



Orc Software AB – Year-end financial report January 1 – December 31, 2005

Full year 2005

- Revenue SEK 278 (247) million
- Operating income SEK 28 (30) million
- Operating margin 9.9 (12.0) percent
- Income after taxes SEK 20 (21) million
- Earnings per share SEK 1.40 (1.61)

October-December 2005

- Revenue SEK 79 (61) million
- Operating income SEK 13 (1) million
- Operating margin 17.0 (1.4) percent
- Income after taxes SEK 8 (0) million
- Earnings per share SEK 0.54 (0.04)

Significant events

- Orc Software acquires Cameron Systems
- The Board anticipates that the company will exceed a revenue growth rate of 15 percent and an operating margin of 15 percent in 2006 also on a pro forma basis
- The Board of Directors proposes a dividend for 2005 of SEK 50 (22) million

Orc Software provides advanced technology for trading, market making and brokerage. Its sophisticated platform offers connectivity to over 100 markets across multiple asset classes. With Orc technology, customers can find more trading opportunities, develop more complex trading strategies and deliver higher profits on each trade.

More than 200 customers in 24 countries rely on Orc Software, including investment banks, trading and market making firms, brokerage houses, institutional investors and hedge funds.

Founded in 1987 and headquartered in Stockholm, Orc Software has over 200 employees across 16 offices in 13 countries and is listed on the Stockholmsbörsen (SSE: ORC). In 2005, the company's total revenues were SEK 278 million with an operating income of SEK 28 million. www.orcsoftware.com

Future outlook

The interest from the financial market continues to be strong in Orc Software's products, especially within algorithmic trading and market access, which are areas where Orc Software holds a leading position. The recurring license revenues continued to increase during the fourth quarter and the annual value of existing client contracts¹ amounted to SEK 248 million at the beginning of 2006, an increase of 33 percent since the beginning of 2005. Excluding foreign exchange effects the increase was 22 percent.

Orc Software's financial targets, as presented in the Q3 report, are to achieve an annual revenue growth of at least 15 percent and an annual operating margin of at least 15 percent in the medium term. Based on the positive sales development and subject to completion of the acquisition of Cameron Systems, the Board anticipates that the company will exceed a revenue growth rate of 15 percent and an operating margin of 15 percent in 2006 also on a pro forma basis.

Markets

The majority of the markets to which Orc Software offers connectivity showed strong results for the year in regard to trading volumes. Thus, 2005 became a year when many of the world's stock exchanges beat previous volume records. A great part of the growth may be explained by the fact that more and more markets now offer complete electronic trading.

The growing activity has resulted in an increased interest in electronic trading systems, both from a local and an international perspective. For Orc Software this has led to an increase in sales to existing clients as well as to a significant number of new clients. Sales to both existing and new clients primarily consisted of market connections and product applications.

During the fourth quarter, Orc Software's sales increased in all regions, with the largest contracts entered into with clients in the US and Switzerland.

Sales of Orc Software's products via Reuters have shown a continued positive trend during the fourth quarter.

Orc Software has continued to develop the collaboration with both OMX and Trading Technologies.

Significant events

Acquisition of Cameron Systems

Orc Software acquires the Australian based company Cameron Systems, the world's leading supplier of Financial Information eXchange-platforms (FIX), for up to USD 32 million (SEK 256 million). The acquisition of Cameron provides Orc Software access to leading FIX technology as well as to an extensive client base with over 170 clients in 25 countries. Orc Software's profit per share is expected to increase as early as 2006 and the revenue synergies are expected to exceed SEK 30 million per year as of 2008.

The acquisition of Cameron will be financed using USD 11 million (SEK 88 million) in cash and USD 10 million (SEK 80 million) in Orc shares. The acquisition is conditional upon the shareholders of Orc Software approving the Board's decision of a directed share issue at an

¹ 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.

Extraordinary General Meeting on January 26, 2006. The share consideration consists of approximately 500000 newly issued shares and Orc Software's previously repurchased 513 500 shares.

An additional purchase price of up to USD 11 million in cash (SEK 88 million) may also be paid. The additional purchase price is related to Cameron's sales and profit development for the current financial year ending June 30, 2006.

Cameron is expected to achieve sales for the financial year ending June 30, 2006 in excess of USD 8.5 (5.5 for the financial year ending June 30, 2005) million, with an expected operating income exceeding USD 3.5 (1.5) million.

In conjunction with the acquisition, OMX has decided to base its future FIX offerings for exchanges on Cameron's product portfolio.

An acquisition accounting analysis is expected to be published together with Orc Software's interim report for the first quarter of 2006. There are no accounting effects of the acquisition for 2005.

