



Orc Software AB – Interim report January 1 – June 30, 2005

- **Revenue for January-June 2005 amounted to SEK 134 (128) million with an operating income of SEK 9 (25) million, giving an operating margin of 6.5 (19.1) percent. Income after taxes amounted to SEK 7 (19) million.**
- **According to the accounting principles applicable prior to the adoption of IFRS, revenue for January-June 2005 would have amounted to SEK 124 million and operating income to SEK 3 million.**
- **Revenue for April-June 2005 amounted to SEK 68 (64) million with an operating income of SEK 1 (11) million, giving an operating margin of 1.5 (17.0) percent. Income after taxes amounted to SEK 1 (8) million.**
- **Earnings per share for January-June 2005 amounted to SEK 0.53 (1.30).**
- **A letter of intent was signed with OMX regarding development of a new front office platform for sales to exchanges.**
- **During the second quarter actions were taken in order to make the business more efficient and to increase profitability. The cost increase in comparison with the previous quarter of SEK 8 million was related to increased costs for negative foreign exchange differences related to IFRS, restructuring of an existing Liquidator agreement and the efficiency program, of which SEK 4.2 million was attributable to the efficiency program. The program is expected to result in annual savings of approximately SEK 15 million, with full effect from the beginning of 2006.**
- **The target for the fourth quarter of 2005 is an operating margin of at least 15 percent.**

Orc Software provides technology for advanced market making, trading and brokerage. The Orc Technology is used in 22 countries and allows users to access more than 100 markets. The company is listed at Stockholmsbörsen and has operations in Chicago, Frankfurt, Hong Kong, London, Milan, Moscow, New York, Stockholm, St Petersburg, Sydney, Tokyo, Toronto, Vienna and Zurich. In 2004, the company's total revenue amounted to SEK 247 million with an operating income of SEK 30 million. www.orcsoftware.com

Markets

During the first half of 2005 Orc Software's market was characterized by a number of trends, all indicating a growing market for the industry. Algorithmic trading¹ is still the focus in the global financial markets and an increased interest is also shown by institutional investors. The institutional investors are placing higher demands on brokerage firms to offer expanded functionality in general and algorithmic trading in particular. In addition, their demand for direct market access is increasing.

Trading volumes are increasing on several financial markets and one contributing factor is the more extensive use of algorithmic trading. Increasing trading volumes are also resulting in greater requirements for systems that can cope with the high volumes with continued good performance. Orc Software's products have been designed to handle very large volumes, which is a competitive advantage for the company.

In recent quarters Orc Software has obtained a significant number of new clients, a trend that continued during the second quarter of 2005. The company has at the same time also experienced cancellations of existing client contracts, which resulted in a net increase in the number of clients during the second quarter of 8. The cancellations were primarily due to consolidations in the industry and in some cases due to the termination of entire trading businesses.

During the period the Nordic market was characterized by a continued focus on additional sales to existing clients.

In the rest of Europe Orc Software was also able to increase sales to a number of existing clients who have chosen to expand their businesses by trading securities on new geographical markets or in new asset classes. The alliance with Reuters continued to develop well, especially in Central Europe.

In the US, the transition from floor trading to electronic trading continued at a fast pace. The volumes traded on the Chicago Mercantile Exchange (CME) and Chicago Board of Trade (CBOT) are increasing steadily. Furthermore, the US futures market - New York Board of Trade (NYBOT) - announced that it will be converting to full electronic trading during 2006.

The great interest in Orc Liquidator continues on all of the company's markets and during the second quarter an additional Liquidator contract was signed with one of the leading US trading firms.

In Asia the demand is increasing for the ability to trade securities on several Asian markets without exchange membership, which has had positive effects on Orc ExNet sales. In particular an increased interest in trading on the Taiwanese markets was noted, which resulted in a number of new Asian customers during the period.

Future outlook

Interest remains strong for algorithmic trading and market access, areas in which Orc Software has a leading market position. The recurring license revenues have continued to increase and the annual value of existing client contracts² amounted to SEK 215 million at the beginning of the third quarter of 2005, an increase by 15 percent since the beginning of the year. The strengthening of the US dollar against the Swedish krona has contributed to an increase in revenue expressed in SEK but with a certain lag, a consequence of previous foreign exchange hedges.

¹ Automatic trading strategies based on, for example historical data, and triggered by various events in the market.

² Defined as the annualized value of existing client contracts, excluding transaction based revenues, using the average exchange rates during the last month of the period, without taking into account foreign exchange hedges. New contracts are included as of the date invoicing is expected to begin and cancelled contracts are included until payment is discontinued.

Orc Software has during the second quarter implemented efficiency actions to make the organization more efficient and to increase profitability. The costs for these actions amounted to SEK 4.2 million and will have a positive impact on earnings during the autumn of 2005. The efficiency program is expected to result in annual savings of approximately SEK 15 million, with full effect from the beginning of 2006. The target is an operating margin of at least 15 percent during the fourth quarter 2005.

Significant events during the quarter

Alliance with OMX

Towards the end of the second quarter Orc Software and OMX Technology signed a letter of intent for the joint development of a new front office trading platform. The new platform is primarily aimed at brokers who use exchange provided terminals and it complements the current product offerings of both Orc Software and OMX Technology. In addition, Orc Software will have access through OMX to a global distribution channel for sales to the exchanges.

Through the partnership, OMX Technology will transfer approximately 8 people to Orc Software. The platform is expected to be launched at the beginning of 2006.

This agreement is expected to be finalized during the third quarter 2005. The alliance is not currently expected to have an impact on Orc Software's earnings during 2005 but is estimated to have a positive effect on earnings during the later part of 2006.

A more efficient organization

During the second quarter Orc Software implemented efficiency actions aimed to make the organization more efficient and to increase profitability.

