



TM Software hf. Annual Report 2005

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From the Chairman

This July TM Software celebrates its 20th anniversary. Over these twenty years, the company has grown very rapidly both organically and through acquisitions. During the first 10 years the company focused on custom development and system integration with around 50 employees. During the next 10 years the company transformed into a large international software house with customers all over the world and 450 employees.

The main differentiator of TM Software in the IT market in Iceland over the years has been its clear focus on products in its selected sectors. This has given the company an opportunity to go international with its products and grow quite rapidly. The international positioning of WiseFish, the company's seafood product suite, has been a huge success. WiseFish is now probably the best known information system in the field worldwide and a highly acclaimed product within the MBS world. The Theriak healthcare products are also being recognised in northern and central Europe as a very progressive tool for efficiency and safety in drug administration within hospitals.

For me it has been an interesting experience to take part in the development of the company, as a board member since 1997 and then the chairman of the board. This led to my acquiring a major share in the company in the year 2005 and taking a more active role.

The internationalisation of the company has in many ways been very successful but in some cases the profitability of international units has not been quite good enough. The company's main challenge for this year will be to turn all units into profitable ones. The company is well equipped for the job and bearing that in mind is finishing acquiring the remaining 50% of Maritech International AS in Norway. Despite growing in a profitable manner will remain top priority, acquisition opportunities will be sought abroad, mainly in infrastructure management and healthcare.

I would like to thank the shareholders for their support to the company, the management for their good effort and cooperation and the employees for their devotion over the years.

Friðrik Jóhannsson



From the CEO

The operation of TM Software in 2005 continued to be eventful. The year started with a change of name, TM Software. The decision to put aside the name TölvuMyndir, a name recognised with good image and customer loyalty for more than 19 years, was not an easy one. It was however necessary, mainly for two reasons. First is the fact that in few years the company has changed into a powerful international software company with operations in a number of locations worldwide. Internationally the operation has been using the name TM Software and this double naming needed to be simplified. The other main reason is the restructuring of the operations of the company. They are now portrayed as one company with one image and a united front.

The change of name is only the visible part of a very extensive reformation that is proving to be a success. The good image of the new name is being built up and most of the objectives of the reformation have been reached or are well on its way.

This can be seen in the operational results of all the business units. The revenues in 2005 grew 28% and pretax profits grew to 366 million from 17 million in 2004.

Special attention was put on improving international operations, both healthcare and Maritech, with some success in both areas.



The operation of Maritech was a disappointment. As a majority shareholder TM Software called upon some major reformations of the operations.

It was a very difficult process because of very dramatic disagreements within the shareholder group and board that affected the management of the company for most of the year. However these changes were put into effect in the beginning of 2006. The structure is now much simpler and gives a better clarity and accountability than before. The CEO of Maritech left the company and the units are now better aligned with TM Software. The changes have been very well received, both by management and employees. Along with this TM Software offered to purchase all shares in Maritech and is in the final stages of being the sole owner of Maritech. The operations of Maritech will in the near future be fully integrated into the operation of TM Software in the same way as other business units.

In healthcare, revenues increased by around 40%. This increase is largely organic but also including the acquisition of a Dutch software company named Falcon Automatisering BMV that was added into the operations in October.

Domestic operations are in a good shape and returns both increasing revenues and profits. Late in the year Libra was sold to OMX Technologies in Sweden. The decision to sell Libra with its employees, that in many cases have been on the team for many years, was not an easy one to make. It symbolises however the achievements that the unit has made in its sector and the opportunities of the unit and its staff will continue to grow with this change of ownership.

Looking ahead to the year 2006 the company's main focus will be on improving its operations abroad. Actions to ensure improvements have already been taken.

Friðrik Sigurðsson

Highlights of 2005

Continuous improvement of operations is perhaps the most characteristic aspect of the year 2005 for TM Software. A united front was a key element in transformations of the company's business units in their approach to the market. TM Software continued to secure its status as a large, international software powerhouse with more than 450 employees, offices in 11 countries and supporting over 1,800 customers worldwide. By the end of 2005, TM Software consisted of the following subsidiaries: TM Software Germany, TM Software Europe, Maritech International, Origo, Skyggnir, Theriak, Vigor and the parent company. Associated company is Hópvinnukerfi. In 2005 Falcon Automatisering in the Netherlands was acquired and consolidated along with TM Europe, and Libra and Tölvusmiðjan were sold.

A new building was designed and agreement signed with a contractor to build and lease it to TM Software. The location is Urðarhvarf 6 in Kópavogur. The building is over 8,000m² and will be delivered in the second half of 2007. Upon delivery all operations of TM Software in Kópavogur will be moved under one roof, from the three locations of today.

