

Annual Report

for

.SE (The Internet Infrastructure Foundation)

Corp. Reg. No. 802405-0190

**The Foundation's Board hereby submits the annual report for the financial year
2013-01-01 - 2013-12-31**

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.SE (The Internet Infrastructure Foundation)

Corp. Org. No. 802405-0190

Administration Report

The annual report is prepared in Swedish kronor, SEK.

Operations

The operating profit for the Internet Infrastructure Foundation (.SE) was SEK -7.4 M (+3.3 M). The operating profit was impacted by the establishment costs associated with the Foundation taking over the right to administer the TLD .nu and the introduction of the technical test organization for applications for new TLDs for ICANN.

The Foundation's Board maintains its assessment that the financial reserves need to increase in the long term with regard to its growing size and diversification of operations. The aim is to raise the surplus to an average of SEK 5 M per year during the coming five year period.

.SE's total operating revenue amounted to SEK 140.7 M (119.9 M). The new business areas contributed to the large increase in revenue. Domain operations generated 122.6 M (116.6 M), an increase of 5%. Revenues from development operations generated 18.1 M (3.3 M) and stood for 13% of total operating revenues. Costs for other developments and other internet ventures amounted to SEK 78.5 M (50.2 M).

The growth of the .se domain name during 2013 was 6.4% (3.3%). At the end of 2013 there were about 1.3 M registered .se domains. Since September 2013 .SE is also administering the .nu domain names. At the end of 2013 there were about 248 000 .nu domains. The total number of domain names administered by .SE has thereby increased by 26.1%.

.SE Direkt (.SE's own registrar) administered about 187 000 .se domain names at the end of 2013, a decrease of around 25 thousand compared to the end of the year 2012. This reduced .SE Direkt's market share from 16.8% to 13.9 %. This development is completely in line with the overall strategy that was established with the new business model in 2009.

.SE has through its charter a mission to promote good stability in the infrastructure of the internet in Sweden and to promote "research, training and education in computing and telecommunications, with particular emphasis on the Internet."

Also during 2013, .SE's services and activities expanded in these areas. Webbstjärnan, Internetguiderna, Internetdagarna, the portal iis.se with its blog, Swedes and the Internet, Internetfonden and Bredbandskollen plus more makes .SE a knowledge hub for the internet in Sweden.

.SE works in association with many organizations for promoting the development of the internet in Sweden. One example of this broad cooperation is the campaign Digidel, which ended with success in November 2013. Another important cooperation is the establishment of the Federation Operator Services for the school world (skolfederation.se) and e-health (sambi.se).

Multi-year *

	2013	2012	2011	2010	2009
Net sales	140 003 954	119 311 165	111 452 641	99 502 663	92 205 673
Profit/loss after financial items	-3 370 209	4 523 545	-3 852 721	-550 363	-4 793 344
Profit as a % of net sales	-2.41	3.79	-3.46	-0.55	-5.23
Total assets	215 390 759	130 097 657	121 422 495	120 250 269	109 546 052
Equity/assets ratio (%)	16.98	31.20	30.31	34.04	38.11
Return on equity (%)	-8.76	11.75	-10.04	-74.75	-9.24
Return on total capital (%)	-2.05	3.62	-1.80	-0.15	-4.14
Quick ratio (%)	51.78	101.54	105.49	112.03	126.58

*For definitions of key terms, see additional disclosures.

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Significant events during the financial year

On September 2, 2013, .SE took over responsibility for the administration and technical operations of the TLD .nu.

On April 22, 2013, .SE started operating as a Pre-Delegation Test Provider (PDT) for the Internet Corporation for Assigned Names and Numbers (ICANN). The first tests were carried out in August 2013.

The Foundation's expected future development

The two new active areas, .nu domain names and the PDT service for ICANN, are expected to lead to a continued increase in revenue and expected to make a positive contribution to operating profits.

In spite of the increase of .se domain names in 2013 compared with 2012, .SE expects a slowdown of the number of registered .se domain names overall. The growth potential of the .nu domain name is expected to be higher.

Subsidiaries

The Foundation owns 100 percent of the subsidiary NIC-SE Network Information Centre Sweden AB. At the end of the fiscal year, the company had no operations and no employees.