The following actions have been taken:

- Approximately 10 employees have left the company, of which the majority was employed by the head office in Stockholm.
- The business in Asia has been centralized to Hong Kong in order to create a stronger platform for the region Asia and Australia. The Hong Kong office has expanded within sales, support and development. The office in Hong Kong has taken over large parts of the sales responsibility for the region from other offices.
- The offices in Sydney and Tokyo will primarily focus on managing existing clients, i.e. account management and support.
- The office in Zurich will focus on account management and support, and the sales responsibility for the Swiss market is divided between the offices in Germany and Italy as well as via the alliance with Reuters.
- The support function for Reuters that Orc Software had in Spain has been discontinued as the Spanish sales via Reuters have increased. Going forward Reuters will take greater responsibility for sales on the Spanish market.

Reuters alliance

The alliance with Reuters continued to develop well during the period. New ROMEX contracts (Reuters Order Management for Exchange Execution) were signed with clients in Spain and Switzerland.

Market connections

As of June 30, 2005, Orc Software had 91 direct market connections to exchanges. During the period a connection to Budapest Stock Exchange in Hungary was established.

Furthermore the possibility to trade without membership on 48 market places globally via the Orc ExNet service is offered.

Product development

During the second quarter a new version of the Orc System 5.1 was launched and very positively received by the market. The new version contains among other things:

- Improved basket and combo trading.
- Enhanced, flexible order submission and manipulation.
- Extended volatility management functionality giving the trader an excellent overview of trading opportunities.
- The introduction of a comprehensive training tool for traders, with instant order matching, position keeping and risk analysis.

In addition, 5.1 has a new, faster and more customizable version of Orc Liquidator. The new version of Orc Liquidator has shown very short response times in tests with the Solaris 10 Operating System and Sun's x64 AMD Opteron™-server. The next version of the Orc System is expected at the end of 2005.

Share repurchase

During the period Orc Software received a renewed authorization from the Annual General Meeting 2005 to purchase and sell its own shares. During January-June 2005 Orc Software did not repurchase any Orc shares. In total Orc Software has acquired 513 500 Orc shares for SEK 30 million, in accordance with the authorization from the Annual General Meetings in 2003 and 2004. Repurchased shares equal 3.5 percent of the total number of outstanding shares of 14 850 000. Excluding Orc Software's holding, the number of shares equals 14 336 500.

Purchase of additional share in E2E infotech

June 1, 2005 Orc Software purchased an additional 17 percent of E2E infotech for GBP 1700, in addition to the previously owned share of 34 percent. Orc Software now owns 51 percent of the company, thereby making the company a subsidiary to Orc Software. E2E infotech and the of E2E infotech fully owned E2E infotech (India) Pvt are thereby consolidated in the Group's accounting as of June 1, 2005. E2E infotech's revenue amounted to approximately SEK 5 million during the previous financial year and the company has 16 employees. Initially the acquisition will only have minor effects on earnings.

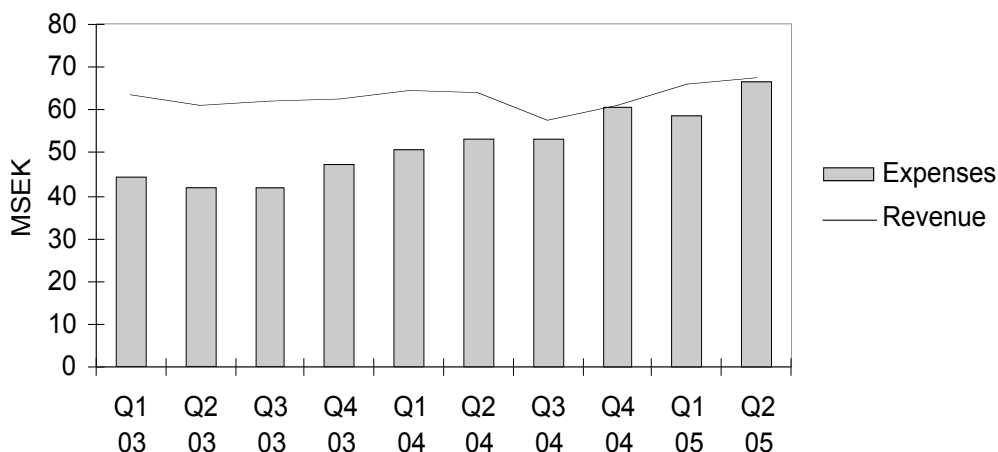
Events after reporting period

Financing agreement with Hun Research is cancelled

As of the second quarter of 2004 Orc Software has contributed to the financing of Hun Research. During the second quarter of 2005 Cancale Förvaltning, which is owned by Nils Nilsson and Ulrika Hagdahl, purchased a portion of Hun Research. In conjunction with the changes in the ownership of Hun Research the agreement has been cancelled and as a result the loan will be repaid. Hun Research will continue to be an Orc Software client.

Revenue

Quarterly revenue and expenses



January-June 2005

The Group's revenue increased during January-June 2005 by 5 percent to SEK 134 (128 in the corresponding period 2004) million. The effects of the adoption of IFRS have during the first half of the year resulted in positive foreign exchange differences of SEK 10 million.

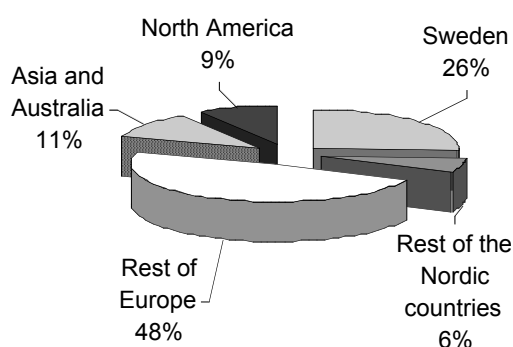
Systems revenue decreased by 3 percent to SEK 113 (117) million and amounted to 84 (91) percent of total revenue. The decrease refers to a changed revenue model for Orc Liquidator that previously included a larger initial payment. The revenue model for Orc Liquidator is becoming more similar to the traditional revenue model, which means that the average initial payment decreases while the recurring license fee increases.

Other operating revenue increased by SEK 10.7 million to SEK 21 (10.3) million. The increase is mainly due to positive foreign exchange differences.

