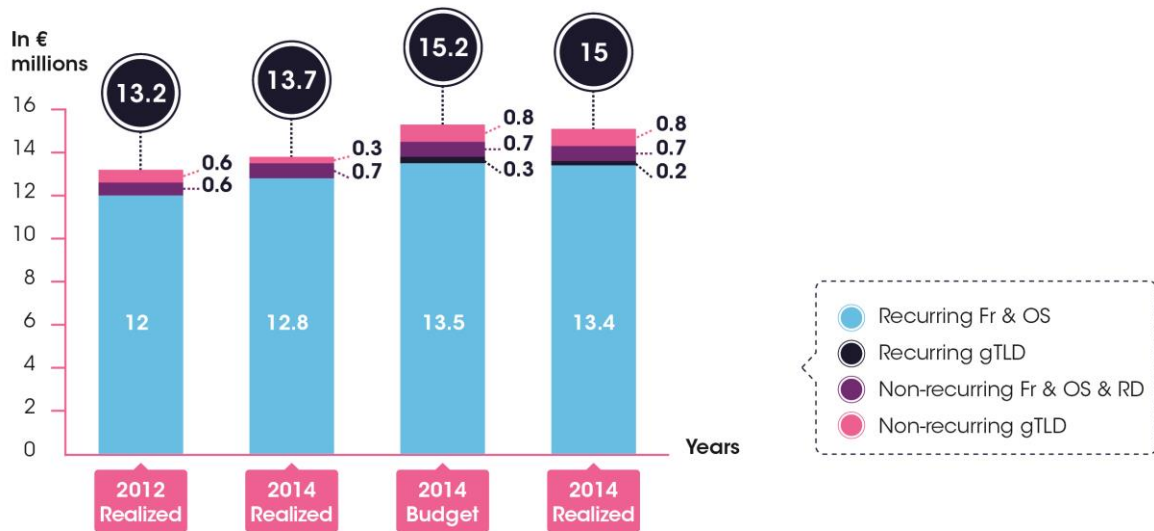
In € thousand	12/31/2014	12/31/2013
Assets		
Non-current assets	2,838	2,594
Operating receivables	5,201	4,204
Current assets	10,112	9,375
TOTAL ASSETS	18,151	16,173

In € thousand	12/31/2014	12/31/2013
Liabilities		
Accumulated surplus	6,259	6,801
Profit (loss) for the year	-188	-542
Regulated provisions	455	389
EQUITY	6,525	6,648
PROVISIONS	30	47
DEBT	11,596	9,478
TOTAL LIABILITIES	18,151	16,173

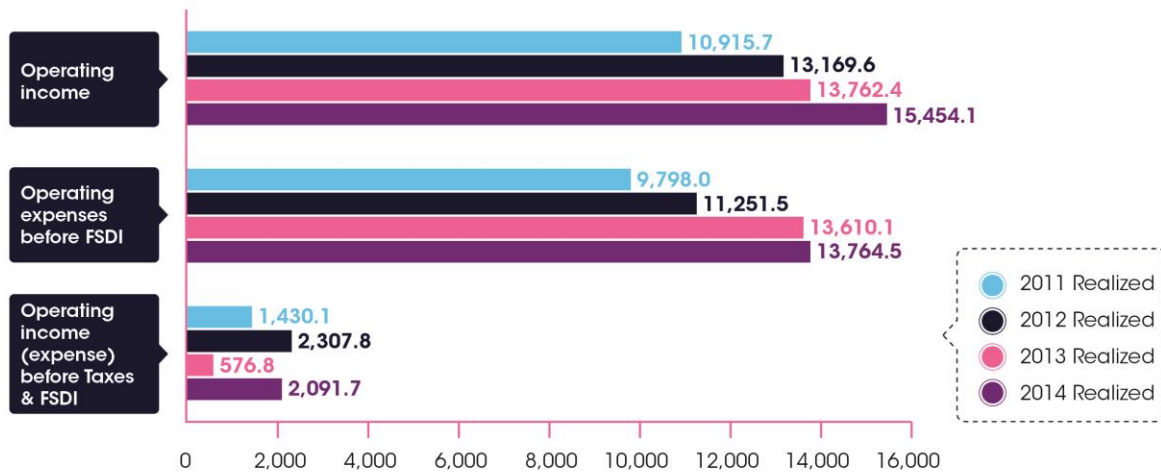
SIMPLIFIED INCOME STATEMENT

In € thousand	12/31/2014	12/31/2013
Turnover	15,420	13,731
Other income	34	31
OPERATING INCOME	15,454	13,762
Other purchases and external expenses	5,040	4,743
Duties, taxes and similar payments	402	449
Salaries, wages and payroll taxes	7,180	7,361
Other expenses including depreciation	2,568	1,914
OPERATING EXPENSES	15,190	14,467
OPERATING INCOME (EXPENSE)	264	-704
FINANCIAL INCOME	242	268
EXTRAORDINARY PROFIT OR LOSS	-279	-37
Employee profit-sharing	220	20
Corporation tax	195	48
PROFIT OR LOSS	-188	-542

BREAKDOWN OF TURNOVER



CHANGE IN Afnic OPERATING INCOME AND EXPENSES SINCE 2012



CHANGE IN ACCUMULATED SURPLUS SINCE 2012



AFNIC 2014 ANNUAL REPORT

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