The Foundation owns 100 percent of OpenDNSSEC AB (svb).

Significant risks and uncertainties

The Foundation, like all business driven companies, has had to deal with risk areas such as market development. The Foundation's takeover of the right to distribute the TLD .nu causes a risk if the market folds, for example, through new technologies developing that make domain names less important since the operations by its character are dependent on an active development of the domain market.

The company is exposed to foreign exchange risk arising from various currency exposures, regarding the euro (EUR) and the U.S. dollar (USD). The foreign exchange risk arises through business transactions, accounts of assets and liabilities.

Regarding the Foundation's earnings and financial position, please refer to the following income statement and balance sheet including the associated additional disclosures.

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PROFIT AND LOSS	Note	2013-01-01 2013-12-31	2012-01-01 2012-12-31
Operating income, etc.	1,2	<u>140 706 330</u>	<u>119 889 165</u>
Net sales		140 706 330	119 889 165
Operating expenses			
Other external costs	3	-82 606 245	-64 744 059
Personnel costs	4	-61 137 328	-49 676 588
Depreciation/amortization and impairment of tangible and intangible fixed assets	7,8,9	<u>-4 357 403</u>	<u>-2 160 585</u>
		-148 100 976	-116 581 232
Operating Profit/Loss		-7 394 646	3 307 933
Profit/loss from financial items			
Profit from other securities and receivables		2 113 543	883 783
Other interest income and similar profit/loss items		2 241 248	332 473
Interest expenses and similar profit/loss items		<u>-330 355</u>	<u>-644</u>
		4 024 436	1 215 612
Profit/loss after financial items		-3 370 209	4 523 545
Profit/loss before tax		-3 370 209	4 523 545
Tax on the year's net profit/loss	5	<u>0</u>	<u>0</u>
Net profit/loss for the year		-3 370 209	4 523 545

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BALANCE SHEET		2013-12-31	2012-12-31
	Note		
ASSETS			
Fixed assets			
Intangible fixed assets			
Other intangible fixed assets	7	<u>90 184 604</u>	<u>6 474 836</u>
		90 184 604	6 474 836
Tangible fixed assets			
Equipment	8	5 738 064	4 140 780
Leasehold improvements	9	<u>1 567 868</u>	<u>1 483 865</u>
		7 305 932	5 624 645
Financial fixed assets			
Participants in Group companies	6	156 259	156 259
Other securities held as fixed assets	10	<u>25 256 249</u>	<u>26 961 737</u>
		25 412 508	27 117 996
Total fixed assets		122 903 044	39 217 477
Current assets			
Current receivables			
Accounts receivable		7 178 485	7 193 352
Current tax receivables		769 824	640 467
Other receivables		445 314	690 696
Prepaid expenses and accrued income	11	<u>4 113 128</u>	<u>5 168 110</u>
		12 506 752	13 692 625
Short-term investments			
Other short-term investments	12	<u>56 374 093</u>	<u>65 304 906</u>
		56 374 093	65 304 906
Cash and bank balances		23 606 870	11 882 649
Total current assets		92 487 715	90 880 180
TOTAL ASSETS		215 390 759	130 097 657

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BALANCE SHEET

	Note	2013-12-31	2012-12-31
EQUITY AND LIABILITIES			
Equity 13			
Restricted equity			
Foundation capital		<u>200 000</u>	<u>200 000</u>
		200 000	200 000
Profit or loss		39 933 305	35 872 759
Profit for the year		<u>-3 370 209</u>	<u>4 523 545</u>
Total equity		36 763 096	40 596 304
Long-term liabilities 14			
Other liabilities		<u>72 637 383</u>	<u>0</u>
Total long-term liabilities		72 637 383	0
Current liabilities			
Accounts payable		14 987 061	8 241 165
Other liabilities		1 933 017	2 760 106
Accrued expenses and deferred income	15	<u>89 070 202</u>	<u>78 500 082</u>
Total current liabilities		105 990 280	89 501 353
TOTAL EQUITY AND LIABILITIES		215 390 759	130 097 657