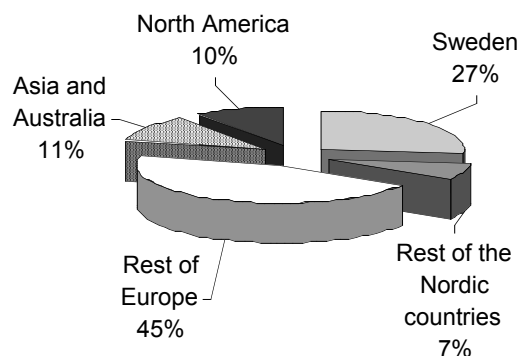
During January-June 2005, revenue from customers located outside Sweden represented 74 (74) percent of total revenue. At the end of June 2005, OrcSoftware had customers in a total of 22 (20) countries.

Revenue per geographic market

January-June 2005



Full year 2004



At the end of June 2005 the number of client sites amounted to 196³, of which 178 (161) consisted of Orc Software's client sites and 18 were client sites through the Reuters alliance. Average revenue per client site⁴ during January-June 2005 amounted to SEK 1.2 (1.5) million. Of

³ The number of client sites includes the sites that at the end of the accounting period paid a license fee. As of 2005 the client sites for ROMEX clients are also included.

⁴ Calculated as the total systems revenue divided by the average number of client sites for the period.

Orc Software's client sites, 10 new client sites were added during the period, primarily in Hong Kong and London. The number of lost client sites consisted of 4 smaller sites. During the second quarter Orc Software received cancellations regarding 8 client sites, of which 3 client sites are related to one of Orc Software's largest clients, which has cancelled its agreement, with financial impact as of the third quarter of 2005. The cancellation is due to the client discontinuing the part of the business where the Orc System was used.

April-June 2005

During April-June 2005 the Group's revenue increased by 6 percent to 68 (64) million. The effects of the adoption of IFRS have during the second quarter resulted in positive foreign exchange differences of SEK 5.5 million. Compared to the previous quarter revenue increased by 2 percent.

Initial revenue for one Orc Liquidator sale, where the agreement was signed by the end of the first quarter, was recognized as revenue for the period. Orc Software also received a smaller initial payment during the period due to a sale of Orc Liquidator to a US trading firm.

Other operating revenue amounted to SEK 11.2 (4.7) and increased by SEK 1.4 million compared to the previous quarter. The increase is related to increased professional services and positive foreign exchange differences. Furthermore, these revenues include hardware sales.

Earnings

January-June 2005

Operating income decreased during January-June 2005 by 65 percent to SEK 8.8 (25) million, representing an operating margin of 6.5 (19.1) percent.

Foreign exchange hedging resulted in an effect on operating level of SEK -4.9 (8.1) million.⁵

As of June 30, 2005, future flows equivalent to SEK 64 (45) million had been hedged, consisting of US dollar 5.0 (4.3) million and Euro 3.0 (1.0) million secured against Swedish kronor at an average forward rate of 7.24 (8.27) USD/SEK and 9.20 (9.40) EUR/SEK with a total average remaining duration of around 10 (5) months.

April-June 2005

Operating income decreased during April-June 2005 by SEK 10 million to SEK 1.0 (11) million, representing an operating margin of 1.5 (17.0) percent. Compared to the previous quarter operating income decreased by SEK 6.7 million. The decrease is, among other things, attributable to expenses related to reductions in personnel.

Operating expenses⁶

Operating expenses increased during January-June 2005 by 20 percent to SEK 125 (104) million. In comparison to the previous quarter Operating expenses increased by 14 percent. The cost increase in comparison with the previous quarter was related to increased costs for negative foreign exchange differences related to IFRS, restructuring of an existing Liquidator agreement and the efficiency program.

⁵ The valuation is based on the exchange rates at the end of the accounting period: USD/SEK 7.82 and EUR/SEK 9.44.

⁶ Due to OrcSoftware's working methods, whereby there is a considerable overlap between sales and support work and sales and development work, OrcSoftware reports its results according to the principles for an income statement presented by type of cost.

Personnel costs increased by 24 percent to SEK 68 (55) million during January-June 2005. In relation to the previous quarter personnel costs increased by SEK 4.2 million, a result of the efficiency program.

The purchase cost of goods sold increased during January-June 2005 by SEK 3.4 million compared to the same period the previous year and amounted to SEK 9.1 (5.7) million. In relation to the previous quarter these costs decreased somewhat.

Cost of premises during January-June 2005 were largely unchanged compared to the same period the previous year and amounted to SEK 8.5 (8.8) million. These costs increased slightly in relation to the previous quarter.

Telecom expenses increased during January-June 2005 by 5 percent compared to the same period the previous year and amounted to SEK 4.5 (4.3) million. Compared with the previous quarter these costs decreased somewhat.

Consulting fees, related to external product development, decreased during January-June 2005 by 54 percent in relation to the same period the previous year and amounted to SEK 1.7 (3.7) million. Compared to the previous quarter these costs also decreased by 54 percent.

Other external expenses⁷ increased by 47 percent to SEK 25 (17) million during January-June 2005. Compared to the previous quarter Other external expenses increased by 55 percent. The effects of the adoption of IFRS have during the second quarter resulted in negative foreign exchange differences, which increased the expenses by approximately SEK 1 million compared to the previous quarter.

Depreciation and amortization decreased by 5 percent and amounted to SEK 8.4 (8.8) million during January-June 2005. These costs were largely unchanged compared to the previous quarter.

Capitalized development expenditure

Capitalized development expenditure during January-June 2005 amounted to – (0.6) million. The capitalized development expenditure decreased since the development of new market connections is no longer considered to meet the requirements for capitalization. Amortization of the accumulated capitalized development expenditure amounted to SEK 4.2 (4.4) million.

Equity/assets ratio and earning capacity

The equity/assets ratio at the end of June 2005 amounted to 60 (66) percent compared to 64 percent by the end of March 2005. During the period January-June 2005 return on capital employed amounted to 15 (24) percent, and return on equity to 8 (16) percent.

Cash flow and investments

The Group's cash flow before changes in working capital and investments equaled SEK 20 (19) million in January-June 2005.