Investments were made in the Dataroom in Holtasmari 1 to increase possibilities of adding new clients in hosting.

The changeover to the International Financial Reporting Standard (IFRS) which started in 2004 is being completed and the account for 2005 is now fully compliant to the new standard. The implementation of the standard has some effects on the way annual accounts are presented. Deferred tax assets are now capitalized as well as a part of the company's R&D. Booked value of shares is reassessed and linear amortisation is given up for annual impairment testing, where real value and bookvalue of goodwill are compared.

The operations of Libra and Vigor were quite profitable and in line with previous years. In November Libra's operations were sold to OMX in Sweden. Libra's employees will continue working on solutions for the financial markets and will take part in a Pan-Nordic development project of a back office system for KB Banki.

Origo delivered a system for the Icelandic Social Security. The system, Alma, is the welfare system for Iceland and this is probably the largest custom development project in Iceland in recent years. The cooperation with Icelandic social security has been very productive and in good spirit for both parties. Upon delivery a contract was signed on further maintenance and support.

Skyggfir's operations continued at a steady growth and with a healthy outcome.

The healthcare operations continued to grow in 2005. A new business unit, Falcon Automatisering, was acquired in the Netherlands in September. Falcon is a Navision Financial company which specialises in pharmacy systems for hospitals in the Netherlands. They have a large market share in this sector and there are quite favorable synergies between Falcon and TM Europe both productwise and on customer base. Falcon reports consolidated with TM Europe.

Maritech's operation continued to be a challenge in the year 2005. In October, the structure of the company was changed and the function of Maritech's mother company, Maritech International, was eliminated. Reporting structure was simplified and the units given more autonomy and clearer operational structure. The benefits of this change and further operational changes in early 2006 are already starting to show and the year 2006 will be a year of very improved results for Maritech.

The operation of Focal, formerly known as Hopvinnukerfi, resulted in a loss of ISK 9.4 million.

TM Software's general assembly was held on August 12th 2005, where a former authorisation of the board to issue 50 million new shares in the company was extended, along with an unused authorisation from the previous general assembly for issuing 32 million shares. Furthermore, the board was authorised to acquire up to 10% of its own shares. A board of directors was elected. Sitting on the current board are: Friðrik Jóhannsson, Guðmundur Gunnarsson, Sindri Sindrason, Ragnhildur Geirsdóttir and Örn Þórisson. Upon resigning as CEO of FL Group late 2005, Ragnhildur Geirsdóttir resigned from TM Software's board of directors and the company thanks her for her contribution over the years. The certified public accountant Birkir Leósson (a Deloitte hf. partner) was elected as TM Software's CPA.

Shareholders

The number of shareholders was 106 at the end of 2005. The largest shareholders were:

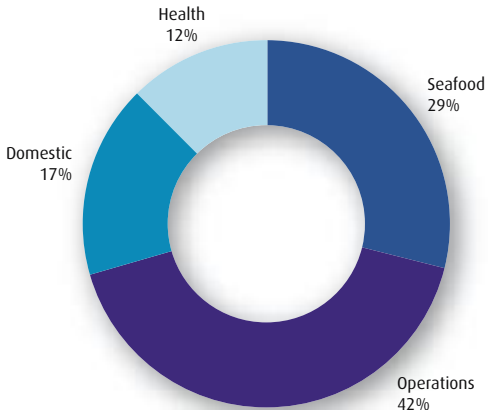
Name	Shares(th)	Percentage
Áning ehf.	101,159	52.3%
Friðrik Sigurðsson	25,363	13.1%
FL Group hf	19,664	10.2%
KB banki hf	14,057	7.3%
Trygging hf	6,038	3.1%
Others	27,077	14.0%
Total number of shares	193,358	100.0%

Highlights of the 2005 financial statements

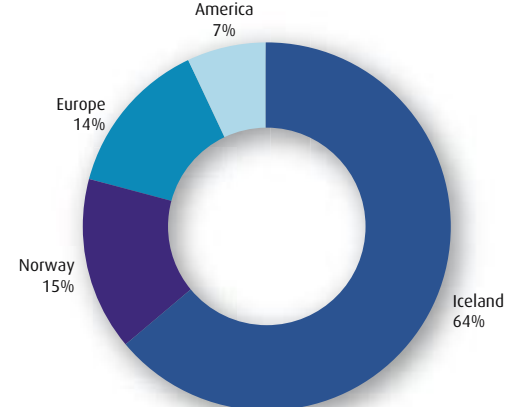
The financial statements of TM Software hf. for the year 2005 are prepared according to International Financial Reporting Standards (IFRS) as adopted by the EU. The implementation of IFRS did affect the financial statements in various ways and are detailed in the notes.

