



Orc Software AB – Year-End Financial Report January 1 – December 31, 2004

- **Revenue for 2004 decreased by 1 percent and amounted to SEK 247 (249) million.**
- **Operating income for 2004 decreased by 61 percent to SEK 29 (74) million, giving an operating margin of 11.9 (29.9) percent. Income after taxes amounted to SEK 23 (56) million.**
- **Revenue for October-December 2004 amounted to SEK 62 (62) million with an operating income of SEK 0.8 (16) million, giving an operating margin of 1.3 (24.9) percent. Income after taxes amounted to SEK 0.5 (12) million.**
- **Increased new sales during the fourth quarter, including Orc Liquidator.**
- **Earnings per share amounted to SEK 1.60 (3.78).**
- **The Board of Directors recommends a dividend of SEK 1.50 (3.40) per share for 2004.**

During the year Orc Software increased new sales, especially in the last quarter. Despite these sales, earnings development is not satisfactory. To a certain extent this is due to clients' own cutbacks, cancellations of client agreements and the weakening US dollar. Furthermore, investments in development, sales and distribution have not contributed to earnings as quickly as the company had expected. As a result the company will be increasing its focus on profitability.

Markets

In the Nordic region investment interest increased in the fourth quarter and two Nordic clients signed agreements for Orc Liquidator. These two agreements had financial effects in the fourth quarter of 2004. Following a long period of cost cuts, Nordic participants have started hiring again, which from Orc Software's perspective means possibilities for more sales. Additionally, interest in trading on the Baltic markets has increased.

The rest of Europe developed well and another Liquidator agreement was signed at the end of December 2004. The financial effect from this agreement will be accounted for in conjunction with delivery in the first quarter of 2005. For efficiency reasons many clients aim to reduce the number of suppliers. Since Orc Software has broadened its product portfolio in order to supply full-coverage trading solutions, the company is well positioned among its competitors.

There is still a lot of activity in the US due to the increasingly prevalent electronic trading. The transition from manual to electronic trading has led to among other things extensive changes in the way trading is conducted, which has increased the need for new technology. The ability to trade several asset classes automatically has become more important, even for small participants. The volumes for derivatives trading have also increased significantly due to the widespread electronic trading. These changes have contributed to Orc Software receiving several new clients, mainly in Chicago, during the fourth quarter. Canadian participants' trading has become increasingly global, which has resulted in a growing interest for market connections and automatic trading functionality.

In Asia, sales in Hong Kong in particular have continued to develop well. Interest in trading on the Japanese and Taiwanese markets continues to increase especially from participants outside of these countries. Several smaller participants have left the Australian market during the year due to low volatility and tough competition, which has, to a certain extent, affected Orc Software.

There is an increased focus on advanced automatic trading in several of Orc Software's markets, which has been confirmed by a positive sales development for Orc Liquidator.

The competition from systems developed in-house has increased. Certain clients wish to keep the flexibility and control offered by an internally developed solution. In order to meet this demand Orc Software has both developed Orc Liquidator and begun to modularize the Orc System in order to provide clients with an increased choice regarding which components they wish to buy. Orc Software's strong position in regard to the number of offered market connections provides a significant competitive advantage. Furthermore it has become more important to be able to meet the demand for technology that enables trading in different asset classes, an area in which Orc Software has extensive experience.

Another trend is an increase in demand from institutional and private investors for more advanced trading technology. In many cases, the requirements from these participants are similar to the demands from larger investment banks and brokerage firms.

Future outlook

Orc Software's investments in sales and distribution in previous quarters have now begun to show results in terms of increased new sales. In addition, the company is seeing a general increase in activity on most of the company's markets. This means that the company sees a solid foundation for continued positive development of new sales. The effect on total revenue, however, is expected to be small due to received cancellations and cutbacks.

Significant events during the period

Changes in management

Jonas Lindström¹ was appointed the new Chief Executive Officer of Orc Software and started on December 1, 2004. Jonas Lindström was most recently CEO of Front Capital Systems. Nils Nilsson², Orc Software's previous CEO, is now working with business development and is a member of the company's Board of Directors.

Furthermore, Joakim Johansson, previously Head of Research and Development, has been appointed as the new Executive Vice President and Chief Technical Officer.

¹ Orc Software's new CEO has a fixed monthly salary of SEK 250 thousand. The variable portion of the salary amounts to no more than 50 percent of the yearly fixed salary. Furthermore, the CEO has a premium-based pension benefit that equals 15 percent of the fixed salary.

² Nils Nilsson's employment contract has been renegotiated, which means that a market rate of pay has been issued for Nils Nilsson's new roll.

Reuters alliance

Reuters markets Orc Software products under the trademark Reuters Order Management for Exchange Execution (ROMEX). During the fourth quarter several clients signed contracts for ROMEX. In November, Reuters launched the product in Spain and agreements were signed with local participants on the Spanish exchanges SIBE and MEFF. A number of clients have chosen to sign agreements for ROMEX in conjunction with the conversion to Euronext.liffe's technology for the derivatives exchange in Amsterdam. In Germany and Switzerland a number of local brokerage houses and banks have signed contracts and plan to start using the application in the beginning of 2005.

The timing of the launch of ROMEX in a managed solution will be reassessed pending completion of a new Reuters technical centre. Therefore, resources for ROMEX in 2005 will focus on the marketing of REBS (Reuters Equity Brokerage Suite). REBS combines the price discovery, global news and analytics benefits of Reuters 3000 Xtra, the exchange connectivity and trading benefits of the deployed version of ROMEX and order routing capabilities of RORE (Reuters Order Routing for Equities). RORE will also shortly be connected to Orc ExNet.

Orc ExNet

In the fourth quarter Orc ExNet established collaboration with Interactive Brokers for market access to leading derivatives exchanges in the US. Additionally, collaboration was established with AOT Stockbroking for market access to the Australian Stock Exchange. Earlier in 2004 Orc ExNet signed an agreement with Crédit Agricole Cheuvreux and E*Trade Securities. In total, Orc ExNet now works together with more than ten brokerage firms, which provides Orc Software's clients with several alternatives for trading in Asia, Australia, Europe and North America without exchange membership.

Market connections

As of December 31, 2004, Orc Software had direct market connections to 83 exchanges. During 2004 connections to the following markets were established:

- Archipelago, US
- CATS-OS, Germany
- Chicago Futures Exchange, US
- Eurex US, US
- Euronext.liffe, Netherlands
- KSE Cash, South Korea
- KSE ITS, South Korea
- London Stock Exchange, SETS DTS, UK
- London Stock Exchange, SEAQ, UK
- Mercado Telematico delle Obligazioni, MOT, Italy
- Nord Pool, Nordic region
- Madrid Stock Exchange, Spain
- Singapore Exchange, Singapore
- Warsaw Stock Exchange, Poland

As of December 31, 2004, via its cooperation partners, Orc ExNet offers 49 non-membership market connections in Asia, Australia, Europe and North America.