MEMORANDUM ITEMS

Pledged assets **60 853 620** **Inga**

Contingent liabilities **Inga** **Inga**

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CASH FLOW STATEMENT	Note	2013-01-01 2013-12-31	2012-01-01 2012-12-31
Operating activities			
Operating profit/loss		-7 394 646	3 307 933
Adjustments for non-cash items, etc.		4 436 369	2 359 858
Interest etc., received		3 531 087	111 399
Interest paid		-330 355	-644
Paid income tax		-129 357	31 083
Cash flow from operating activities before changes in working capital		113 098	5 809 629
Cash flow from changes in working capital			
Decrease (+) / increase (-) in accounts receivable		14 867	-2 679 008
Decrease (+) / increase (-) in receivables		1 300 365	-915 313
Decrease (+) / increase (-) in accounts payable		6 745 896	1 750 708
Decrease (+) / increase (-) in current liabilities		9 743 031	3 131 023
Cash flow from operating activities		17 917 257	7 097 039
Investing activities			
Acquisition of other intangible fixed assets	7	-85 620 969	-6 584 579
Acquisition of equipment	8	-3 575 841	- 915 459
Acquisition of equipment, tools and installations	9	-440 157	0
Sale of short-term investments	12	8 930 813	718 361
Acquisition of long-term securities	10	-8 099 663	-33 648 055
Dividend		823 704	1 104 858
Sale of long-term securities	10	<u>9 614 693</u>	<u>31 729 657</u>
Cash flow from investing activities		-78 367 420	-7 595 216
Financing activities			
Reserved long-term debt		72 637 383	0
Scholarships paid		<u>-463 000</u>	<u>-730 114</u>
Cash flow from financing activities		72 174 383	-730 114
Change in liquid funds		11 724 220	-1 228 291
Cash and cash equivalents at beginning of year		<u>11 882 650</u>	<u>13 110 941</u>
Cash and cash equivalents at end of year		23 606 870	11 882 650

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ADDITIONAL DISCLOSURES

GENERAL INFORMATION

Accounting policies

The annual report has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Accounting Standards Board except BFN AR 2008:1 (K2 rules).

Consolidated financial statements were not prepared since the subsidiaries' operations and their scope are immaterial compared the parent foundation.

Operating revenues consist primarily of the domain name revenues and external assignments. The domain revenues are allocated for the number of months that they pertain to.

The remaining appropriations are recognized directly in equity.

Fixed assets and leasehold improvements in third-party property were depreciated/amortized according to plan.

Intangible assets	15 years
Leasehold improvements	10 years
Equipment	5 years

Depreciation period for intangible assets based on the estimated economic lifespan.

Measurement policies, etc.

The Foundation's assets are recognized at cost.

Intangible fixed assets

Intangible assets acquired are recognized at cost minus accumulated depreciation and impairments.

Current receivables and liabilities in foreign currencies

Current receivables and liabilities in foreign currencies are recognized at the exchange rate on the balance-sheet date.

Financial instruments

Financial instruments are measured in accordance with a portfolio method and recognized at the lower of cost and market value.

Measurement principles

The recognized measurements of the Foundation's fixed assets are verified every balance-sheet date to determine whether or not there is any indication of change. If any such indication exists, the asset's recovery value is calculated at the higher of its useful value and its net sales value. An impairment loss is recognized if the recovery value is less than the its recognized value.

Definitions and key terms

Equity/assets ratio

Adjusted equity as a percentage of total assets.

Return on equity

Profit after financial items as a percentage of average adjusted equity.

Return on total capital

Operating profit plus interest income as a percentage of average total assets.

Quick ratio

Current assets as a percentage of current liabilities.

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ADDITIONAL DISCLOSURES

Information about individual items

Note 1 Operating income	2013	2012
<i>Net sales by business segment</i>	140 003 954	119 311 165
Net sales	<u>702 376</u>	<u>578 000</u>
Other operating income	140 706 330	119 889 165

Note 2 Income statement distributed between domain and development operations, including internal time.