Gross revenue for 2005 was ISK 4,451 million but was ISK 3,481 million in 2004, with an increase of 27.9%. The 2005 annual account consolidates TM Software Germany, TM Software Europe, Libra, Maritech International, Origo, Skygggnir, Theriak Ísland and Vigor along with the parent company. Falcon Automatisering was acquired in September and is consolidated with TM Software Europe from October 1st.

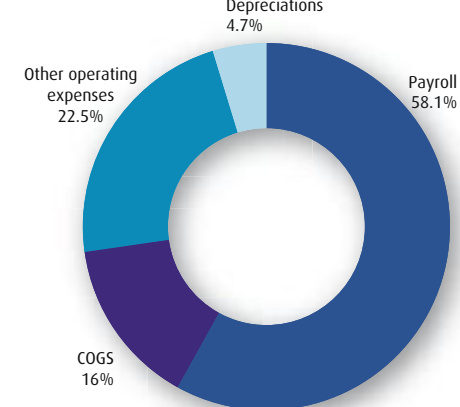
Business segments



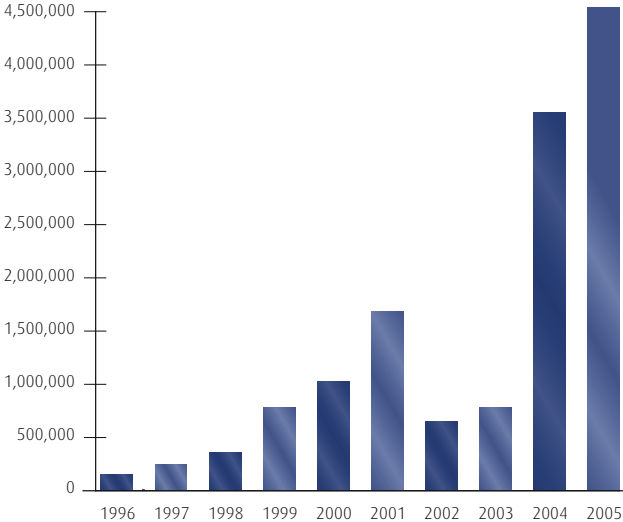
Geographical segments



Operating expenses

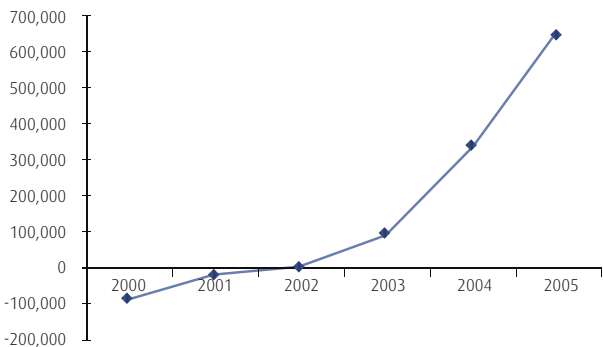


Revenue (MISK)



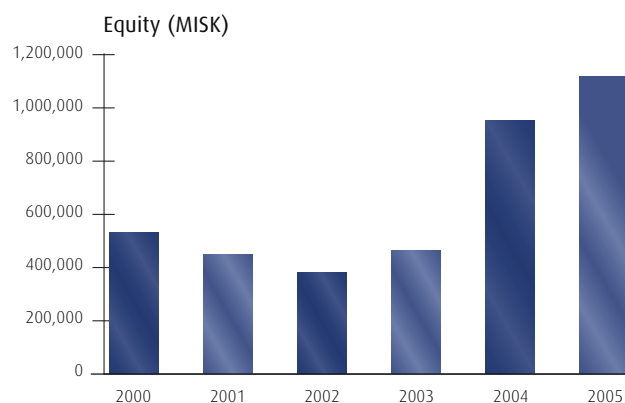
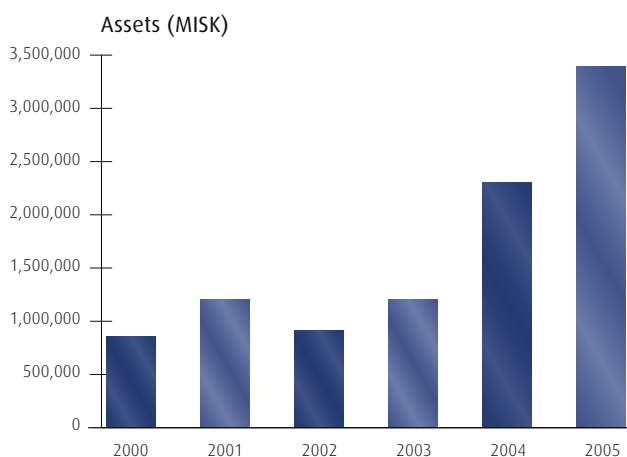
Total operating expenses before the effects of associated companies, interests and taxes were ISK 3.991 million but had been ISK 3,354 million the previous year. EBITDA was ISK 648 million in 2005 but ISK 335 million in 2004. EBITDA over revenue was 14.6%. The year before the ratio had been 9.6%. Operating profit was ISK 460 million and grew from ISK 127 million 2004. The effects of associated companies were negative of ISK 15 million, but were ISK 6 million in 2004.