Final agreement between OMX and Orc Software for the new front office product

At the end of September OMX and Orc Software signed an agreement regarding the development of a new front office product for trading in equities and derivatives instruments. The new product is primarily designed for brokers and traders who use the exchanges' terminals and supplements both companies' existing product offerings. Via OMX, Orc Software will gain access to a global distribution channel for sales through the exchanges for both this and other Orc Software products.

The agreement included a transfer of 12 employees from OMX to Orc Software as of October 1, 2005. OMX is responsible for the cost of developing and commercializing the new product for an initial period to the end of 2006. The costs for the fourth quarter amounted to approximately SEK 3 million. After OMX has received coverage for the initial costs, the two parties will share the sales revenues.

The new product is planned to be launched during the first quarter 2006.

Reuters alliance

During 2005, several new contracts have been signed through Reuters on a number of different geographical markets, such as Germany, Switzerland, Spain, Eastern Europe and the Middle East. Most of the demand comes from clients within stock brokering, in addition institutional clients and investment banks have also shown an interest. Furthermore, there have been requests for trading via Reuters order routing network as well as trading via Orc ExNet.

Co-operation with Trading Technologies

In the beginning of November the American company Trading Technologies and Orc Software entered into an agreement for offering expanded market access to futures traders. According to the agreement, Trading Technologies' clients may use Orc Software's market connections in combination with Trading Technologies' trading terminal, X TRADER®, the leading trading terminal within futures trading.

Orc ExNet becomes a fully owned subsidiary of Orc Software

As of October 1, 2005 Orc Software has acquired the remaining 28 percent of the subsidiary Orc ExNet. Thus Orc ExNet has become a fully owned subsidiary of Orc Software. The purpose of the acquisition is to achieve a more effective company structure.

Product development

Version 5.2 of the Orc System was launched during the fourth quarter. One of the greatest additions to the new version was the improved functionality for creating, pricing and trading combination contracts.

Version 5.2 also offers support for Linux in all central server components as well as for the majority of the market connections. Furthermore, an improved server based DMA solution (Direct Market Access) and a new US market connection were launched.

During 2005 the following market connections were completed:

- American Stock Exchange, US
- Budapest Stock Exchange, Hungary
- Moscow Interbank Currency Exchange, Russia
- Pacific Exchange, US
- Philadelphia Stock Exchange, US
- Riga Stock Exchange, Latvia
- Tallinn Stock Exchange, Estonia

As of December 31, 2005 Orc Software offered access to 112 markets in total:

- 96 market places for companies with exchange membership
- 71 market places for companies without exchange membership

A more efficient organization

During the second quarter Orc Software implemented 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 worked at 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 operations in Sydney and Tokyo will primarily focus on account management and supporting existing clients.
- 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 was discontinued since the Spanish sales via Reuters increased. Reuters has therefore taken on greater responsibility for sales to the Spanish market.

New organization and management group

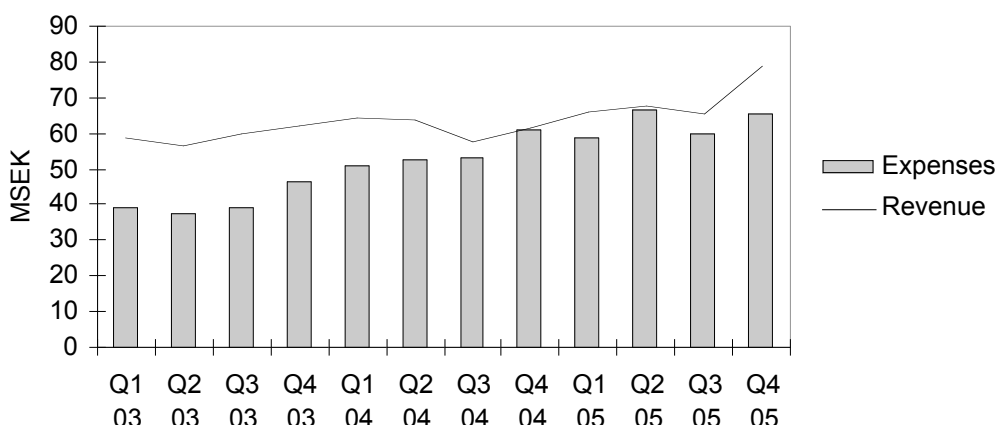
In order to strengthen Orc Software's management the new Group management will from April 1, 2006, consist of the following persons:

- Jonas Lindström, Chief Executive Officer
- Lars Johansson, Executive vice President
- Per Andersson, Partners and Business Development
- Jan Hallsenius, Head of Sales and Services

Furthermore, the company will recruit a new Chief Technology Officer to be part of the Group management. This person will replace Joakim Johansson, who has decided to leave Orc Software as of March 31, 2006.