Hun Research

In order to educate a new generation of traders in advanced automated technology and to ensure that Orc Software today and in the future is able to provide by far the best technology for automated trading, Orc Software has entered into a co-operation with Singapore-based Hun Research. Hun Research provides technology and administrative assistance to smaller trading firms in return for a share of the firms' trading income. Hun Research provides Orc Software with valuable information regarding the demands facing the markets worldwide and is an important part of the development of Orc Software's technology.

Share repurchase

During the fourth quarter Orc Software repurchased 150 000 of its own 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 equals 3.5 percent of the total number of outstanding shares of 14 850 000. Excluding Orc Software's holding, the number of shares equals 14336 500. The par value of the repurchased shares amounted to SEK 51 350. The aim with the repurchase authorization is to provide the Board of Directors with the possibility to create further value for the company's shareholders by being able to change the company's capital structure.

Product development

During the year a number of changes took place within the research and development department. Joakim Johansson was appointed new Executive Vice President with responsibility for research and development. Furthermore, the research and development department was divided into four areas; core technology, client application development, automatic trading and quality assurance.

During the year Orc Software continued to focus significant development resources on Orc Liquidator. The next version of Orc Liquidator will be released in the first quarter of 2005. Orc Trader, Orc Futures and Orc Broker have been further developed during 2004, especially with regards to functionality for auto-quoting, auto-trading and basket trading. Significant resources have been invested into simplifying the management of order flow, a simpler and quicker order entry and a general improvement in user-friendliness. The entire Orc System has been adapted so that the system may also be offered as a hosted solution. A part of Orc Software's development resources has focused on modularizing and increasing the flexibility of the product offering.

A total of 14 new market connections were completed during the year. In addition, maintenance, updates and performance optimization on a number of current market connections took place. Within the framework of Orc Software's investment in North American markets, development on several North American market connections has begun. These are expected to be finished during the latter part of 2005.

Revenue³

Full year 2004

The Group's revenue decreased during 2004 by 1 percent to SEK 247 (249 in the corresponding period 2003) million. Excluding work performed by the company for its own use and capitalized, revenue increased by 4 percent.

Systems revenue increased by 1 percent, equivalent to SEK 2 million, to SEK 226 (224) million and amounted to 91 (90) percent of total revenue. Using an unchanged dollar exchange rate, systems revenue would have increased by approximately SEK 11 million. The increase is primarily due to a good inflow of new clients. Initial revenue for Orc Liquidator and other systems revenue of a one-off nature amounted to a total of approximately 9 percent of systems revenue for 2004. The revenue model for Orc Liquidator contains an initial payment that varies depending on the scope of the installation, application and the size of the continuous license fee. As the product becomes more established the business model for Orc Liquidator will most likely be more similar to the traditional revenue model.

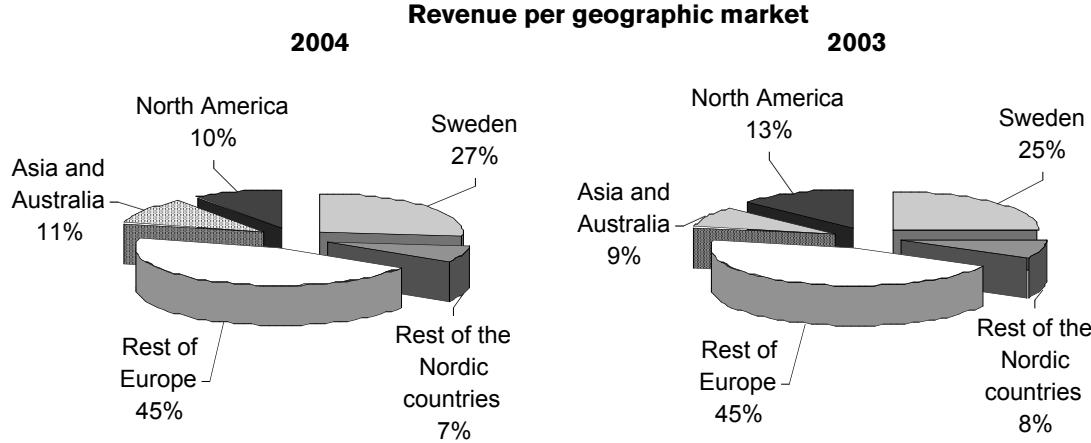
Other operating revenue increased by 62 percent to SEK 21 (13) million and primarily represents hardware sales as well as professional services.

The remaining revenue is related to development work performed by the company for its own use and capitalized, which decreased considerably from SEK 12.0 to 0.9 million.

³ Revenue and operating margin for 2002-2004 are calculated after taking into account an increase in revenue of SEK 0.9 (12.0) million for 2004 subsequent to the capitalization of development expenditure, in accordance with the Swedish Financial Accounting Standards Council's recommendation no.15 (RR15).

Orc ExNet's total sales increased during 2004 compared to the previous year. The number of clients increased significantly and current clients have invested in increased network capacity. The average client's trading activity has, however, decreased compared to the previous year, which has had a negative affect on Orc ExNet's transaction revenue.

During 2004, revenue from clients located outside Sweden represented 73 (75) percent of total revenue. At the end of December 2004, OrcSoftware had clients in a total of 20 (19) countries.



SEK million	2004	2003	Change in %
Sweden	66	59	12 %
Rest of the Nordic countries	16	18	-11 %
Rest of Europe	111	107	4 %
Asia and Australia	28	22	27 %
North America	26	31	-16 %
Work performed by the company for its own use and capitalized	1	12	-92 %
Total	247	249	-1 %