EBITDA 2000-2005



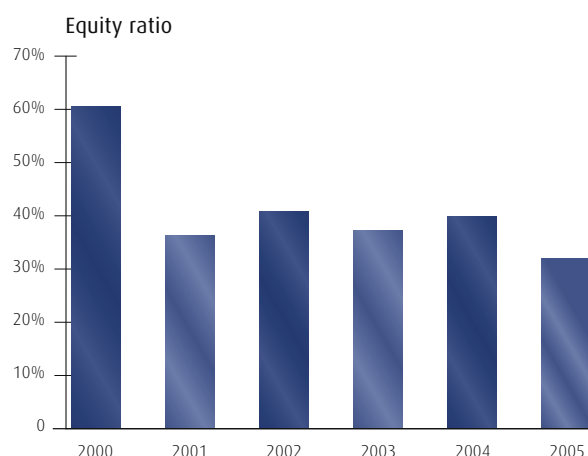
Development in operation over the years 2000 to 2005:

Thousand ISK	2005	2004	2003	2002	2001	2000
EBITDA	647,721	335,062	90,837	(2,938)	(19,108)	(90,519)
Amortisations and depreciations	187,515	208,461	11,559	10,919	198,650	56,438
Net financial expenses	79,314	103,692	40,910	40,212	55,091	16,489
Taxes	97,136	3,663	284	0	2,635	4,859
Loss of investment in associates	14,808	6,102	21,332	50,687	16,474	13,169
Net profit (loss)	268,949	13,144	16,753	(104,757)	(291,958)	(181,474)



Net financial costs were ISK 79 million and decreased from ISK 104 million. Income tax was ISK 97 million and ISK 4 million the previous year. Net profit for the year 2005 was ISK 269 million in 2005 compared to ISK 13 million in 2004.

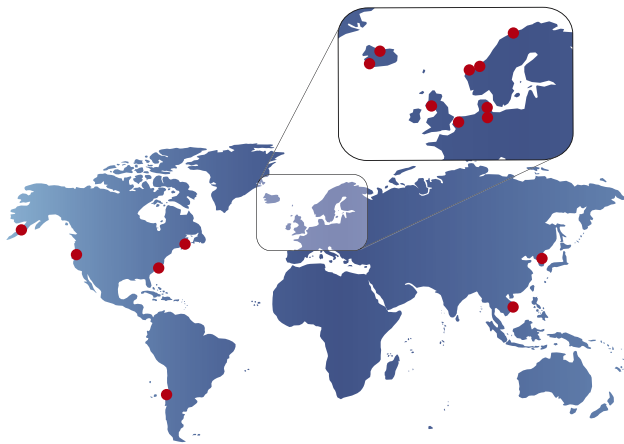
Total assets were ISK 3,384 million in end of 2005 divided into non-current assets ISK 1,680 million and current assets ISK 1,704 million. Total liabilities in year end were ISK 2,285 million, but were ISK 1,384 million the year before. Total equity was ISK 1,099 million. Equity ratio was 32.5% end of 2005, but 40.2% the previous year. Current ratio is 1.4; an improvement from 0.9 the year before.



Working capital provided by operating activities was ISK 86 million in 2005 compared to ISK 218 million in 2004. Net cash provided was ISK 212 million compared to ISK 180 million the previous year. Net cash for investing activities was ISK 749 million in the year 2004.

TM Software

TM Software is an international software solutions company with offices in 11 countries and 450 employees. TM Software serves over 1,800 customers in more than 20 countries, on four continents. TM Software has been recognised as one of Europe's most progressive companies for four consecutive years on the Europe's 500 list. TM Software is currently privately held.