Revenue

Quarterly revenue and expenses



Full year 2005

Orc Software's total revenue increased during 2005 by 13 percent to SEK 278 (247 in the corresponding period 2004) million. The effects of the adoption of IFRS resulted in positive foreign exchange differences of SEK 19 million during the year, which are accounted for in Other operating revenue.

Sales increased during 2005 to all geographical segments. The largest percentage increase was shown in the Asia Pacific as well as in the segment Europe excluding Nordic.

Revenue per geographic market

SEK million	2005	2004	Change in %
Nordic countries	83	82	1
Europe excl. Nordic	119	111	7
Asia and Australia	30	28	7
Americas	27	26	4
Other	19	-	-
Total	278	247	13

Systems revenue increased by 3 percent to SEK 233 (226) million and amounted to 84 (92) percent of total revenue. Systems revenue increased despite the changed revenue model for Orc Liquidator. Initial revenue for Orc Liquidator and other revenue of a one-off nature amounted to 2 percent of systems revenue for 2005, which is comparable to 9 percent during 2004.

Other operating revenue increased by SEK 24 million to SEK 45 (21) million. The increase is primarily due to positive foreign exchange differences. Furthermore, these revenues consisted of revenue from sales of hardware and professional services.

At the end of 2005 the number of client sites amounted to 215², of which 196 (170) consisted of Orc Software's client sites and 19 were client sites through the Reuters alliance. Average revenue per client site³ amounted to SEK 1.2 (1.4) million during 2005. Of Orc Software's client sites, 15 new client sites were added during the fourth quarter and the number of lost client sites amounted to 6. During the fourth quarter Orc Software received cancellations regarding 4 client sites.

² 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.

³ Calculated as the total systems revenue divided by the average number of client sites for the period.

Among Orc Software's largest clients are several of the world's largest investment banks. The five largest clients represented a total of 16 percent of revenue. No individual client represented more than 5 percent of revenue.

October-December 2005

The revenue increased during the fourth quarter 2005 by 30 percent to SEK 79 (61) million. The effects of the adoption of IFRS resulted in positive foreign exchange differences of SEK 3.5 million during the fourth quarter. Compared to the previous quarter, revenue increased by 20 percent.

Systems revenue increased by 16 percent to SEK 64 (55) million. In relation to the previous quarter, systems revenue increased by 15 percent, to some extent due to the higher US dollar exchange rate.

Other operating revenue amounted to SEK 14 (6.4) million, representing an increase of SEK 7.6 million. The increase is mainly related to compensation from OMX for the development and commercializing of a new front office product, consulting revenue from E2E infotech and positive foreign exchange differences. Compared to the previous quarter, Other operating revenue increased by 53 percent, due to the compensation from OMX, higher revenue from professional services and increased network revenue from new clients.

Earnings

Full year 2005

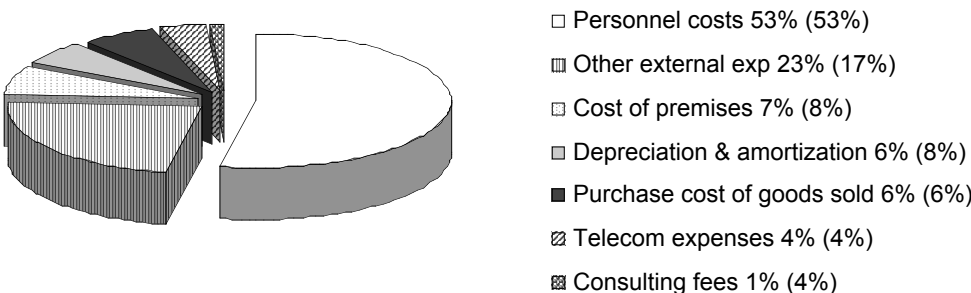
Operating income decreased during 2005 by 7 percent to SEK 28 (30) million, representing an operating margin of 9.9 (12.0) percent.

October-December 2005

Operating income increased during October-December by SEK 12 million and amounted to SEK 13 (0.9) million, representing an operating margin of 17.0 (1.4) percent. Compared to the previous quarter, Operating income increased by SEK 8 million.

Operating expenses ⁴

Operating expenses 2005



Operating expenses increased during 2005 by 15 percent to SEK 250 (217) million. In comparison to the previous quarter, operating expenses increased by 9 percent.

⁴ 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 during 2005 by 16 percent to SEK 133 (115) million. During the same period the average number of employees increased by 18 percent. The increase is mostly due to the consolidation of E2E infotech, the transfer of employees from OMX, the implementation of a traditional pension plan for employees in Sweden, and higher sales commissions as a result of stronger sales. Personnel costs also include a bonus for the company's employees, including the management, equal to SEK 1.9 (1.0) million. During the fourth quarter personnel costs increased by 19 percent, compared to the third quarter. The increase is primarily due to the transfer of employees from OMX, higher vacation pay provision liabilities and higher expenses for sales commissions.