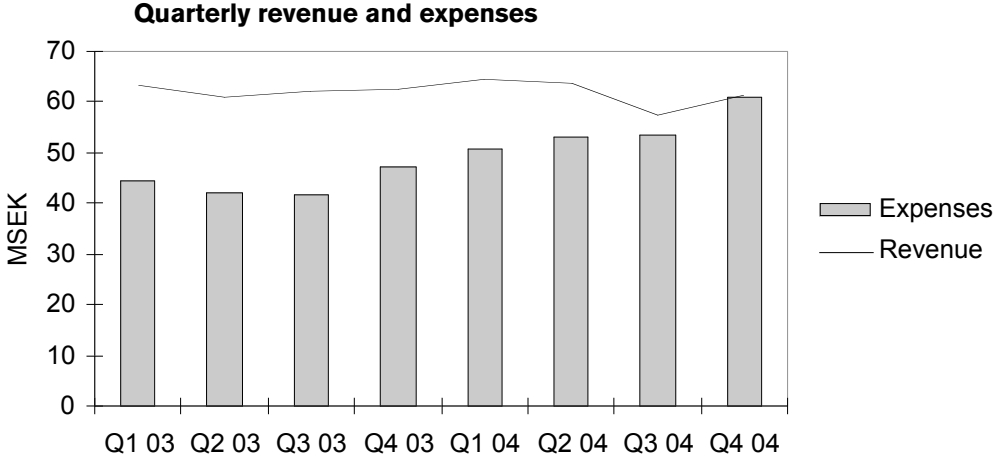
Sales to Asia and Australia accounted for the largest percentage increase, followed by Sweden. The increase in these markets is primarily due to revenues from Orc Liquidator and sales to new clients. Sales in the rest of Europe increased somewhat while in North America and the rest of the Nordic region, sales decreased. The traditional sales in North America developed favorably, the decreased share for North America is due to high Liquidator revenues during 2003 and the falling US dollar.

The number of client sites⁴ amounted to 170 (154) at the end of 2004. Average revenue per client site⁵ amounted during the year to SEK 1.4 (1.4) million.

⁴ The number of client sites includes the sites that as of year-end pay a license fee.
⁵ Calculated as the total systems revenue divided by the average number of client sites for the period.

Among the Group's largest clients are several of the world's largest investment banks. The Group's five largest clients represented a total of 15 percent of revenue during 2004. No individual client represented more than 4 percent of revenue.

Fourth quarter 2004



The Group's revenue was unchanged in the fourth quarter of 2004 and amounted to SEK 62 (62) million. Compared to the previous quarter revenue increased by 7 percent.

Systems revenue increased by 3 percent compared to the previous quarter. A total of three Liquidator sales were completed in the fourth quarter, of which two affected the quarter financially. Systems revenue increased by approximately 8 percent compared to the previous quarter using an unchanged dollar exchange rate. Other operating revenue increased during the same period by 54 percent and amounted to SEK 6.4 million. Work performed by the company for its own use and capitalized was largely unchanged.

During the fourth quarter 12 new client sites were added in the US, Italy, UK, Australia and Hong Kong. The number of lost client sites equaled 7 and consisted mostly of a number of sites in Australia and UK. The number of client sites in these two countries had a net decrease of 1. During the period Orc Software received cancellations regarding 4 client sites, which will impact the number of client sites during the upcoming quarters.

Orc ExNet's revenues increased somewhat compared to the previous quarter due to an increase in network revenues from new clients.

Earnings

Full year 2004

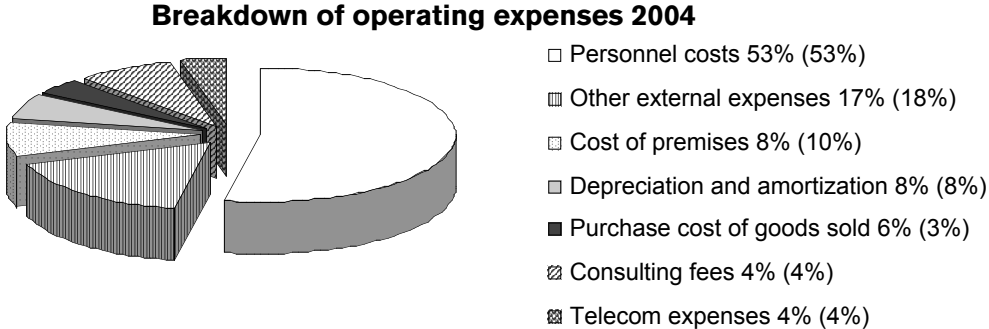
Operating income decreased by 61 percent to SEK 29 (74) million, representing an operating margin of 11.9 (29.9) percent.

Fourth quarter 2004

Operating income for the fourth quarter 2004 decreased and amounted to SEK 0.8 (16) million, representing an operating margin of 1.3 (24.9) percent. Compared to the previous quarter operating income decreased by SEK 3.3 million.

The decreased income was mainly due to several expenditures of one-off nature such as severance pay, costs in conjunction with recruitment of a new CEO, costs for certain external consultants and bad debt losses. In total these costs amounted to approximately SEK 5 million. Furthermore, the increase in sales for this quarter contributed to increased expenditure related to sales commission. Sales commission is based on the annual value of newly signed contracts, which is why the company's commission costs increase in a strong sales quarter.

Operating expenses⁶



Operating expenses increased during 2004 by 25 percent to SEK 218 (175) million. Approximately 26 percent of the cost increase is related to higher purchase cost of goods sold and increased amortizations of capitalized development expenses. Orc Software's venture into mobile trading, Promyzer, as well as increased marketing and sales overhead amounted to 24 percent of the increase in costs. The remaining part is primarily related to increased personnel costs. In comparison to the previous quarter operating expenses increased by 14 percent. The weakening of the US dollar has provided certain support on the cost side.

Personnel costs increased during 2004 by 24 percent to SEK 115 (93) million. During the same period the average number of employees increased by 15 percent. One of the contributing factors to the increase in personnel costs is recruitment in conjunction with a continued strengthening of the sales and development organizations. In comparison to the third quarter, personnel costs increased by 15 percent for the fourth quarter. Higher sales commissions arising from a positive sales development in the fourth quarter as well as severance pay and other personnel costs of one-off nature explain approximately 75 percent of the increase in costs. Since Orc Software has recruited employees in the fourth quarter, fixed salary costs will increase somewhat in the first quarter of 2005. The variable salary costs will depend on the continued sales development.

The purchase cost of goods sold increased by SEK 6.5 million and amounted to SEK 12.2 (5.7) million, primarily due to increased hardware sales and consultancy fees. In relation to the third quarter these costs were largely unchanged.

Cost of premises was largely unchanged during 2004 compared to 2003. Cost of premises during the fourth quarter was unchanged compared to the previous quarter.

Telecom expenses increased for 2004 by 25 percent and amounted to SEK 9.4 (7.5) million. The increase is primarily a result of more market connections and thus increased costs for connecting to exchanges in order to develop and maintain these connections. The cost in comparison to the previous quarter was unchanged.

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.

Consulting fees, related to product development, decreased somewhat compared to the previous year and amounted to SEK 7.6 (7.8) million. Compared with the previous quarter these costs decreased marginally.