The change in working capital amounted to SEK –2.6 (7.3) million in January-June 2005 and was primarily due to increased operating liabilities. Operating capital amounted to SEK -25 (6.4) million at the end of June 2005.

⁷ Other external expenses consist mainly of other external consulting (not related to product development), travel, marketing and negative foreign exchange differences.

The Group's investments amounted to SEK 3.4 (16) million during the first half of 2005 and mainly concerned investments in computer and office equipment and financial assets.

The Group's cash flow after investments amounted to SEK 19 (-4.3) million during January-June 2005.

The company did not have any interest-bearing liabilities during the period. Liquid funds amounted to SEK 189 (191) million as of June 30, 2005. During the second quarter the company has distributed SEK 22 million to shareholders.

Taxation

The tax rate during January-June 2005 amounted to 32 (32) percent. Tax expenses are calculated after estimated tax for parent company and respective subsidiaries. The relatively high tax rate is due to an unaccounted tax receivable, related to a loss carried forward in a subsidiary.

Employees

At the end of June 2005 Orc Software had 183 (156) employees. The increase is due to the consolidation of E2E infotech in the Group's accounting following the purchase of additional shares. In total 16 employees were added from E2E infotech, of which the majority work with development in India. Excluding the effects related to E2E infotech, the number of employees decreased by 6 compared to the previous quarter, primarily due to efficiency measures in the organization. The average number of employees during January-June amounted to 176 (149). The number of women amounted at the end of June 2005 to 36 (25), and the number of men 147 (131).

Pension plan

So far Orc Software's employees in Sweden have had the opportunity for pension savings via gross salary deduction. As of July 1, 2005 the company has complemented this model with a traditional pension plan for all employees in Sweden over 27 years of age, except for the CEO. The plan is scheduled for a phased implementation during a three-year period and as of the third quarter will result in a minor cost increase.

Shareholders

The number of shareholders in OrcSoftware on May 31, 2005 equaled 2 274 (2 745 on June 24, 2004).

OrcSoftware's ten largest shareholders	No. of shares	% of shares
OMX Technology	4 488 075	31.3
Cancale Förvaltning*	1 493 200	10.4
SEB funds	1 355 140	9.5
Robur funds	598 110	4.2
Hagströmer & Qviberg FK	485 459	3.4
RAM One	450 000	3.1
If	392 800	2.7
Carnegie Fund	300 000	2.1
Nordea Bank Finland	297 581	2.1
Mikael Lönn	200 000	1.4
Other shareholders	4 276 135	29.8
Total	14 336 500	100.0

Source: VPC AB, direct and nominee shareholders May 31, 2005.

As of June 30, 2005 Orc Software has purchased 513 500 shares and the total number of shares, reduced by Orc Software's repurchase of own shares, amounted to 14 336 500.

*Cancale Förvaltning is jointly owned in equal shares by Ulrika Hagdahl and Nils Nilsson.

New employment agreements for Executive Vice Presidents

The Group's two Executive Vice Presidents signed new employment agreements during the period. As of January 1, 2005, EVP Lars Johansson receives a fixed monthly salary of SEK 140 000 (122000) and EVP Joakim Johansson receives a fixed monthly salary of SEK 130 000 (100000). They have the possibility of receiving an income based variable salary equal to a maximum of three fixed monthly salaries. Executive Vice Presidents are, similar to other employees in Sweden, entitled to pension benefits in conjunction with the implementation of the new pension plan. Furthermore, the Executive Vice Presidents have a notice period of 6 months, a non-competition clause with the right to 60 percent of fixed salary during a 6-month period and the right to severance pay equal to 6 months fixed salary.

Transactions with affiliated companies

During January-May 2005, at which time E2E infotech was an associated company to Orc Software, Orc Software purchased development services from E2E infotech for SEK 2.8 million.

During the quarter Orc Software increased its ownership in Promyzer AB from 59 percent to 64 percent. This took place through an issue of 14 800 new shares equaling a total of SEK 750 thousand.

During January-June 2005 Promyzer leased a server room from OMX Technology at a cost of SEK 188 thousand.

Cancale Förvaltning is part owner of Russian Real Estate Investment Company AB, which in turn owns the building where Orc Software's office in St Petersburg is located since December 2004. Cancale Förvaltning is owned by Ulrika Hagdahl, who is a Board member of Orc Software, and Nils Nilsson. Nils Nilsson is also the chairman of the Board of Russian Real Estate Investment Company AB. The annual cost for the lease agreement currently amounts to SEK 854 thousand.

All transactions with affiliated companies are done according to market value.

The Parent company

The Parent company's revenue increased by 5 percent to SEK 128 (122) million. Income after financial items amounted to SEK 7.1 (26) million. Liquid funds amounted at the end of the period to SEK 149 (165) million, of which SEK 132 (149) million consisted of short-term investments.

Accounting principles

This interim report is prepared in accordance with IAS 34, Interim Financial Reporting, which is in accordance with the requirements stipulated by the Swedish Financial Accounting Standards Council recommendation RR31, Interim Financial Reporting for Groups. In comparison to the last annual report the accounting principles have been changed due to the adoption of IFRS. The effects of the adoption of IFRS and the new principles applicable are described below and are referred to in note references in the income statement, balance sheet, equity and cash flow analysis. All other accounting principles are in accordance with the principles used in the annual report for 2004.

The principles have been applicable as of January 1, 2005 and the comparable year 2004 has been recalculated. The adoption rules are available in IFRS 1, First-time Adoption of International Financial Reporting Standards, which states that all standards shall be applied retrospectively. However, a number of mandatory as well as voluntary exceptions from the main rule are stated. Orc Software uses the voluntary exceptions that are applicable to the Group.

The most significant effects of the adoption for Orc Software concern accounting for minority interests and financial instruments. Financial instruments are dealt with in IAS 39, which is applicable from 2005. In accordance with the adoption rules no recalculation has been made regarding financial instruments for 2004.

Adoption of IFRS 2005

Below is a summary of the effects on Net income and the Group's equity, changes in the accounting principles as well as comments on these changes. The effects reported are preliminary and based on the current standards, which may be changed up until December 31, 2005.