The purchase cost of goods sold increased by 33 percent during 2005 and amounted to SEK 16 (12) million. In relation to the previous quarter this cost increased somewhat.

Consulting fees, related to external product development, decreased by SEK 5.0 million to SEK 2.6 (7.6) million. The decrease is due to the use of fewer external resources for product development. This cost decreased somewhat compared to the previous quarter.

Other external expenses⁵ increased by 47 percent to SEK 56 (38) million during 2005. The effects of the adoption of IFRS resulted in negative foreign exchange differences of SEK 14 million. Other cost increases pertain to costs related to the restructuring of a Liquidator agreement, as previously reported. Compared to the previous quarter, Other external expenses decreased somewhat. During the fourth quarter 2005 the negative foreign exchange differences amounted to SEK 3.7 million.

Depreciation and amortization decreased by 11 percent and amounted to SEK 16 (18) during 2005, and was mainly unchanged compared to the previous quarter.

Development expenditure

Orc Software invests considerable resources in product development of new and existing applications. The main part of development expenditures consist of salaries. At the end of the year, 107 (72) people worked with product development in Hong Kong, India, London, Moscow, StPetersburg, Stockholm, Sydney, and Toronto. Other product development expenditure includes computer equipment and premises for product developers, as well as external consultants.

There was no capitalized development expenditure during 2005. During 2004 the capitalized development expenditure amounted to SEK 0.9 million. Amortization of accumulated capitalized development expenditure during 2005 amounted to SEK 7.8 (9.0) million.

The total development expenditure increased by 4 percent for 2005 and amounted to approximately 25 (26) percent of total revenue.⁶ In absolute terms the development expenditure increased mostly due to an increase in internal development resources. The development expenditure is expected to continue to represent a significant part of operating expenses.

Cash flow and investments

Orc Software's cash flow before changes in working capital and investments was SEK 44 (32) million in 2005.

⁵ Other external expenses consist mainly of other external consulting (not related to product development), travel, marketing, and negative foreign exchange differences.

⁶ Total revenue is adjusted for positive foreign exchange differences, a consequence of the adoption of IFRS.

The change in working capital amounted to SEK 6.5 (0.5) million in 2005 and was primarily due to increased operating liabilities, which are a result of increased systems revenue invoiced quarterly in advance and therefore accounted for in Accrued expenses and prepaid income. Operating capital amounted to SEK -35 (-7) million at the end of December 2005. The change is mainly due to improved sales, a lower dividend and the fact that no Orc shares were repurchased during 2005.

The company's investments amounted to SEK -8 (30) million during 2005, due to the repayment of the loan, equaling SEK 23 million, from Hun Research. Other investments, equaling SEK 13 million, mainly consisted of the acquisition of the remaining 28 percent of the subsidiary Orc ExNet and investments in computer and office equipment.

The company did not have any interest-bearing liabilities during the period. Liquid funds amounted to SEK 227 (186) million as of December 31, 2005.

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 Euros, although invoicing is also done in Australian and Canadian dollars, Danish and Norwegian kronor, Japanese yen as well as to some extent in British pounds. The Group has significant exposure in US dollars and Euros, 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 98 million in 2005, allocated as set out in the table below.

Inflow 2005	SEK million
USD	69
EUR	60
AUD	4
DKK	2
CAD	0
Total	135
Outflow 2005	
GBP	-21
HKD	-7
JPY	-6
CHF	-3
Total	-37

Foreign exchange hedging affected operating income by SEK -5.6 (11.4) million⁷.

In accordance with the company'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, 2005, future flows equivalent to SEK 42 (36) million had been hedged, consisting of USD 3.0 (4.0) million and EUR 2.0 (1.0) million. The currencies are hedged against the Swedish krona at an average forward rate of 7.81 (6.77) USD/SEK and 9.38 (8.95) EUR/SEK, respectively, with a total average remaining duration of 4 (3) months.

⁷ The valuation is based on the exchange rates at the end of the accounting period: USD/SEK 7.95 and EUR/SEK 9.43.

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 the Swedish issuers used by Orc Software must be ranked "K1" as per Standard & Poor's ratings and that the non-Swedish issuers must be ranked "A-1" and "P-1" as per Standard & Poor's and Moody's ratings.

The company's short-term investments, which at year-end amounted to a nominal value of SEK 165 (138) 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 strong capital segment, which consequently implies a low risk for bad debt losses. The company'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 2005 bad debt losses amounted to 1.4 percent of the operating expenses.