Other external expenses increased by 27 percent to SEK 38 (30) million during 2004. The increase is primarily due to the increase in travel costs, an increase in the use of external consultants (not related to product development) and more marketing activities compared to the previous year. In relation to the previous quarter Other external expenses increased by 40 percent from 8.6 to 12.0. The increase is explained by costs for external consultants in a project for expanding functionality within the broker segment, assumed and expensed bad debt losses and increased marketing activities.

Depreciation and amortization increased by 38 percent and amounted to SEK 18 (13) million. This is due to the completion of the development project in St Petersburg and that amortization of this intangible asset thereby began during the fourth quarter 2003. In comparison to the previous quarter depreciation and amortization was unchanged.

Development expenses

Orc Software constantly invests considerable resources in product development of new and existing applications. The main part of development expenses consists of salaries. At the end of the year, 72 (61) people worked with product development in London, Moscow, St Petersburg, Stockholm, Sydney and Toronto. Other product development expenses include computer equipment and premises for product developers, as well as external consultants.

During 2004 work performed by the company for its own use and capitalized amounted to SEK 0.9 (12.0) million. Amortization of the accumulated capitalized development expenditure during 2004 amounted to SEK 9.7 (3.9) million.

The total development expenditure increased by 5 percent for 2004 and amounted to approximately 25 (25) percent of revenue, adjusted for work performed by the company for its own use and capitalized. In absolute terms the development expenses increased mostly due to an increase in internal development resources. The development expenses are expected to represent a significant part of operating expenses also in the future.

Net financial income

Net financial income decreased to SEK 2.8 (5.6) million as a result of a decrease in liquid funds, lower interest rates as well as write-downs of fixed financial assets. The Group's liquid funds amounted to SEK 186 million, of which SEK 137 (216) million consisted of short-term investments.

Income after financial items decreased by 60 percent to SEK 32 (80) million.

Taxes

The tax rate for 2004 amounted to 34 (30) percent. Tax expenses are calculated based on the expected tax for the parent company and each subsidiary. The higher tax rate is due to an unaccounted tax receivable, related to a loss carried forward in a subsidiary.

Income after tax decreased by 59 percent to SEK 23 (56) million.

Operating capital and working capital commitment

OrcSoftware's operating capital amounted to SEK -9 (-8) million at the end of 2004. The Group did not have any interest bearing debt for the period.

The working capital decreased by SEK 1 million to SEK -31 (-30) million. The principal reason behind the negative working capital commitment is the large item of accrued expenses and prepaid income that for the most part consists of license fees, which are invoiced quarterly in advance.

Asset turnover ratio

The balance sheet total decreased during 2004 by 12 percent to SEK 312 (354) million and the asset turnover ratio amounted to 1.1 (1.0).

Equity/assets ratio and earning capacity

The equity/assets ratio amounted at the end of 2004 to 63 (69) percent. During 2004 return on capital employed amounted to 15 (33) percent, and return on equity to 11 (23) percent.

Cash flow and investments

The Group's cash flow before changes in working capital and investments equaled SEK 32 (59) million in 2004. The decreased cash flow was primarily a result of a decrease in operating income, which to a certain degree was countered by lower income taxes paid.

The Group's investments amounted to SEK 30 (22) million during 2004. As a first step in the initiative to further strengthen Orc Software's expertise within the area for automated and advanced proprietary trading Orc Software has contributed to the financing of Hun Research with an amount equaling SEK 20 million, which has been accounted for as a long-term financial receivable. Other investments mainly concern investments in computer and office equipment equaling SEK 8.3 million.

The Group's cash flow after investments amounted to SEK 3.1 (34) million during 2004.

Cash flow from financing activities amounted to SEK -68 (-56) million, which corresponds to the repurchase of own shares of SEK 19 (11.2) million and the payment of dividends equaling SEK 50 (45) million.

The Group's liquid funds decreased during 2004 from SEK 252 million to SEK 186 million.

Financial risk management

Foreign exchange risks

i) Transaction exposure

The majority of OrcSoftware's invoicing to clients in the Nordic countries takes place in Swedish kronor. Clients outside the Nordic countries are invoiced primarily in US dollars and Euro, although invoicing is also done in Australian and Canadian dollars, Danish and Norwegian kronor, Swiss francs, as well as to some extent in British pounds. The Group has significant exposure in US

dollars and Euro, for which revenue exceeds expenses, as well as in British pounds where expenses exceed revenue since the invoicing for UK clients is primarily denominated in US dollars.

The Group's exposed net inflow amounted to approximately SEK 70 million in 2004, allocated as set out in the table below.

Inflow 2004	SEK million
USD	44
EUR	15
AUD	9
DKK	2
CAD	0
Total	70
Outflow 2004	
GBP	-22
JPY	-8
CHF	-4
HKD	-3
Total	-37

Foreign exchange hedging affected earnings on an operating level by SEK 11.4 (13.7) million.

In accordance with the Group's policy, significant net exposure in each respective currency is hedged for the coming 3-12 months, with a certain possibility of deviation in special cases. As of December 31, 2004, future flows equivalent to SEK 36 (94) million had been hedged, consisting of USD 4.0 (6.0) million hedged against the Swedish krona at an average forward rate of 6.77 (9.99) and EUR 1.0 (3.7) million hedged against the Swedish krona at an average forward rate of 8.95 (9.30). The total average remaining duration is approximately 3 (3) and 3 (3) months respectively.

At financial year-end, non-realized foreign exchange gains amounted to SEK 0.1 (7.5) million, valued at the SEK/USD exchange rate of 6.61 (7.28) and the SEK/EUR rate of 9.01 (9.09).

ii) Balance sheet exposure

Significant exposure in foreign currencies is hedged in accordance with OrcSoftware's policy.

Liquidity management

As to liquidity risk and credit risk, investments may only take place in instruments that have high liquidity and credit value. This implies that Swedish issuers must be ranked "K1" as per Standard & Poor's ratings and that non-Swedish issuers must be ranked "A-1" and "P-1" as per Standard & Poor's and Moody's ratings.

The Group's short-term investments, which at year-end amounted to a nominal value of SEK 138 (218) million, consisted of Swedish commercial papers with "K1" credit ratings and bank time deposits.

Credit risks

In general, OrcSoftware's clients, who among others consist of investment banks, banks and brokerage houses, represent a capital-strong segment with a consequent low risk for bad debt losses. The Group's bad debt losses are negligible due to the fact that clients, on a quarterly or even longer basis, pay in advance and that Orc Software works actively to inform its clients of the importance of paying on time. During 2004 bad debt losses amounted to less than 1 percent of the business's costs.

Sensitivity analysis

The sensitivity analysis below describes the full-year effect on the Group's operating income due to a change in a number of factors.