Net income effects

Net income effect for Jan-Jun 2004, SEK thousands	Note	
Net income for Jan-Jun 2004 according to previous principles		18 908
Adjusted for the minority's part of the income for the period	A	-434
Reversal of goodwill amortization	B	48
Net income for Jan-Jun 2004 according to IFRS		18 522
Earnings per share for Jan-Jun 2004 according to previous principles, SEK		1.29
Earnings per share for Jan-Jun 2004 according to IFRS, SEK	A	1.30

Net income effect for Apr-Jun 2004, SEK thousands	Note	
Net income for Apr-Jun 2004 according to previous principles		8 786
Adjusted for the minority's part of the income for the period	A	-618
Reversal of goodwill amortization	B	24
Net income for Apr-Jun 2004 according to IFRS		8 192
Earnings per share for Apr-Jun 2004 according to previous principles, SEK		0.60
Earnings per share for Apr-Jun 2004 according to IFRS, SEK	A	0.61

Net income effect for the full year 2004, SEK thousands	Note	
Net income for 2004 according to previous principles		23 254
Adjusted for the minority's part of the income for the year	A	-2 067
Reversal of goodwill amortization	B	96
Net income for 2004 according to IFRS		21 283
Earnings per share for 2004 according to previous principles, SEK		1.60
Earnings per share for 2004 according to IFRS, SEK	A	1.61

Effects on shareholders' equity

Effect on shareholders' equity January 1, 2004, SEK thousands	Note	
Shareholders' equity December 31, 2003 according to previous principles		244 278
Adjusted for minority interests	A	1 259
Shareholders' equity January 1, 2004 according to IFRS		245 537

Effect on shareholders' equity June 30, 2004, SEK thousands	Note	
Shareholders' equity June 30, 2004 according to previous principles		206 559
Adjusted for minority interests	A	866
Reversal of goodwill amortization	B	48
Shareholders' equity June 30, 2004 according to IFRS		207 473

Effect on shareholders' equity December 31, 2004 and January 1, 2005, SEK thousands	Note	
Shareholders' equity December 31, 2004 according to previous principles		197 635
Adjusted for minority interests ⁸	A	1 461
Reversal of goodwill amortization	B	96
Shareholders' equity December 31, 2004 according to IFRS		199 192
Effect due to the adoption of IAS 39 January 1, 2005	C3	-2 184
Shareholders' equity January 1, 2005 according to IFRS		197 008

⁸ The annual report for 2004 states SEK -808 thousand, the correct amount should be SEK 1 461 thousand.

Notes

A The minority's part

According to IAS 27, Consolidated and Separate Financial Statement, the minority's part of the income for the period shall be included in the net income. The portion of net income for the period related to the minority interest shall be stated in connection with the income statement. The calculation of earnings per share shall also continue to take into account the minority's part of the income. The minority's share of equity constitutes a part of the Group's reported equity but shall be reported separately within equity. The period's net income attributable to the minority amounts to SEK -434 thousand for January to June 2004 and SEK -2 067 thousand for the full year 2004. The effect on equity for the full year 2004, however, is only SEK 202 thousand; the difference is due to additional subsidiaries in which there are minority interests.

B Amortization of goodwill

In accordance with IFRS 3 Business Combinations, goodwill amortization shall not take place. Instead the stated value shall be tested each year, or more often if circumstances exist that indicate a decrease in value. The amortization for January-June 2004 of SEK 48 thousand and SEK 96 thousand for the full year 2004 have been reentered. No write-downs were necessary.

C Financial instruments

IAS 39 Financial Instruments: Recognition and Measurement, requires that financial assets and liabilities are classified in different categories in order to be accounted for and valued in accordance with the applicable principle for each category.

The majority of Orc Software's financial assets and liabilities are classified in the category that shall be valued at amortized cost. The character of these assets and liabilities is such that the difference between the amortized cost and the acquisition value is zero. Therefore, the adoption of IFRS does not bring any change to previous principles regarding these assets.

C1 Available-for-sale investments

Long-term shareholdings that do not consist of holdings in subsidiaries or associated companies have been classified as Available-for-sale investments and are valued at fair value. These assets were previously reported under the heading Other long-term financial fixed assets. A valuation of the fair value for the shareholding in Game Federation Svenska has resulted in a downward adjustment of the value by SEK 140 thousand as of June 30, 2005. This has been reported as Non-restricted equity, Net unrealized gains reserve, in accordance with IAS 39 and FAR's recommendation.

C2 Short-term investments – held to maturity investments

Orc Software's short-term investments are classified in the category Held to maturity investments and are valued at amortized cost. This results in a transfer of the accrued interest from the entry Prepaid expenses and accrued income to the entry Short-term investments on the balance sheet. As of June 30, 2005 the accrued interest amounted to SEK 664 thousand.

C3 Foreign exchange forwards and embedded derivatives – derivatives assets and derivatives liabilities

According to IFRS all foreign exchange forwards shall be accounted for at fair value; the change in value shall be accounted for directly in the income statement. This differs from previous accounting standards in which only the portion of the income from foreign exchange hedging equivalent to a holding in the balance sheet affects the income statement. For the period January-June 2005, SEK 4.9 million has been accounted for as Other external expenses for the fair value of foreign exchange forward holdings.

Customer and supplier contracts entered into in a third party currency contain embedded derivatives according to IAS 39. Orc Software has a number of customer and supplier

contracts in third party currencies and the calculation of the value of these embedded derivatives for January-June 2005 resulted in a positive effect on income of SEK 5.0 million accounted for as Other operating revenues and Other external expenses.

As of January 1, 2005 foreign exchange gains and losses will be reported separately on the income statement if these transactions are not of similar character. This means the income effect of foreign exchange forwards is not reported on a net basis against other foreign exchange gains and losses that arise in the current accounting.