Sensitivity analysis

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

Factor	Change	Effect on Operating income for full year 2005, SEK million
License price	+/- 5%	+/- 12
Salary costs	+/- 5%	-/+ 6
Development expenses	+/- 5%	-/+ 3
SEK/USD	+/- 5%	+/- 3 ⁸
SEK/GBP	+/- 5%	-/+ 1 ⁸
SEK/EUR	+/- 5%	+/- 3 ⁸

Taxation

The tax rate for 2005 amounted to 38 (34) percent. Tax expenses are calculated after estimated tax for parent company and respective subsidiaries. The high tax rate is due to an unaccounted tax liability related to a deduction for losses in a subsidiary as well as tax adjustments in the Parent company.

Employees

At the end of December 2005 Orc Software had 207 (172) employees. The increased number of employees is primarily due to the fact that E2E infotech became a subsidiary of Orc Software as of June 1, 2005 and therefore is consolidated, as well as to the transfer of employees from OMX. The total number of employees increased during the fourth quarter by 13. The average number of employees during 2005 was 186 (157). The number of female employees at year-end equaled 38 (30) and the number of male employees equaled 169 (142). The average age of the employees is 32 (32).

⁸ Without taking into account foreign exchange hedges.

Employees per geographical segment			Employees by function		
	31 Dec, 2005	31 Dec, 2004		31 Dec, 2005	31 Dec, 2004
Sweden	72	69	Product development	107	72
Russia	47	40	Support and account management	45	47
Rest of Europe	36	34	Sales	29	29
North America	17	15	Company-wide functions	26	24
Asia & Australia	35	14			
Total	207	172	Total	207	172

Shareholders

The number of shareholders in OrcSoftware on December 31, 2005 equaled 2 169 (2 403).

OrcSoftware's ten largest shareholders	No. of shares	% of shares
OMX Market Technology	4 488 075	31.3
SEB funds	1 355 140	9.5
Skandia	756 800	5.3
Robur funds	665 455	4.6
Hagströmer & Qviberg Fondkommission	608 050	4.2
RAM One	590 000	4.1
Carnegie funds	532 400	3.7
Nordea Bank Finland	331 731	2.3
Handelsbanken funds	330 788	2.3
Danske Capital Sweden	247 600	1.7
Other shareholders	4 430 461	30.9
Total	14 336 500	100.0

Source: VPC AB, direct and nominee shareholders December 30, 2005.

As of December 31, 2005 Orc Software has purchased 513 500 Orc shares. The total number of shares, including Orc Software's repurchase of own shares, amounts to 14 850 000.

Dividend

Based on the expected growth and Orc Software's business model with license fees paid quarterly in advance, the Board of Directors has resolved to recommend a dividend for 2005 equaling a total of SEK 50 (22) million, comparable to 244 (101) percent of Net income. The proposed record day for dividends is March 29, 2006. If the Annual General Meeting votes in favor of the proposal, the expected payment date for the dividends is April 3, 2006. The dividends are paid through VPC AB.

Share repurchase

During the fourth quarter 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, 2004, and 2005. 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. The repurchased shares are planned to be used as partial payment in the acquisition of Cameron Systems.

Nominating committee

The nominating committee consists of Magnus Bakke (Robur), Magnus Böcker (OMX), Magnus Eriksson (Skandia), Fredrik Crafoord (H&Q) and chairman Björn Lind (SEB). The committee is responsible for issuing a proposal regarding the members of Orc Software's Board of Directors and Directors' compensation, chairman of the Annual General Meeting, choice of auditors, and audit fees. Should the composition of the largest shareholders change during the nominating process, the composition of the nominating committee shall be modified to reflect such change. The proposal is expected to be published in the middle of February 2006. Contact details for the nominating committee are available at the end of the report.

Transactions with affiliated companies

During January 1- October 13, 2005 the former subsidiary Promyzer leased a server room from OMX. As of October 14, Promyzer is no longer a subsidiary, but is accounted for as an associated company.

As of October 1, 2005 Orc Software has assumed 12 employees from OMX. The employees receive market-equivalent compensation and OMX assumes the expenses for developing the new product during the initial period.

All transactions with affiliated companies are carried out according to current business principles.

The Parent company

The Parent company's revenue increased by 9 percent to SEK 259 (238) million. Work performed by the company for its own use and capitalized is included in the Parent company's revenue figure in accordance with the Swedish Annual Accounts Act. This differs from the Group's accounting, which follows IFRS and reports Work performed by the company for its own use and capitalized as a cost reduction. Income after financial items amounted to SEK 20 (29) million. Liquid funds amounted at the end of 2005 to SEK 187 (157) million, of which SEK 164 (132) 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. 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 the Group's net income and equity as well as changes in the accounting principles.