Factor	Change	Effect on Operating Income for Full Year 2004, SEK million
License price	+/- 5%	+/-11.3
Salary costs	+/- 5%	-/+5.4
Development expenses	+/- 5%	-/+3.2
SEK/USD	+/- 5%	+/-2.5 ⁷
SEK/GBP	+/- 5%	-/+1.0 ⁷
SEK/EUR	+/- 5%	+/-2.6 ⁷

Employees

During 2004 the number of employees increased from 141 to 172, an increase of 22 percent. The increase mostly took place within sales and support/account management. The number of employees increased in several of Orc Software's offices, the greatest increase was in the US, Hong Kong and Russia. The total number of employees increased during the fourth quarter by 7. The average number of employees during 2004 was 157 (137). The number of female employees at year-end equaled 30 (24) and the number of male employees equaled 142 (117). The average age of the employees is 32 (31) years.

	Employees by office			Employees by function	
	31 Dec, 2004	31 Dec, 2003		31 Dec, 2004	31 Dec, 2003
Sweden	69	60	Product development Support and account management	72	61
Russia	40	32	Sales	47	35
Rest of Europe	34	30	Company-wide functions	29	21
North America	15	8		24	24
Asia & Australia	14	11			
Total	172	141	Total	172	141

Incentive scheme

Orc Software's employees including the Group Management has during 2004 had the possibility of receiving a bonus directly related to sales, and a bonus that is paid if the Group's revenue growth and operating income significantly exceed the internally set goals. Income for 2004 encompasses only sales related bonuses, including social security expenses, of SEK 1.0 (2.3) million. The Board of Directors' remuneration committee prepares the incentive program.

⁷ Without taking into consideration existing hedging contracts.

Shareholders

The number of shareholders in OrcSoftware on December 31, 2004 equaled 2 403 (3 277).

OrcSoftware's ten largest shareholders	No. of shares	% of shares
OMX Technology	4 488 075	31.3
Cancale Förvaltnings*	1 493 200	10.4
SEB funds	1 355 140	9.5
Robur funds	697 075	4.9
Fidelity funds	676 500	4.7
Hagströmer & Qviberg Fondkommission	668 129	4.7
Carnegie Fond	518 000	3.6
Nordea Bank Finland	411 681	2.9
Nordea funds	285 800	2.0
Svolder	225 000	1.6
Other shareholders	3 517 900	24.5
Total	14 336 500	100.0

Source: VPC AB, direct and nominee shareholders December 30, 2004.

As of December 31, 2004 Orc Software has purchased 513500 shares and the total number of shares, reduced by Orc Software's repurchase of own shares, amounted to 14336500.

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

Proposed dividend

The Board of Directors has resolved to recommend a dividend of SEK 1.50 (3.40) per share for 2004, representing a total of SEK 22 (50) million and 92 (89) percent of net income. The proposed record day for dividends is Monday, April 25, 2005. If the Annual General Meeting votes in favor of the proposal, the expected payment date for the dividends is Thursday, April 28, 2005. The dividends are paid through VPC AB.

Transactions with affiliated companies

Orc Software has during the year purchased development services from E2E infotech Limited, in which Orc Software owns 34 percent, for SEK 3.5 million.

During the year Orc Software had foreign exchange hedges with OMX Treasury AB as counterpart, of which the last hedging contract expired in August 2004. Furthermore, Orc Software's subsidiary Promyzer leases a server room from OMX Technology AB. The cost amounted to SEK 169 thousand for 2004.

Nils Nilsson, the previous CEO for Orc Software, currently works with business development for the company and serves on the Board of Directors. Nils Nilsson is also a partner and chairman of the Board for Russian Real Estate Investment Company AB, which in turn owns the property that houses Orc Software's office in St. Petersburg as of December 2004. The cost of the premises amounted to SEK 19 thousand for 2004. The annual value of the leasing contract amounts to SEK 793 thousand.

The Parent company

The Parent company's revenue increased during 2004 by 3 percent to SEK 238 (230) million. Income after financial items decreased and amounted to SEK 29 (74) million. Liquid funds amounted at the end of the year to SEK 157 (228) million, of which SEK 132 (211) million consisted of short-term investments.

Accounting principles

This interim report has been prepared in accordance with the Swedish Accounting Standards Council's recommendation on interim reporting (RR 20). The same accounting principles have been used as in the last annual accounts. As of January 1, 2004, OrcSoftware follows the new recommendation from the Swedish Accounting Standards Council, Remuneration to employees (RR29). According to the recommendation, programs for remuneration following discontinued employment shall either be classified as a defined contribution plan or as a defined benefit plan. Currently Orc Software has only defined contribution plans and shall therefore continue to expense fees for pensions and other commitments. This principle is in total agreement with the previous financial reports. The consequences of the adoption of IFRS are described at the end of this report.

Nominating committee

In accordance with the authorization from the Annual General Meeting in April of 2004, Orc Software's chairman, Magnus Böcker has appointed a nominating committee. Until the Annual General Meeting for 2005 the nominating committee consists of Magnus Böcker (OMX), Ulrika Hagdahl (Cancale Förvaltnings), Björn Lind (SEB) and Olof Neiglick (Nordea). The nominating committee is responsible for issuing a proposal regarding the members of Orc Software's Board of Directors and Directors' compensation. Contact details for the nominating committee are available at the end of the report.

Income statement

SEK thousands	2004	2003	Oct-Dec 2004	Oct-Dec 2003
Operating revenue				
Systems revenue	225 703	223 943	55 064	58 888
Work performed by the company for its own use and capitalized	884	11 988	140	540
Other operating revenue	20 902	13 177	6 409	3 071
Total revenue	247 489	249 109	61 613	62 499
Operating expenses				
Purchase cost of goods sold	-12 193	-5 742	-3 271	-1 780
External expenses				
Cost of premises	-17 492	-17 030	-4 322	-4 293
Telecom expenses	-9 357	-7 542	-2 524	-1 922
Consulting fees	-7 592	-7 839	-1 810	-1 028
Other external expenses	-38 106	-30 165	-12 021	-8 912
Personnel costs	-115 477	-93 222	-32 377	-24 819
Depreciation and amortization	-17 798	-13 076	-4 460	-4 201
Total expenses	-218 015	-174 616	-60 785	-46 955
Operating income	29 474	74 493	828	15 544
Financial items				
Income from participation in associated companies	1 043	-1 379	95	-169
Financial income	4 674	7 316	1 229	1 568
Financial expenses	-2 919	-332	-2 064	-101
Net financial income	2 798	5 605	-740	1 298
Income after financial items	32 272	80 098	88	16 842
Tax on net income for the period	-11 085	-23 717	-96	-4 747
Minority's part of the income for the period	2 067	-775	522	-43
Net income for the period	23 254	55 606	514	12 052
Earnings per share ⁸ , SEK	1.60	3.78	0.04	0.82
Number of shares at the end of the period, reduced by Orc Software's repurchase of own shares, thousands	14 337	14 625	14 337	14 625
Average number of shares, reduced by Orc Software's repurchase of own shares, thousands	14 541	14 712	14 415	14 625

⁸ Orc Software does not have any convertible loans or warrants.