In accordance with the adoption rules, comparable figures have not been adjusted and the adoption of the accounting principles IAS 39 and IAS 32 have both come into effect as of January 1, 2004. This means that the effect of the change in accounting principles has been accounted for as an adjustment in the opening balance of equity in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The following adjustments have been made:

Effect on shareholders' equity January 1, 2005 according to IAS 39, SEK thousands	
Embedded derivatives customer contracts	-2 282
Embedded derivatives supplier contracts	23
Foreign exchange forward contracts at fair value	75
Effect on shareholders' equity January 1, 2005 according to IFRS	-2 184

The fair value of the foreign exchange forward contracts are gross accounted on the balance sheet as a derivatives asset or derivatives liability, i.e. they have not been accounted for together with underlying receivables or liabilities as previously. The same approach applies to embedded derivatives for customer and supplier contracts. The derivatives assets are accounted for under the entry Other receivables and amounted to SEK 2.0 million as of June 30, 2005, derivatives liabilities were accounted for as Other liabilities and amounted to SEK 6.7 million as of June 30, 2005.

D Cash flow

The Group's cash flow calculation and format has not been changed in conjunction with the adoption of IFRS.

Income statement

SEK thousands	IFRS note	Jan-Jun 2005	Jan-Jun 2004	Apr-Jun 2005	Apr-Jun 2004	2004
Operating revenue						
Systems revenue		113 000	117 422	56 605	58 848	225 703
Work performed by the company for its own use and capitalized		-	617	-	269	884
Other operating revenue	C3	21 045	10 329	11 222	4 708	20 902
Total revenue		134 045	128 368	67 827	63 825	247 489
Operating expenses						
Purchase cost of goods sold		- 9 142	-5 739	-4 229	-2 701	-12 193
External expenses						
Cost of premises		-8 507	-8 774	-4 430	-4 410	-17 492
Telecom expenses		-4 537	-4 322	-2 018	-2 078	-9 357
Consulting fees		-1 690	-3 685	-534	-1 961	-7 592
Other external expenses	C3	-25 216	-17 454	-15 315	-10 022	-38 106
Personnel costs		-67 777	-54 985	-36 079	-27 336	-115 477
Depreciation and amortization	B	-8 419	-8 838	-4 191	-4 441	-17 702
Total expenses		-125 288	-103 797	-66 796	-52 949	-217 919
Operating income		8 757	24 571	1 031	10 876	29 570
Financial items						
Income from participation in associated companies		211	910	88	1 458	1 043
Financial income		5 598	2 529	3 235	1 008	4 674
Financial expenses		-3 784	-601	-2 393	-598	-2 919
Net financial income		2 025	2 838	930	1 868	2 798
Income after financial items		10 782	27 409	1 961	12 744	32 368
Tax on net income for the period		-3 502	-8 887	-538	-4 552	-11 085
Net income for the period	A	7 280	18 522	1 423	8 192	21 283
Net income for the period attributable to the minority interest	A	-259	-434	-330	-618	-2 067
Net income for the period attributable to the Parent company's shareholders		7 539	18 956	1 753	8 810	23 350
Earnings per share ⁹ , SEK	A	0.53	1.30	0.12	0.61	1.61
Number of outstanding shares at the end of the period reduced by Orc Software's repurchase of its own shares, thousands		14 337	14 537	14 337	14 537	14 337
Average number of outstanding shares reduced by Orc Software's repurchase of own shares, thousands		14 337	14 603	14 337	14 581	14 541

⁹ Orc Software does not have any outstanding convertible loans or warrants and thereby no dilution effects.

Balance sheet

SEK thousands	IFRS note	30 Jun 2005	30 Jun 2004	31 Dec 2004
ASSETS				
Fixed assets				
Intangible assets				
Capitalized development expenditure		9 579	18 058	13 788
Goodwill	B	535	286	286
Other intangible fixed assets ¹⁰		1 051	1 793	1 422
Tangible assets				
Equipment		17 244	18 686	17 702
Financial assets				
Shares in associated companies		-	1 051	1 131
Available-for-sale investments	C1	3 082	3 646	2 806
Other long-term financial fixed assets	C1	24 906	12 419	21 577
Deferred tax receivable		3 185	-	-
Total fixed assets		59 582	55 939	58 712
Current assets				
Current receivables				
Accounts receivable		43 271	48 225	43 090
Prepaid tax		7 452	7 089	12 089
Other receivables	C3	5 119	3 279	4 254
Prepaid expenses and accrued income	C2	8 636	7 004	8 164
Short-term investments	C2	137 608	153 142	137 255
Cash and bank balances		51 396	37 931	48 911
Total current assets		253 482	256 670	253 763
TOTAL ASSETS		313 064	312 609	312 475
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Equity attributable to equity holders of the Parent company				
Restricted equity				
Share capital		1 485	1 485	1 485
Restricted reserves		108 389	101 752	107 798
Non-restricted equity				
Non-restricted reserves		75 108	103 370	88 448
Net unrealized gains reserve	C1	-140	-	-
Equity attributable to the minority interest	A	2 860	866	1 461
Total shareholders' equity		187 702	207 473	199 192
Provisions				
Deferred tax liability		25 881	23 768	25 333
Total provisions		25 881	23 768	25 333
Current liabilities				
Accounts payable		6 955	7 034	7 161
Tax liabilities		5 588	-	1 598
Other liabilities	C3	12 523	4 727	8 148
Accrued expenses and prepaid income		74 415	69 607	71 043
Total current liabilities		99 481	81 368	87 950
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		313 064	312 609	312 475
Pledged assets		None	None	None
Contingent liabilities		None	None	None

¹⁰ This item pertains to Orc ExNet.

Specification of the Group's goodwill

In accordance with IFRS there are no amortizations of goodwill. Instead the accounted value shall be tested each year or more often if there are circumstances that indicate a decrease in value. The accounted value as of June 30, 2005 amounted to SEK 535 (286) thousand. The increase is a result of the consolidation of E2E infotech, previously an associated company.