Our products and services have enjoyed significant acceptance in the marketplace:

- Our Theriak healthcare solution has been installed in five countries.
- Leading European hospitals have been saving up to 20% on medication and have more than halved medication related errors by installing our Theriak healthcare solution.
- WiseFish has become the leading IT system for fisheries enterprises world-wide and has enabled our customers to enjoy significant savings after implementation.
- Our customers announce that a well planned ICT outsourcing has significantly decreased their ICT operational costs.
- Our customers praise us for delivering custom developed software projects on time and on budget.
- Our Vigor software has become the defacto system for the energy industry in Iceland, enjoying a 70% market share.

Our Mission and Vision

Our vision is:

To be an international leader in providing high-value software solutions in our selected sectors.

Our mission is:

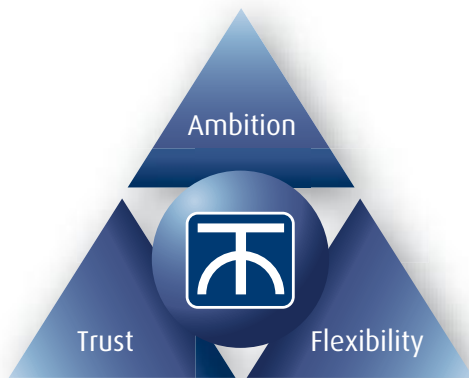
To turn business needs into software solutions. We achieve tangible benefits for our customers by producing mission-critical software products, sold as our own brands and reinforced by comprehensive Information & Communications Technologies (ICT) solutions in cooperation with leading international ICT companies worldwide.



Our Company Values

TM Software's values are the foundation of our company.

We live our values in our everyday actions.



Flexibility is key to adapt faster and serve better

We realise that few sectors are as dynamic as our areas of operation; therefore we strive for flexibility in the way we do business.

- We see opportunity in change.
- We make continuous efforts to adapt to innovation.
- We are constantly moving towards progress.
- We seek further knowledge.
- We share our knowledge.
- We respect different opinions on technology, procedures and management.
- We instil flexibility at all levels of the organisation and structure of our company.

Ambition drives innovation and service level

We want our professional ambitions to be fulfilled, and we understand that professional pride cannot be maintained for long unless all stakeholders – employees, customers, and shareholders – are satisfied. Our accomplishments shall be measurable and outstanding. This entails continuous self-examination of our professional methods, initiative, inventiveness and success.

We aspire to excel in the fields we advance into.

We are ambitious on behalf of:

- Ourselves.
- Our solutions.
- Our customers.
- Our company.

Trust is fundamental in relationships

As providers of mission critical software solutions, having the trust of our customers is at the very heart of everything we do. By placing the word trust foremost in our every activity:

- We take responsibility.
- We carry out each job professionally.
- We work honestly, according to expressed goals and procedures.
- We trust our associates and colleagues.
- We also realise that trust is not given. We have to earn trust and prove worthy of it. Therefore, we are happy to receive any comments, concerns or suggestions for improvement.

Industry expertise

TM Software excels industry knowledge in its selected business sectors. We choose the vertical sectors to which we dedicate our mission critical solutions, and support them with a comprehensive ICT offering.

Sector focus

- Large markets
- International markets
- Sectors where ICT matters

Mission Critical software products

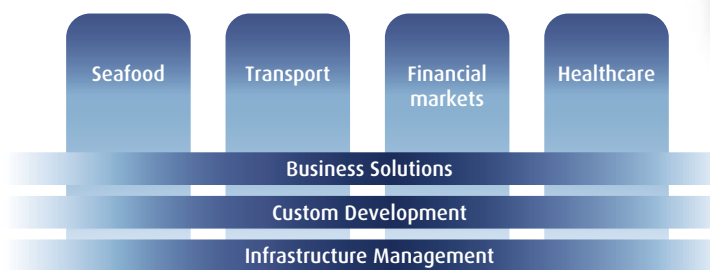
- Staff with specific sector know-how
- Our software products focus on core business needs

Comprehensive ICT offerings

- Extensive portfolio of solutions and services
- Hardware provisioning
- Facility management
- Outsourcing

Why our vertical spotlight?

- To stay focused.
- To leverage our dedicated value proposition.
- For its repeatability factor.
- To evolve with the sector.
- To revolutionise the sector.