Balance sheet

SEK thousands	31 Dec 2004	31 Dec 2003
ASSETS		
Fixed assets		
Intangible assets		
Capitalized development expenditure	13 788	21 888
Goodwill	190	286
Other intangible fixed assets ⁹	1 422	2 164
Tangible assets		
Equipment	17 702	17 530
Financial assets		
Shares in associated companies	1 131	1 545
Other long-term financial fixed assets	24 383	5 229
Total fixed assets	58 616	48 642
Current assets		
Current receivables		
Accounts receivable	43 090	40 681
Prepaid tax	12 089	-
Other receivables	4 254	6 165
Prepaid expenses and accrued income	8 164	6 868
Short-term investments	137 255	216 206
Cash and bank balances	48 911	35 661
Total current assets	253 763	305 581
TOTAL ASSETS	312 379	354 223
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Restricted equity		
Share capital	1 485	1 485
Restricted reserves	107 798	101 461
Non-restricted equity		
Non-restricted reserves	65 098	85 726
Net income for the period	23 254	55 606
Total shareholders' equity	197 635	244 278
Minority interest	1 461	1 259
Provisions		
Deferred tax liability	25 333	23 636
Total provisions	25 333	23 636
Current liabilities		
Accounts payable	7 161	5 969
Tax liabilities	1 598	1 685
Other liabilities	8 148	4 596
Accrued expenses and prepaid income	71 043	72 800
Total current liabilities	87 950	85 050
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	312 379	354 223
Pledged assets	None	None
Contingent liabilities	None	None

⁹This item pertains to Orc ExNet.

Specification of the Group's goodwill

The goodwill arose in conjunction with the establishment of Orc ExNet and is being amortized over a period of 60 months.

	SEK thousands
Acquisition value less accumulated amortization January 1, 2004	286
Amortization for the year	-96
Acquisition value less accumulated amortization December 31, 2004	190

Specification of the Group's equity (SEK thousands)

2004	Share Capital	Restricted Reserves	Non-restricted Equity	Total
Opening balance January 1, 2004	1 485	101 461	141 332	244 278
Dividend for 2003	-	-	-49 725	-49 725
Share repurchase	-	-	-18 680	-18 680
Sale of associated company	-	-	-500	-500
Adjustments between restricted and non-restricted shareholders' equity	-	6 455	-6 455	0
Translation difference etc.	-	-118	-874	-992
Net income for the year	-	-	23 254	23 254
Closing balance December 31, 2004	1 485	107 798	88 352	197 635

2003	Share Capital	Restricted Reserves	Non-restricted Equity	Total
Opening balance January 1, 2003	1 485	138 818	104 840	245 143
Dividend for 2002	-	-	-44 550	-44 550
Share repurchase	-	-	-11 177	-11 177
The affect on shareholders' equity due to the acquisition of the remaining portion of associated company	-	-	-145	-145
Reduction of share premium reserve, unregistered	-	-50 000	50 000	0
Adjustments between restricted and non-restricted shareholders' equity	-	12 916	-12 916	0
Translation difference etc.	-	-273	-326	-599
Net income for the year	-	-	55 606	55 606
Closing balance December 31, 2003	1 485	101 461	141 332	244 278

Oct-Dec 2004	Share Capital	Restricted Reserves	Non-restricted Equity	Total
Opening balance October 1, 2004	1 485	101 668	103 245	206 398
Share repurchase	-	-	-8 438	-8 438
Adjustments between restricted and non-restricted shareholders' equity	-	6 213	-6 213	0
Translation difference etc.	-	-83	-756	-839
Net income for the period	-	-	514	514
Closing balance December 31, 2004	1 485	107 798	88 352	197 635

Oct-Dec 2003	Share Capital	Restricted Reserves	Non-restricted Equity	Total
Opening balance October 1, 2003	1 485	138 614	91 948	232 047
The affect on shareholders' equity due to the acquisition of the remaining portion of associated company	-	-	-145	-145
Reduction of share premium reserve, unregistered	-	-50 000	50 000	0
Adjustments between restricted and non-restricted shareholders' equity	-	12 917	-12 917	0
Translation difference etc.	-	-70	394	324
Net income for the period	-	-	12 052	12 052
Closing balance December 31, 2003	1 485	101 461	141 332	244 278

Cash flow statement

SEK thousands	2004	2003
Operating activities		
Operating income	29 474	74 493
Adjustment for items not included in cash flow		
Depreciation and amortization	17 798	13 075
Other adjustments for items not included in cash flow	1 134	376
Financial items	5 299	7 102
Income tax paid	-21 581	-36 404
Cash flow from operating activities before changes in working capital	32 124	58 642
Changes in working capital		
Changes in accounts receivable	-2 320	-4 242
Changes in operating assets	-450	-1 157
Changes in accounts payable	1 140	-1 479
Changes in operating liabilities	2 155	4 252
Total change in working capital	525	-2 626
Cash flow from operating activities	32 649	56 016
Investment activities		
Investments in intangible fixed assets	-884	-11 988
Investments in tangible fixed assets	-8 281	-6 125
Investments in subsidiaries	140	-
Changes in financial fixed assets	-20 527	-3 421
Cash flow from investment activities	-29 552	-21 534
Financing activities		
Share repurchase	-18 680	-11 117
Dividend	-49 725	-44 550
Cash flow from financing activities	-68 405	-55 727
Change in liquid funds	-65 308	-21 245
Opening liquid funds	251 867	273 822
Translation difference/exchange differences in liquid funds	-393	-710
Closing liquid funds	186 166	251 867

Key ratios

	2004	2003	Oct-Dec 2004	Oct-Dec 2003
Operating margin, %	11.9	29.9	1.3	24.9
Return on equity, %	11	23	1	20
Return on capital employed, %	15	33	4	29
Asset turnover ratio	1.1	1.0	1.2	1.0
Equity/assets ratio, %	63	69	63	69
Average number of employees	157	137	169	139
Earnings per share, SEK	1.60	3.78	0.04	0.82
Equity per share, SEK	13.78	16.70	13.78	16.70
Share price at the end of the period, SEK	57.75	84.50	57.75	84.50