Specification of the Group's equity (SEK thousands)¹¹

Jan-Jun 2005						
	Share capital	Restricted reserves	Non-restricted equity	Net unrealized gains reserve	Minority share	Total
Opening balance January 1, 2005	1 485	107 798	88 448	-	1 461	199 192
The effect of the implementation of IAS 39, January 1, 2005	-	-	-2 184	-	-	-2 184
Dividend for 2004 ¹²	-	-	-21 505	-	-280	-21 785
Fair value of Available-for-sale investments	-	-	-	-140	-	-140
Change in subsidiaries	-	340	76	-	1 938	2 354
Translation difference etc.	-	251	2 734	-	-	2 985
Net income for the period	-	-	7 539	-	-259	7 280
Closing balance June 30, 2005	1 485	108 389	75 108	-140	2 860	187 702
Jan-Jun 2004						
	Share capital	Restricted reserves	Non-restricted equity	Minority share	Total	
Opening balance January 1, 2004	1 485	101 461	141 332	1 259	245 537	
Dividend for 2003	-	-	-49 725	-	-49 725	
Share repurchase	-	-	-6 736	-	-6 736	
Sale of associated company	-	-	-500	-	-500	
Adjustments between restricted and non-restricted shareholders' equity	-	243	-243	-	0	
Change of minority interest	-	-	-	41	41	
Translation difference etc.	-	48	286	-	334	
Net income for the period	-	-	18 956	-434	18 522	
Closing balance June 30, 2004	1 485	101 752	103 370	866	207 473	
Apr-Jun 2005						
	Share capital	Restricted reserves	Non-restricted equity	Net unrealized gains reserve	Minority share	Total
Opening balance January 1, 2005	1 485	107 886	92 796	-140	1 532	203 559
Dividend for 2004 ¹²	-	-	-21 505	-	-280	-21 785
Change in subsidiaries	-	340	76	-	1 938	2 354
Translation difference etc.	-	163	1 988	-	-	2 151
Net income for the period	-	-	1 753	-	-330	1 423
Closing balance June 30, 2005	1 485	108 389	75 108	-140	2 860	187 702
Apr-Jun 2004						
	Share capital	Restricted reserves	Non-restricted equity	Minority share	Total	
Opening balance April 1, 2004	1 485	101 565	152 345	1 443	256 838	
Dividend for 2003	-	-	-49 725	-	-49 725	
Share repurchase	-	-	-6 736	-	-6 736	
Sale of associated company	-	-	-500	-	-500	
Adjustments between restricted and non-restricted shareholders' equity	-	243	-243	-	0	
Change of minority interest	-	-	-	41	41	
Translation difference etc.	-	-56	-581	-	-637	
Net income for the period	-	-	8 810	-618	8 192	
Closing balance June 30, 2004	1 485	101 752	103 370	866	207 473	

¹¹ The effects of the adoption of IFRS are explained on pages 10-13.

¹² Of which SEK 280 thousand refers to unpaid dividends from Orc ExNet.

Cash flow statement

SEK thousands	IFRS note	Jan-Jun 2005	Jan-Jun 2004	2004
Operating activities				
Operating income	B	8 757	24 571	29 570
Adjustment for items not included in cash flow				
Depreciation and amortization	B	8 419	8 838	17 702
Other adjustments for items not included in cash flow		-2 119	-125	1 134
Financial items		1 278	2 994	5 299
Income tax paid		3 382	-17 529	-21 581
Cash flow from operating activities before changes in working capital		19 717	18 749	32 124
Changes in working capital				
Changes in accounts receivable		642	-7 544	-2 320
Changes in other operating assets		-1 548	2 331	-450
Changes in accounts payable		-59	1 065	1 140
Changes in other operating liabilities		3 568	-3 172	2 155
Total change in working capital		2 603	-7 320	525
Cash flow from operating activities		22 320	11 429	32 649
Investment activities				
Investments in intangible fixed assets		-	-617	-884
Investments in tangible fixed assets		-2 789	-5 143	-8 281
Investments in subsidiaries		1 608	-	140
Changes in financial fixed assets		-2 175	-9 993	-20 527
Cash flow from investment activities		-3 356	-15 753	-29 552
Financing activities				
Share repurchase		-	-6 736	-18 680
Dividend		-21 505	-49 725	-49 725
Cash flow from financing activities		-21 505	-56 461	-68 405
Change in liquid funds		-2 541	-60 785	-65 308
Opening liquid funds		186 166	251 867	251 867
Translation difference/exchange differences in liquid funds		5 379	-9	-393
Closing liquid funds	D	189 004	191 073	186 166

Key ratios

	Jan-Jun 2005	Jan-Jun 2004	Apr-Jun 2005	Apr-Jun 2004	2004
Operating margin, %	6.5	19.1	1.5	17.0	12.0
Return on equity, %	8	16	4	14	11
Return on capital employed, %	15	24	9	22	15
Asset turnover ratio	1.4	1.1	1.3	1.2	1.1
Equity/assets ratio, %	60	66	60	66	64
Average number of employees	176	149	178	153	157
Earnings per share, SEK	0.53	1.30	0.12	0.61	1.61
Equity per share, SEK	12.89	14.21	12.89	14.21	13.79
Share price at the end of the period, SEK	57.50	67.50	57.50	67.50	57.75
Number of outstanding shares at end of period, reduced by Orc Software's repurchase of own shares, thousands	14 337	14 537	14 337	14 537	14 337

Geographical segments

Orc Software's risks and opportunities are mainly influenced by the company being operational within different geographical areas based on the location of clients. This determines the primary segment division of the geographical areas. Orc Software's products and services are of similar character, aimed at similar client groups, distributed in a similar manner and have a similar production process. In this way the business consists of only one operating structure and information regarding the classification of the operating structure is therefore not provided.

The local operations mainly consist of sales and support efforts and in certain cases development. Functions such as Group management, legal, human resources, accounting and administration, marketing, development, etc. are located centrally and are considered joint Group resources. This means that a great part of the Group's expenses cannot be attributed to a specific geographical area in a reliable way and they therefore remain unallocated.