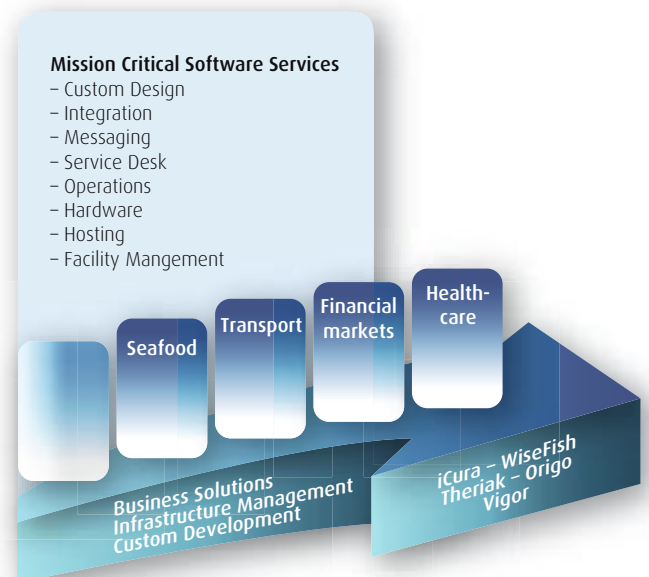


- **Healthcare - Theriak** supports the core clinical IT functions of healthcare institutions, i.e. work connected with the acquisition and processing of medical data for storage in electronic health databases. Theriak increases patient trust and satisfaction and significantly reduces medication costs.
- **Seafood - WiseFish** solutions incorporate best practice business solutions for the fishing, seafood and aquaculture industries. WiseFish offers total control over the value chain and is scalable to meet specific business requirements.
- **Financial markets** - Up to December 2005, **TM Software** has been successfully serving the Icelandic financial community with mission critical software products and services. The business unit dedicated to the financial markets was divested in January 2006.

- **Transport - iCura**. TM Software operates extensive ICT outsourcing systems for the shipping and airline industries internationally. TM Software has been leading substantial mission-critical bespoke development projects in the sector, as well as the integration between transport customers back end business systems and front end systems.

And how do we emphasise our verticals?

- By focusing also on our horizontal offerings



- **Business Solutions**. TM Software is the leading Icelandic company in developing its own general business software solutions, the **Vigor** financial enterprise resource planning (ERP) and billing systems. We resell and operate other business software such as **MBS** Navision, and service several other ERP systems for our customers.
- **Custom Development - Origo**. TM Software is leading in Iceland by concentrating on custom software design and dedicated internet solutions. TM Software has gained extensive expertise in Microsoft and Java environments. We execute projects according to clearly defined and recognised procedures with quality service and close, reliable co-operation with the customer.
- **Infrastructure Management - iCura**. TM Software offers first-rate services for the operation of data and communications systems. We are a leader in the operation of corporate computer and data systems for institutions and municipalities in Iceland, as well as servicing companies internationally in transportation and healthcare. In 2004, TM Software was awarded two security international certificates: ISO/IEC 17799:2000 & BS 7799-2:2002.

Organisation

President and CEO

Friðrik Sigurðsson, President and CEO of TM Software.

Group Functions

Guðmar Guðmundsson, Chief Financial Officer.

Eric Figueras, Vice President, Business Development.

Business Units

Garðar Már Birgisson, Vice President, Healthcare.

Ágúst Einarsson, Vice President, Infrastructure Management.

Stefán Þór Stefánsson, Vice President, Custom Development.

Sigurður Bergsveinsson, Vice President, Business Solutions.

Jón R. Kristjánsson, Vice President, Seafood.

The total number of employees at TM Software is about 450. Around 70% of those have a university degree (B.Sc, M.Sc or higher). The university degrees are of all kinds, computer scientists, engineers, doctors, nurses, economists and more. In addition, many of these professionals have completed certifications from Microsoft, Cisco, HP, IBM, Oracle, Citrix, SAP and Redhat. To this we can add project management certifications in PRINCE2, and IT operation certifications from ITIL.

TM Software is a Microsoft Gold Certified Partner.

The certification is based on the following competencies from Microsoft:

- Business process and integration solutions.
- Information worker.
- Advanced infrastructure.
- Networking solutions.
- Security solutions.
- ISV/software solutions.
- Mobility solutions.