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-Dec 2004

SEK thousands	Europe	North America	Asia/Australia	Other	Total
Operating revenue for external clients	193 040	25 794	27 771	-	246 605
Work performed by the company for its own use and capitalized	-	-	-	884	884
Total	193 040	25 794	27 771	884	247 489
Income per segment before joint Group expenses	129 181	11 403	6 532	884	148 000
Unallocated costs	-	-	-	-118 526	-118 526
Operating income	-	-	-	-	29 474
Net financial income	-357	-	-	3 155	2 798
Income after financial items	-	-	-	-	32 272
Tax on net income for the period	-	-	-	-11 085	-11 085
Minority's part of the income	-	-	-	2 067	2 067
Net income for the period	-	-	-	-	23 254

Group Jan-Dec 2003

SEK thousands	Europe	North America	Asia/Australia	Other	Total
Operating revenue for external clients	183 741	31 463	21 917	-	237 121
Work performed by the company for its own use and capitalized	-	-	-	11 988	11 988
Total	183 741	31 463	21 917	11 988	249 109
Income per segment before joint Group expenses	133 777	20 935	4 551	11 988	171 251
Unallocated costs	-	-	-	-96 758	-96 758
Operating income	-	-	-	-	74 493
Net financial income	-	-	-	5 605	5 605
Income after financial items	-	-	-	-	80 098
Tax on net income for the period	-	-	-	-23 717	-23 717
Minority's part of the income	-	-	-	-775	-775
Net income for the period	-	-	-	-	55 606

Group Oct-Dec 2004

SEK thousands	Europe	North America	Asia/ Australia	Other	Total
Operating revenue for external clients	48 398	6 574	6 501	-	61 473
Work performed by the company for its own use and capitalized	-	-	-	140	140
Total	48 398	6 574	6 501	140	61 613
Income per segment before joint Group expenses	29 682	2 195	1 772	140	33 789
Unallocated costs	-	-	-	-32 961	-32 961
Operating income	-	-	-	-	828
Net financial income	96	-	-	-836	-740
Income after financial items	-	-	-	-	88
Tax on net income for the period	-	-	-	-96	-96
Minority's part of the income	-	-	-	522	522
Net income for the period	-	-	-	-	514

Group Oct-Dec 2003

SEK thousands	Europe	North America	Asia/ Australia	Other	Total
Operating revenue for external clients	41 810	14 149	6 000	-	61 959
Work performed by the company for its own use and capitalized	-	-	-	540	540
Total	41 810	14 149	6 000	540	62 499
Income per segment before joint Group expenses	26 076	11 094	1 268	540	38 978
Unallocated costs	-	-	-	-23 434	-23 434
Operating income	-	-	-	-	15 544
Net financial income	-	-	-	1 298	1 298
Income after financial items	-	-	-	-	16 842
Tax on net income for the period	-	-	-	-4 747	- 4 747
Minority's part of the income	-	-	-	-43	-43
Net income for the period	-	-	-	-	12 052

Quarterly figures

Income statement

SEK thousands	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004
Operating revenue								
Systems revenue	54 005	54 593	56 457	58 888	58 574	58 848	53 217	55 064
Work performed by the company for its own use and capitalized	4 931	4 181	2 336	540	348	269	127	140
Other operating revenue	4 575	2 148	3 383	3 071	5 621	4 708	4 164	6 409
Total revenue	63 511	60 922	62 176	62 499	64 543	63 825	57 508	61 613
Operating expenses								
Other expenses	-18 233	-16 346	-15 804	-17 935	-18 803	-21 172	-20 818	-23 948
Personnel costs	-23 071	-22 496	-22 836	-24 819	-27 648	-27 336	-28 115	-32 377
Depreciation and amortization	-2 949	-3 025	-2 900	-4 201	-4 421	-4 465	-4 452	-4 460
Total expenses	-44 253	-41 867	-41 540	-46 955	-50 872	-52 973	-53 385	-60 785
Operating income	19 258	19 055	20 636	15 544	13 671	10 852	4 123	828
Net financial items	1 817	1 814	676	1 298	970	1 868	700	-740
Tax on income for the period	-6 328	-6 254	-6 388	-4 747	-4 335	-4 552	-2 102	-96
Minority's part of the income for the period	-97	-369	-266	-43	-184	618	1 111	522
Net income for the period	14 650	14 246	14 658	12 052	10 122	8 786	3 832	514

Balance Sheet

SEK thousands	31 Mar 2003	30 Jun 2003	30 Sept 2003	31 Dec 2003	31 Mar 2004	30 Jun 2004	30 Sept 2004	31 Dec 2004
Fixed assets								
Intangible assets	21 211	24 447	25 814	24 338	22 280	20 089	17 741	15 400
Tangible assets	19 021	17 862	16 623	17 530	19 552	18 686	18 864	17 702
Financial assets	4 358	7 055	6 256	6 774	6 850	17 116	21 076	25 514
Total fixed assets	44 590	49 364	48 693	48 642	48 682	55 891	57 681	58 616
Current assets								
Accounts receivable	29 727	38 024	37 164	40 681	31 353	48 225	35 359	43 090
Other receivables	11 507	7 809	9 800	13 033	15 362	17 372	23 655	24 507
Cash and bank balances and short-term investments	274 914	219 155	237 558	251 867	256 433	191 073	190 405	186 166
Total current assets	316 148	264 988	284 522	305 581	303 148	256 670	249 419	253 763
TOTAL ASSETS	360 738	314 352	333 215	354 223	351 830	312 561	307 100	312 379
Equity	259 155	217 864	232 047	244 278	255 371	206 559	206 398	197 635
Minority interest	581	950	1 216	1 259	1 443	866	1 520	1 461
Provisions for deferred tax liability	19 573	19 573	19 573	23 636	23 636	23 768	23 772	25 333
Current non interest-bearing liabilities	81 429	75 965	80 379	85 050	71 380	81 368	75 410	87 950
TOTAL EQUITY AND LIABILITIES	360 738	314 352	333 215	354 223	351 830	312 561	307 100	312 379

Adoption of IFRS 2005

As of 2005 all listed companies in the EU shall prepare Consolidated Financial Statements according to International Financial Reporting Standards (IFRS). The Swedish Financial Accounting Standards Council's recommendations are to a large extent in accordance with the current IAS/IFRS, thus Orc Software's consolidated accounts are for the most part already in compliance with the new regulations.