Net income effects

SEK thousands	According to previous principles	IAS 27 (note A)	IFRS 3 (note B)	According to IFRS
Net income Oct-Dec 2004	514	-522	+24	16
Net income for the full year 2004	23 254	-2 067	+96	21 283
Earnings per share Oct-Dec 2004	0.04	-	-	0.04
Earnings per share for the full year 2004	1.60	+0.01	-	1.61

Effects on shareholders' equity

SEK thousands	According to previous principles	IAS 27 (note A)	IFRS 3 (note B)	IAS 39 (note C3)	According to IFRS
Shareholders' equity Jan 1, 2004	244 278	+1 259	-	-	245 537
Shareholders' equity Dec 31, 2004	197 635	+1 461	+96	-	199 192
Shareholders' equity Jan 1, 2005	197 635	+1 461	+96	-2 184	197 008

Notes

A Minority share

According to IAS 27, Consolidated and Separate Financial Statement, the minority share of income for the period shall be included in 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 share of the income. The minority 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 -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 assessed each year, or more often if circumstances exist that indicate an impairment in value. The amortization for the full year 2004 of SEK 96 thousand has been written-back. No write-downs were required.

C Financial instruments

IAS 39, Financial Instruments: Recognition and Measurement, requires that financial assets and liabilities be 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 December 31, 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 Prepaid expenses and accrued income to Short-term investments in the balance sheet. As of December 31, 2005 the accrued interest amounted to SEK 306 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 full year 2005, this change equaled SEK -5.6 million and has been accounted for as Other operating income and 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 value of these embedded derivatives for the full year 2005 resulted in an effect on income of SEK 4.4 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 in the income statement if these transactions are not of similar character.

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, 2005. 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:

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 and are accounted for in 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 Other receivables and amounted to SEK 1.6 million as of December 31, 2005. Derivatives liabilities are accounted for as Other liabilities and amounted to SEK 0.6 million as of December 31, 2005.

D Work performed by the company for its own use and capitalized

For the Group, Work performed by the company for its own use and capitalized has been moved from income and is now accounted for as a cost reduction in accordance with IFRS. The change does not affect operating income but decreases total revenue, which results in an increase in operating margin from 11.9 to 12.0 percent for 2004.

E 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	2005	2004	Oct-Dec 2005	Oct-Dec 2004
Operating revenue					
Systems revenue		233 337	225 703	64 241	55 064
Other operating revenue	C3	44 775	20 902	14 345	6 409
Total revenue		278 112	246 605	78 586	61 473
Operating expenses					
Purchase cost of goods sold		-15 583	-12 193	-3 377	-3 271
External expenses					
Cost of premises		-17 703	-17 492	-4 863	-4 322
Telecom expenses		-9 275	-9 357	-1 974	-2 524
Consulting fees		-2 573	-7 592	-356	-1 810
Other external expenses	C3	-55 843	-38 106	-15 198	-12 021
Personnel costs		-133 311	-115 477	-35 617	-32 377
Work performed by the company for its own use and capitalized	D	-	884	-	140
Depreciation and amortization	B	-16 166	-17 702	-3 806	-4 436
Total expenses		-250 454	-217 035	-65 191	-60 621
Operating income		27 658	29 570	13 395	852
Financial items					
Income from participation in associated companies		92	1 043	-119	95
Financial income		9 265	4 674	1 222	1 229
Financial expenses		-3 947	-2 919	-131	-2 064
Net financial income		5 410	2 798	972	-740
Income after financial items		33 068	32 368	14 367	112
Tax on net income for the period		-12 577	-11 085	-6 159	-96
Net income for the period	A	20 491	21 283	8 208	16
Net income for the period attributable to the minority interest	A	410	-2 067	435	-522
Net income for the period attributable to the Parent company's shareholders		20 081	23 350	7 773	538
Earnings per share ⁹ , SEK	A	1.40	1.61	0.54	0.04
Number of outstanding shares at the end of the period reduced by Orc Software's repurchase of own shares, thousands		14 337	14 337	14 337	14 337
Average number of outstanding shares reduced by Orc Software's repurchase of own shares, thousands		14 337	14 541	14 337	14 415