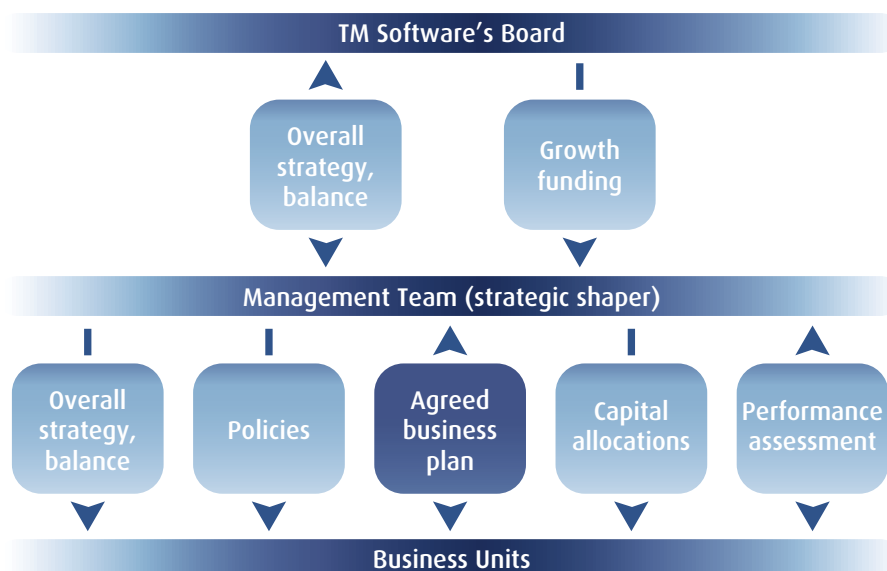
Our management processes

Management Processes within TM Software are recognised on an international level. We pride ourselves of being a leading participant in the definition of intellectual capital information reporting in the Nordic countries. Additionally, we have implemented a set of internal management processes, personalised to our needs.

TM Software's management processes are defined to maintain the focus and support around the operations of each individual business unit.

Since TM Software's most precious asset is the staff's intellectual property, we invest heavily in continuous education of our staff:

- Technical.
- Solution selling.
- PRINCE 2 project management.
- Security, etc.



Intellectual Capital Report

Preface

When TM Software started to publish intellectual capital information five years ago we knew that it would take the market some time to understand the value of the information presented. And as we predicted the market has slowly but gradually started to recognise the need, which has encouraged us in our effort to establish IC reporting within our company and our industry of operation. Our motivation is of course the need to be able to keep track of and report the company's intellectual capital, and by doing so being able to shed light on development of assets that are not registered in the annual accounts. But these are not the only benefits we see in IC reporting. We have learnt that this is also a valuable management tool and one might even say a compass in a fast paced and ever changing world. These points and the fact that we see more companies starting to understand the need for IC reporting, confirms in our mind the necessity of these publications and that our initial decision was right.

The year 2005 was a year of unification at TM Software. The company's growth and mergers have been the driving force in regards to restructuring of our processes and organisation as a whole. This work has been ongoing since last year and our focus will be on these matters in the year 2006. We have seen and experienced great changes and improvements in the last year but our ambition is to do even better in the future.

As TM Software is participating in the Scandinavian project PIP (Putting IC into Practice) we try to keep the report in harmony with the outcome of the project without compromising our approach to the IC report. This means that we are still keeping our setup of six main parts: customers, partners, processes, staff, products and finances but this year we also include a summation of the indicators and results in as much accordance to the PIP setup as possible, i.e. Human Capital, Structural Capital and Relational Capital.

The report is based on information gathered from our financial information systems, customer systems, employee systems, time registry systems, project management systems and independent customer and employee surveys which Intellecta Inc. has executed regularly for the past years.

In this IC report, the aim is to:

- Give a true description of TM Software's status in regards to clients, budgets, strategic planning as well as finished and unfinished projects.
- Describe intangible assets.
- Use the results for operation and a successful knowledge management within the company.

Any and all constructive comments about this report are welcomed for future purpose of improvement and clarification.

Friðrik Sigurðsson
CEO
TM Software hf.

Highlights on TM Software

Business challenges

Changes, as before, are the main challenge in the operation of TM Software. Still the emphasis has been on strengthening the company as one large software house. The aim is as always to grow but for the first time a part of the company was sold as the operational assets of Libra were transferred to OMX Technology. This action is a part of the company's strategy to focus on selected growth sectors. TM Software bought the Dutch software company Falcon Automatisering BV, which specialises in the production and selling of software solutions in the healthcare sector. The acquisition was a part of TM Software's aim to boost its standing in Europe with an emphasis on the Benelux countries. At the end of the year 2005, TM Software had offices in 11 countries and about 450 employees; the company serves over 1,800 customers in more than 20 countries on four continents.

At the end of 2005, TM Software stands as one strong company. Focal, formerly known as Hópvinnukerfi, is the only associated company as Tölvusmiðjan was sold in the year. The company's main business challenges are as before maintaining control while growing rapidly and harmonising its processes.