Distribution of income statement	Development	Domain	Total
Net sales	18 085 901	122 620 428	140 706 330
Financial income / expenses	-193	4 024 630	4 024 437
Other expenses	-45 869 489	-36 736 755	-82 606 245
Personnel costs	-12 876 828	-48 260 500	-61 137 328
Internal time	-17 597 217	17 597 217	0
Impairments	-2 199 606	-2 157 797	-4 357 403
Total	-60 457 432	57 087 223	-3 370 209

Note 3 Auditor's fees	2013	2012
KPMG AB		
Auditing	175 000	175 000
Other audit assignments	0	
Tax consultancy	0	60 500
Other services	<u>0</u>	<u>5 000</u>
	175 000	240 500

Audit assignments refer to the work of auditors for the statutory audit.
Other services such as audit business or tax advice
are not included in the audit.

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Note 4 Personnel	2013	2012
Average number of employees		
Average number of employees	72,00	61,00
Of which, women	27,00	25,00
Salaries, allowances, etc.		
Salaries, allowances, social costs and pension costs paid with the following amounts:		
Board and CEO		
Salaries and remuneration	2 659 223	2 586 913
Pension costs	<u>644 307</u>	<u>601 631</u>
	3 303 530	3 188 544
Other employees:		
Salaries and remuneration	36 195 801	29 092 877
Pension costs	<u>3 463 071</u>	<u>2 903 466</u>
	39 658 872	31 996 343
Social security fees	13 390 784	10 863 145
Total board and other employees	56 353 186	46 048 032

Gender distribution of board and management

Number of board members	8	8
Of which, women	1	1
Number of other senior management incl. CEO	11	12
of which, women	5	6

Board meetings in addition to board member fees received gross salary amounting to 42,646 SEK.

Note 5 Tax on profit/loss for the year	2013-12-31	2012-12-31
Recognized profit/loss before tax	-3 370 209	4 523 545
Non-deductible expenses	1 238 184	1 077 452
Non-taxable income	-1 476	-1 246
Fixed income, investment funds	214 920	230 488
Total	1 918 581	1 306 694
Recognized profit/loss before tax	-3 370 209	4 523 545
Adjustment as above	1 918 581	1 306 694
Utilized loss carryforwards from preceding year		-5 830 239
Tax for the year	-1 918 581	0
Unutilized loss carryforwards from preceding year	-5 162 210	-10 992 449
Total unutilized loss carryforwards	-7 080 791	-5 162 210

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ADDITIONAL DISCLOSURES

Note 6 Participations in Group Companies	2013	2012
Accumulated cost	<u>156 259</u>	<u>156 259</u>
	156 259	156 259
Subsidiary/Org nr	Number of shares	Share in %
NIC-SE Network Information		
Centre Sweden AB 556542-8033	2 500	100
Open DNSSEC AB (svb) 556838-6733	1 000	100

Note 7 Intangible fixed assets	2013-12-31	2012-12-31
Accumulated cost	6 584 579	0
Purchases for the year	<u>85 620 969</u>	<u>6 584 579</u>
Closing accumulated cost	92 205 548	6 584 579
Accumulated depreciation	-109 743	0
Depreciation for the year	<u>-1 911 201</u>	<u>-109 743</u>
Closing accumulated depreciation	<u>-2 020 944</u>	<u>-109 743</u>
Closing carrying amount	90 184 604	6 474 836

Depreciation according to plan is calculated on the basis of a useful period of 15 years.

Note 8 Equipment	2013-12-31	2012-12-31
Opening cost	10 011 494	9 096 031
Cost for the year	3 833 141	915 502
Sales / disposals	<u>-257 300</u>	<u>-43</u>
Closing accumulated cost	13 587 335	10 011 494
Opening depreciation	-5 870 714	-4 165 992
Sales / disposals	111 491	0
Depreciation for the year	<u>-2 090 048</u>	<u>-1 704 718</u>
Closing accumulated depreciation	<u>-7 849 271</u>	<u>-5 870 714</u>
Closing carrying amount	5 738 064	4 140 780

Depreciation according to plan is calculated on a useful period of 5 years.