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

Balance sheet

SEK thousands	IFRS note	31 Dec 2005	31 Dec 2004
ASSETS			
Fixed assets			
Intangible assets			
Capitalized development expenditure		5 964	13 788
Goodwill ¹⁰	B	476	286
Other intangible fixed assets ¹¹		680	1 422
Tangible assets			
Equipment		16 364	17 702
Shares in associated companies		87	1 131
Available-for-sale investments	C1	3 082	2 806
Other long-term financial fixed assets	C1	1 670	21 577
Deferred tax receivable		2 027	-
Total fixed assets		30 350	58 712
Current assets			
Current receivables			
Accounts receivable		48 062	43 090
Prepaid tax		2 312	12 089
Other receivables	C3	6 790	4 254
Prepaid expenses and accrued income	C2	7 617	8 164
Short-term investments	C2	164 852	137 255
Cash and bank balances		61 999	48 911
Total current assets		291 632	253 763
TOTAL ASSETS		321 982	312 475
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		1 485	1 485
Other contributed capital		123 259	128 509
Reserves		-127	-912
Retained earnings		65 476	68 649
Equity attributable to the minority interest	A	2 099	1 461
Total shareholders' equity		192 192	199 192
Long-term liabilities			
Deferred tax liability		26 260	25 333
Total long-term liabilities		26 260	25 333
Current liabilities			
Accounts payable		9 487	7 161
Tax liabilities		1 812	1 598
Other liabilities	C3	4 273	8 148
Accrued expenses and prepaid income		87 958	71 043
Total current liabilities		103 530	87 950
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		321 982	312 475
Pledged assets		None	None
Contingent liabilities		None	None

¹⁰ This item pertains to Orc ExNet and E2E infotech. Goodwill in E2E infotech is stated in British pounds and is adjusted according to the closing day rate.

¹¹ This item pertains to Orc ExNet.

Specification of the Group's equity¹²

SEK thousands	2005	2004	Oct-Dec 2005	Oct-Dec 2004
Opening balance	199 192	245 537	191 726	207 990
The effect of the implementation of IAS 39, January 1, 2005	-2 184	-	-	-
Dividend	-22 729 ¹³	-49 725	-	-
Share repurchase	-	-18 680	-	-8 438
Fair value of Available-for-sale investments	-140	-	-	-
Market valuation hedge instrument	144	-	144	-
Change in subsidiaries	-6 755	-	-7 486	-
Change in minority	1 452	2 269	-619	-
Change in associated company	205	-500	205	463
Translation difference etc.	2 516	-992	14	-839
Net income for the period attributable to Parent company's shareholders	20 081	23 350	7 773	538
Net income for the period attributable to minority interest	410	-2 067	435	-522
Net income for the period	192 192	199 192	192 192	199 192
Shareholders' equity attributable to the Parent company's shareholders	190 093	197 731	190 093	197 731
Shareholders' equity attributable to the minority interest	2 099	1 461	2 099	1 461

Cash flow statement

SEK thousands	IFRS note	2005	2004
Operating activities			
Operating income	B	27 658	29 570
Adjustment for items not included in cash flow			
Depreciation and amortization	B	16 166	17 702
Other adjustments for items not included in cash flow		-3 761	1 134
Financial items		5 357	5 299
Income tax paid		-1 068	-21 581
Cash flow from operating activities before changes in working capital		44 352	32 124
Changes in working capital			
Changes in accounts receivable		-4 149	-2 320
Changes in other operating assets		-1 225	-450
Changes in accounts payable		2 535	1 140
Changes in other operating liabilities		9 301	2 155
Total change in working capital		6 462	525
Cash flow from operating activities		50 814	32 649
Investment activities			
Investments in intangible fixed assets		-	-884
Investments in tangible fixed assets		-5 977	-8 281
Investments in subsidiaries		-6 853	140
Changes in financial fixed assets		20 982	-20 527
Cash flow from investment activities		8 152	-29 552
Financing activities			
Share repurchase		-	-18 680
Dividend		-22 729	-49 725
Cash flow from financing activities		-22 729	-68 405
Change in liquid funds		36 237	-65 308
Opening liquid funds		186 166	251 867
Translation difference/exchange differences in liquid funds		4 448	-393
Closing liquid funds	E	226 851	186 166

¹² The effects of the adoption of IFRS are explained on pages 12-13.

¹³ Of which SEK 1 224 thousand refers to dividends from Orc ExNet.

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 customers. Thus, the primary segment division consists 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.

Revenue

SEK thousands	2005	2004	Oct-Dec 2005	Oct-Dec 2004
Europe	202 463	193 040	57 350	48 398
North America	27 009	25 794	8 926	6 574
Asia/Australia	29 817	27 771	8 776	6 501
Other	18 823	-	3 534	-
Total	278 112	246 605	78 586	61 473

Operating income¹⁴

SEK thousands	2005	2004	Oct-Dec 2005	Oct-Dec 2004
Europe	126 619	129 181	39 490	29 682
North America	7 312	11 403	2 572	2 195
Asia/Australia	7 857	6 532	1 253	1 772
Other	-114 130	-117 546	-29 919	-32 797
Total	27 658	29 570	13 395	852

Key ratios

	2005	2004	Oct-Dec 2005	Oct-Dec 2004
Operating margin, %	9.9	12.0	17.0	1.4
Return on equity, %	10	11	16	0
Return on capital employed, %	19	15	30	4
Asset turnover ratio	1.4	1.1	1.6	1.2
Equity/assets ratio, %	60	64	60	64
Average number of employees	186	157	200	169
Number of employees at the end of the period (of which women)	207 (38)	172 (30)	207 (38)	172 (30)
Earnings per share, SEK	1.40	1.61	0.54	0.04
Equity per share, SEK	13.26	13.79	13.26	13.79
Share price at the end of the period, SEK	88.50	57.75	88.50	57.75

¹⁴ Income for the geographical segments is reported before joint Group costs.