Group Jan-Jun 2005

SEK thousands	Europe	North America	Asia/Australia	Other	Total
Operating revenue external clients	98 785	11 612	13 336	-	123 733
Unallocated revenue	-	-	-	10 312	10 312
Total	98 785	11 612	13 336	10 312	134 045
Income per segment before joint Group expenses	60 838	3 062	4 100	10 312	78 312
Unallocated costs	-	-	-	-69 555	-69 555
Operating income	-	-	-	-59 243	8 757
Net financial income	211	-	-	1 814	2 025
Income after financial items	211	-	-	-57 429	10 782
Tax on net income for the period	-	-	-	-3 502	-3 502
Net income for the period	-	-	-	-	7 280

Group Jan-Jun 2004

SEK thousands	Europe	North America	Asia/Australia	Other	Total
Operating revenue external clients	98 925	14 162	14 664	-	127 751
Unallocated revenue	-	-	-	617	617
Total	98 925	14 162	14 664	617	128 368
Income per segment before joint Group expenses	73 036	8 072	3 556	617	85 281
Unallocated costs	-	-	-	-60 710	-60 710
Operating income	-	-	-	-	24 571
Net financial income	-	-	-	2 838	2 838
Income after financial items	-	-	-	-	27 409
Tax on net income for the period	-	-	-	-8 887	-8 887
Net income for the period	-	-	-	-	18 522

Group Apr-Jun 2005

SEK thousands	Europe	North America	Asia/ Australia	Other	Total
Operating revenue external clients	49 301	5 838	7 223	-	62 362
Unallocated revenue	-	-	-	5 465	5 465
Total	49 301	5 838	7 223	5 465	67 827
Income per segment before joint Group expenses	29 518	1 128	2 284	5 465	38 395
Unallocated costs	-	-	-	-37 363	-37 363
Operating income	-	-	-	-31 898	1 031
Net financial income	88	-	-	842	930
Income after financial items	88	-	-	-31 057	1 961
Tax on net income for the period	-	-	-	-538	-538
Net income for the period	-	-	-	-	1 423

Group Apr-Jun 2004

SEK thousands	Europe	North America	Asia/ Australia	Other	Total
Operating revenue external clients	51 119	4 513	7 924	-	63 556
Unallocated revenue	-	-	-	269	269
Total	51 119	4 513	7 924	269	63 825
Income per segment before joint Group expenses	40 131	984	2 500	269	43 884
Unallocated costs	-	-	-	-33 008	-33 008
Operating income	-	-	-	-	10 876
Net financial income	-	-	-	1 868	1 868
Income after financial items	-	-	-	-	12 744
Tax on net income for the period	-	-	-	-4 552	-4 552
Net income for the period	-	-	-	-	8 192

Quarterly figures

Income statement

SEK thousands	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005
Operating revenue						
Systems revenue	58 574	58 848	53 217	55 064	56 395	56 605
Work performed by the company for its own use and capitalized	348	269	127	140	-	-
Other operating revenue	5 621	4 708	4 164	6 409	9 823	11 222
Total revenue	64 543	63 825	57 508	61 613	66 218	67 827
Operating expenses						
Other expenses	-18 803	-21 172	-20 818	-23 948	-22 565	-26 526
Personnel costs	-27 648	-27 336	-28 115	-32 377	-31 698	-36 079
Depreciation and amortization	-4 397	-4 441	-4 428	-4 436	-4 228	-4 191
Total expenses	-50 848	-52 949	-53 361	-60 761	-58 491	-66 796
Operating income	13 695	10 876	4 147	852	7 727	1 031
Net financial items	970	1 868	700	-740	1 095	930
Tax on net income for the period	-4 335	-4 552	-2 102	-96	-2 964	-538
Net income for the period	10 330	8 192	2 745	16	5 858	1 423
Net income for the period attributable to the minority interest	184	-618	-1 111	-522	71	-330
Net income for the period attributable to the Parent company's shareholders	10 146	8 810	3 856	538	5 787	1 753

Balance sheet

SEK thousands	31 Mar 2004	30 Jun 2004	30 Sept 2004	31 Dec 2004	31 Mar 2005	30 Jun 2005
Fixed assets						
Intangible assets	22 304	20 137	17 813	15 496	13 155	11 165
Tangible assets	19 552	18 686	18 864	17 702	17 890	17 244
Financial assets	6 850	17 116	21 076	25 514	28 414	31 173
Total fixed assets	48 706	55 939	57 753	58 712	59 459	59 582
Current assets						
Accounts receivable	31 353	48 225	35 359	43 090	41 741	43 271
Other receivables	15 362	17 372	23 655	24 507	31 267	21 207
Cash and bank balances and short-term investments	256 433	191 073	190 405	186 166	185 536	189 004
Total current assets	303 148	256 670	249 419	253 763	258 544	253 482
TOTAL ASSETS	351 854	312 609	307 172	312 475	318 003	313 064
Shareholders' equity	256 838	207 473	207 990	199 192	203 559	187 702
Provisions for deferred tax liability	23 636	23 768	23 772	25 333	25 335	25 881
Current non interest-bearing liabilities	71 380	81 368	75 410	87 950	89 109	99 481
TOTAL EQUITY AND LIABILITIES	351 854	312 609	307 172	312 475	318 003	313 064

Forthcoming financial events

October 13, 2005 Interim Report for January-September 2005

Telephone conference

A telephone conference will be held on July 14, 2005 at 4 p.m. (CET). For more information visit www.orcsoftware.com, Company, Investor Relations, Calendar.

Stockholm, July 14, 2005

The Board of Directors

For further information please contact:

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Auditors' review report

We have reviewed the interim report of Orc Software AB (publ) for the six-month period ending June 30, 2005. Our review has been conducted in accordance with the recommendation issued by the Swedish Institute of Authorized Public Accountants.

The review has been planned and performed to obtain limited assurance that the interim report is free of material misstatement. A review is largely limited to queries of the company's personnel and an analytical evaluation of financial data, and our assurance is limited compared with an audit.

Nothing has come to our attention during the review that causes us to believe that the interim report does not comply with the requirements for interim reports according to the Annual Accounts Act and IAS 34.

Stockholm July 14, 2005

Ernst & Young AB

Björn Fernström

Authorized public accountant

Definitions can be found at www.orcsoftware.com, Company, Investor Relations, Interim Reports.

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