Note 9 Fixtures and fittings on rental properties	2013-12-31	2012-12-31
Opening cost	3 476 651	3 476 653
Cost for the year	<u>440 157</u>	<u>0</u>
Closing accumulated cost	3 916 808	3 476 650
Opening depreciation	-1 992 785	-1 646 661
Depreciation for the year	<u>-356 154</u>	<u>-346 124</u>
Closing accumulated depreciation	<u>-2 348 939</u>	<u>-1 992 785</u>
Closing carrying amount	1 567 868	1 483 865

Depreciation according to plan is calculated on a useful period of 10 years.

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ADDITIONAL DISCLOSURES

Note 10 Other securities held as fixed assets	2013-12-31	2012-12-31
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Securities

Closing value of bonds and interest-bearing securities	25 256 249	26 961 737
Market value on the balance sheet date	25 497 980	26 969 755

Note 11 Prepaid expenses and accrued income	2013-12-31	2012-12-31
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Rental of premises	1 452 871	1 390 998
Company insurance	244 499	188 283
Other prepaid expenses	1 215 469	3 006 112
Accrued interest income	184 081	422 828
Accrued income	<u>1 016 208</u>	<u>159 889</u>
	4 113 128	5 168 110

Note 12 Other current investments	2013-12-31	2012-12-31
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Category

Listed shares and participation	15 422 613	20 108 317
Interest-bearing securities	40 951 480	41 999 980
Other investments	<u>0</u>	<u>3 196 609</u>
	56 374 093	65 304 906
Market value on the balance-sheet date	64 699 540	69 933 158

Note 13 Equity

	Foundation capital	Unrestricted capital
Amount at the beginning of the year	200 000	40 396 304
Grants paid		-463 000
Profit for the year		<u>-3 370 209</u>
Amount at year-end	<u>200 000</u>	36 563 095

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ADDITIONAL DISCLOSURES

Note 14 Long-term liabilities	2013-12-31	2012-12-31
Debt attributable to the acquisition of intangible assets.	<u>72 637 383</u> 72 637 383	<u>0</u> 0

Debt attributable to the acquisition of intangible assets has been discounted.
Discounting is based on maturity and market interest.

Note 15 Accrued expenses and deferred income	2013-12-31	2012-12-31
Accrued salaries / board fees incl. social contributions	7 173 713	5 194 727
Prepaid domain revenues	76 080 718	68 181 360
Other items	<u>5 815 771</u>	<u>5 123 995</u>
	89 070 202	78 500 082

Stockholm 2014-05-28

Anders Flodström Mikael von Otter
Mikael Abrahamsson Ove Ivarsen Lars Lindgren
Robert Malmgren Andreas Hedlund Inger Persson

Our audit report was submitted on May 28, 2014.

KPMG AB

Gunilla Wernelind
Authorized accountant

Auditor's Report

To the Board of Directors of the Internet Infrastructure Foundation, Corp. Org. No. 802405-0190

Report on the annual accounts

I have audited the annual accounts for the Internet Infrastructure Foundation for 2013.

Responsibilities of the Board of Directors for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and for such internal control as the Board of Directors determines necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

My responsibility is to express an opinion on these annual accounts based on my audit. I conducted my audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that I comply with professional ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual accounts are free from material misstatement.

An audit involves performing various procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the foundation's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the foundation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the foundation as of December 31, 2013, and of its financial performance and cash flows for the year in accordance with the Annual Accounts Act.

Report on other legal and regulatory requirements

In addition to my audit of the annual accounts, I have examined the administration of the Board of Directors of the Internet Infrastructure Foundation for 2013.

Responsibilities of the Board of Directors

The Board of Directors is responsible for administration under the Foundation Act and deed of foundation.

Auditor's responsibility

My responsibility is to express an opinion with reasonable assurance as to whether any member of the Board of Directors acted in contravention of the Foundation Act or deed of foundation. I conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for my opinion, in addition to my audit of the annual accounts, I examined significant decisions, actions taken and circumstances of the foundation in order to determine whether any member of the Board of Directors is liable to the foundation or if there were any grounds for dismissal.

I also examined whether any member of the Board of Directors has, in any other way, acted in contravention of the Foundation Act or deed of foundation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

According to my opinion, the Board of Directors has not acted in contravention of the Foundation Act or deed of foundation.

Stockholm, May 28, 2014

Gunilla Wernelind
Authorized accountant