Quarterly figures

Income statement

SEK thousands	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Operating revenue								
Systems revenue	64 241	56 096	56 605	56 395	55 064	53 217	58 848	58 574
Other operating revenue	14 345	9 385	11 222	9 823	6 409	4 164	4 708	5 621
Total revenue	78 586	65 481	67 827	66 218	61 473	57 381	63 556	64 195
Operating expenses								
Other expenses	-25 768	-26 117	-26 526	-22 565	-23 948	-20 818	-21 172	-18 803
Personnel costs	-35 617	-29 917	-36 079	-31 698	-32 377	-28 115	-27 336	-27 648
Work performed by the company for its own use and capitalized	-	-	-	-	140	127	269	348
Depreciation and amortization	-3 806	-3 941	-4 191	-4 228	-4 436	-4 428	-4 441	-4 397
Total expenses	-65 191	-59 975	-66 796	-58 491	-60 621	-53 234	-52 680	-50 500
Operating income	13 395	5 506	1 031	7 727	852	4 147	10 876	13 695
Net financial items	972	2 413	930	1 095	-740	700	1 868	970
Tax on net income for the period	-6 159	-2 916	-538	-2 964	-96	-2 102	-4 552	-4 335
Net income for the period	8 208	5 003	1 423	5 858	16	2 745	8 192	10 330
Net income for the period attributable to the minority interest	435	234	-330	71	-522	-1 111	-618	184
Net income for the period attributable to the Parent company's shareholders	7 773	4 769	1 753	5 787	538	3 856	8 810	10 146

Balance sheet

SEK thousands	31 Dec 2005	30 Sept 2005	30 Jun 2005	31 Mar 2005	31 Dec 2004	30 Sept 2004	30 Jun 2004	31 Mar 2004
Fixed assets								
Intangible assets	7 120	9 134	11 165	13 155	15 496	17 813	20 137	22 304
Tangible assets	16 364	16 287	17 244	17 890	17 702	18 864	18 686	19 552
Financial assets	6 866	7 831	31 173	28 414	25 514	21 076	17 116	6 850
Total fixed assets	30 350	33 252	59 582	59 459	58 712	57 753	55 939	48 706
Current assets								
Accounts receivable	48 062	43 830	43 271	41 741	43 090	35 359	48 225	31 353
Other receivables	16 719	30 416	21 207	31 267	24 507	23 655	17 372	15 362
Cash and bank balances and short-term investments	226 851	205 919	189 004	185 536	186 166	190 405	191 073	256 433
Total current assets	291 632	280 165	253 482	258 544	253 763	249 419	256 670	303 148
TOTAL ASSETS	321 982	313 417	313 064	318 003	312 475	307 172	312 609	351 854
Shareholders' equity	192 192	191 726	187 702	203 559	199 192	207 990	207 473	256 838
Deferred tax liability	26 260	25 718	25 881	25 335	25 333	23 772	23 768	23 636
Current non interest-bearing liabilities	103 530	95 973	99 481	89 109	87 950	75 410	81 368	71 380
TOTAL EQUITY AND LIABILITIES	321 982	313 417	313 064	318 003	312 475	307 172	312 609	351 854

Forthcoming financial events

January 26, 2006 Extraordinary General Meeting
March 24, 2006 Annual General Meeting
April 20, 2006 Interim Report for the first quarter
July 14, 2006 Interim Report for the second quarter
October 17, 2006 Interim Report for the third quarter

Stockholm, January 26, 2006

The Board of Directors

For further information please contact:

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Susanne Holmlund, Investor Relations, tel: +46 8 407 38 50

Contact details for the nominating committee:

E-mail: nominatingcommittee@orcsoftware.com
Address: Nominating Committee, Orc Software, Box 7742, SE-103 95 Stockholm, Sweden

Analyst and press conference

An analyst and press conference will be held on January 26, 2006 at 3 p.m. CET. Further information is available at www.orcsoftware.com.

Auditors' review report

We have reviewed the year-end financial report of Orc Software AB (publ) for the period January 1-December 31, 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 January 26, 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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