The new regulations are applicable as of January 1, 2005 and the comparative year 2004 shall be restated. The adoption procedures are available in IFRS 1, First-time Adoption of International Financial Reporting Standards, which assumes that all standards shall be applied retroactively. However, a number of mandatory and voluntary exceptions from the main regulations are stated. Orc Software will use the voluntary exceptions that are applicable to the Group.

For Orc Software the most important consequences of the transition relate to the accounting of minority interests and financial instruments. Financial instruments are covered in IAS 39 and are applicable as of 2005, in accordance with the adoption procedures figures will not be restated for 2004.

Below is a summary of the consequences for the net income for 2004, the Group's shareholders' equity, the most important changes in the accounting principles and comments on the most important changes. The effects of the transition to IFRS that are accounted for are preliminary and based on current standards, which may change up until December 31, 2005.

Income effect, thousands	Note	
Net income for 2004 according to current accounting principles		23 254
Adjusted for minority's part of income for 2004	A	-2 067
Reversal of goodwill amortization	B	96
Net income for 2004 according to IFRS (prelim.)		21 283
<hr/>		
Earnings per share for 2004 according to current accounting principles, SEK		1.60
Earnings per share for 2004 according to IFRS (prelim.)	A	1.61
<hr/>		
Effect on shareholders' equity, thousand	Note	
Shareholders' equity on December 31, 2003 according to current principles		244 278
Adjusted for minority interests	A	1 259
Shareholders' equity on January 1, 2004 according to IFRS (prelim.)		245 537
<hr/>		
Shareholders' equity on December 31, 2004 according to current principles		197 635
Adjustment of opening balance January 1, 2004, see above	A	1 259
Adjusted for minority's part of income for 2004	A	-2 067
Reversal of goodwill amortization	B	96
Shareholders' equity on 31 December 2004 according to IFRS (prelim.)		196 923
Effect of the introduction of IAS 39 on January 1, 2005	C	-2 183
Shareholders' equity on January 1, 2005 according to IFRS (prelim.)		194 740

- A According to IAS 27, Consolidated Financial Statements, the minority's part of the income for the period shall not be accounted for in the income statement. The equity related to the minority interest is part of the Group's stated shareholders' equity but shall be stated separately. The portion of net income for the period related to the minority interest shall be stated in connection with the income statement. The calculation for earnings per share shall also continue to take into account the minority's part of net

income for the period. The minority interests of shareholder equity as of January 1, 2004 amount to SEK 1 259 thousand. Minority's part of net income for 2004 amounts to SEK -2 067 thousand.

B Amortization of goodwill is not allowed according to IFRS 3, Business Combinations. Instead the stated value shall be tested at least once a year or more frequently if circumstances exist that indicate a decline in value. The goodwill post is entirely related to Orc ExNet Transaction Services. The entire amortization for 2004 equaling SEK 96 thousand has been restated and no write-downs have been made.

C

Effect on shareholders' equity on January 1, 2005 according to IAS 39	
Embedded derivatives client contract	-2 281
Embedded derivatives supplier contract	23
Forward position valued at fair market value	75
Effect on shareholders' equity on January 1, 2005 according to IFRS (prelim.)	-2 183

IAS 39, Financial Instruments: recognition and measurement, requires that financial assets and liabilities be classified in different categories that shall be accounted and valued in accordance with the principles applicable to each category.

The majority of Orc Software's financial assets and liabilities are classified in a category that is to be valued at the accrued acquisition value. The nature of these types of assets and liabilities is such that the difference between the accrued acquisition value and the acquisition value is zero. Therefore, the transition does not lead to any change in comparison with previous standards.

Long-term stock positions that do not consist of holdings in subsidiaries or associated companies shall be classified as Available-for-sale and shall be assigned fair market value. Today the stated value as of December 31, 2004 is considered to equal fair market value.

Orc Software's short-term investments are classified in the category Held-to-maturity and will be valued at accrued acquisition value. This does not affect the income or shareholders' equity compared to previous accounting standards.

All currency forwards will be accounted for at fair market value directly in the income statement. This differs from current accounting standards in which only the portion of the income from foreign exchange hedging equivalent to a holding in the balance sheet affects income.

Client and supplier contracts in a third-party currency contain embedded derivatives. Orc Software has a number of contracts in third-party currencies and the calculation of the value of these embedded derivatives does not have an insignificant affect on equity.

IAS 32, Financial Instruments: disclosure and presentation, to a certain extent requires increased reporting requirements but is not expected to have any impact on shareholders' equity.

The balance sheet shall account for derivatives assets and liabilities separately and in accordance with gross accounting. This means that the fair market value of completed forward currency transactions will be gross accounted as a derivatives asset or liability. The same procedure is applicable for embedded derivatives in client and supplier contracts.

The Group's accounting for cash flow will most likely be affected due to the appellation and classification of liquid funds, depending on the duration of the investment, for which IAS 7 differs somewhat compared to current practice.

Forthcoming financial events

March 2005	Annual Report 2004
April 14, 2005	Interim Report for January-March 2005
April 20, 2005	Annual General Meeting 2005
July 14, 2005	Interim Report for January-June 2005
October 13, 2005	Interim Report for January-September 2005

The full annual report will be available at Orc Software's Swedish office in the middle of March 2005. It will also be distributed to the shareholders.

Annual General Meeting

The Annual General Meeting will be held on Wednesday April 20, 2005 at 4 p.m. at Orc Software, Birger Jarlsgatan 32A, 5 floors, Stockholm, Sweden.

The nominating committee consists of Magnus Böcker (OMX), Ulrika Hagdahl (Cancale Förvaltnings), Björn Lind (SEB) and Olof Neiglick (Nordea). Contact details for the nominating committee:

E-mail: valberedning@orcsoftware.com

Address: Nominating committee, Orc Software, Box 7742, SE-103 95 Stockholm, Sweden

Analyst and press meeting, and telephone conference

An analyst and press meeting will be held on January 26, 2005 in Stockholm at 2 p.m. (CET). A telephone conference will also be held at 4 p.m. (CET). For more information about these events visit www.orcsoftware.com, Company, Investor Relations, Calendar.

Stockholm, January 26, 2005

The Board of Directors

For further information please contact:

Jonas Lindström, CEO, tel: +46 8 407 38 00

Lars Johansson, EVP and COO, tel: +46 8 407 38 24

Susanne Holmlund, Investor Relations, tel: +46 8407 38 50

www.orcsoftware.com

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

Orc Software AB (publ)
Info@orcsoftware.com
www.orcsoftware.com

Org.no. 556313-4583
Birger Jarlsgatan 32A Box 7742
SE-103 95 Stockholm Sweden

T +46 8 407 38 00
F +46 8 407 38 01