Innovation and Development

TM Software is a software house and much of its resources are spent on development of products. In the year 2005, around 6.7% of all working hours were spent on development of main products. The investment in its software products was 6.6% of gross income. On top of that, just under a 150 million ISK were invested in education of our employees.

Improvement of processes

As in the previous year, much effort has been put into improving and harmonising processes within the company. Flexibility is one of the core values of TM Software and that is reflected in the work being done in regards to processes. We place emphasis on efficient processes, which means that we have to be flexible and ready to adopt new and better methods or put away what is not good enough.

Project management

TM Software is a project oriented company, which means that projects of all sorts and sizes are ongoing all year round. The foundation for good execution of projects is well trained project managers. This year the emphasis has been on informal training in project management even though the numbers of certified project managers increased.

IC report 2005

The last four annual reports have included an IC chapter emphasising its importance for a company such as ours. The essence of this report will be used as an integral part of our annual report. This year's results of employee and customer surveys are colored by the fact that the report includes information from our international offices in N-America and Europe. This makes comparison on results between years difficult.

Facts about TM Software

TM Software's vision is to be an international leader in providing high value software solutions in our selected sectors. We do so by turning business needs into software solutions. We create tangible benefits for our customers by producing mission critical software products, sold as our own brands and reinforced by comprehensive Information and Communications Technologies (ICT) solutions.

The reason we will succeed in our mission is that we have achieved a unique position in taking advantage of the powerful trends that are shaping our industry. We believe that these trends will fundamentally alter the landscape of the IT sector in coming years.

- **Internationalisation** – All software companies look for international sales to bolster their domestic operations. Very few succeed. TM Software has however transformed itself into an international software powerhouse, while most competitors in our international markets are focused on domestic solutions. This gives us a unique competitive advantage.
- **Verticalisation** – With ever increasing focus on vertical solutions, TM Software has gained the reputation of being the market driver in our chosen sectors. By creating products tailored to the needs of our particular verticals, we bring to the table not only our technical and business knowledge of the sector, but the aggregate expertise gained through our clients, who are leading firms worldwide, and who accept nothing less than state of the art solutions.
- **Integration and operation** – Integration has become the buzzword within the industry. This buzzword stems from the fact that the majority of software development is merging in nature, as opposed to providing radical functionality enhancements. TM Software takes a more active role, by specialising in integration aspects as well as the operation and maintenance of our installed solutions we ensure the effectiveness of the total solution.

- **Consolidation** – The IT industry has been, and currently is, consolidating. TM Software has also been active in this area. The experience gained in the consolidation arena, combined with active support from our owners and the investor community, ensures that we are well equipped in taking the company to the forefront of the international IT industry.
- **Platform changes** – The technological foundations that the IT industry rests upon has a myriad of development platforms, resulting in products and software offerings that have a high degree of interconnective complexity and problematic IT infrastructure for the users. With relatively fewer platforms poised to assume the centre stage, this situation is changing. Along this line, we envision that the traditional boundaries between accounting and line-of-business software are disappearing with the existence of more common platforms. Our products, using state of the art development platforms, and active partnerships with leading technological providers in the world such as Microsoft and IBM, ensure the long term viability of our solutions.
- **Market maturity** – IT clients take quality and reliability for granted. Focus is on global solutions, smooth integration and ROI. Our products and solutions are dedicated to producing strong ROI models for our customers. TM Software has frequently been appraised by its customers as a high quality vendor with efficient processes and timely delivery of our solutions.

What makes us different?

At TM Software, we select the industries and sectors in which we decide to be active. These are chosen according to our experience and development capabilities, and they are large international sectors with substantial growth opportunities.

TM Software has a clear focus in the development of mission critical products and services. The company's discipline in development of mission critical products is sustained by robust quality processes, gained after years of experience within the specific sectors. TM Software will celebrate its 20th anniversary in the year 2006, which means that the company has been creating mission critical products and solutions for 20 years, as well as servicing and maintaining them.

Our mission critical products are complemented by a comprehensive portfolio of ICT offerings. Our strategy is to have a direct relationship with the customer, typically established via our differentiating mission critical products, and enhanced with many other ICT services. Other ICT services such as hardware leasing, integration and

custom development, hosting and infrastructure management, customer centre and many more.

Industry expertise

TM Software is specialised in the healthcare industry with the Theriak products and in the seafood sector with the WiseFish product suite. We are active internationally in both these industries, leaders worldwide with WiseFish and leading in the European healthcare industry with Theriak. Additionally, we are serving other sectors both internationally and in Iceland, our native market. Whether it is Vigor business solutions, custom development, hosting and or infrastructure management, TM Software is building a strong reputation domestically as well as abroad.

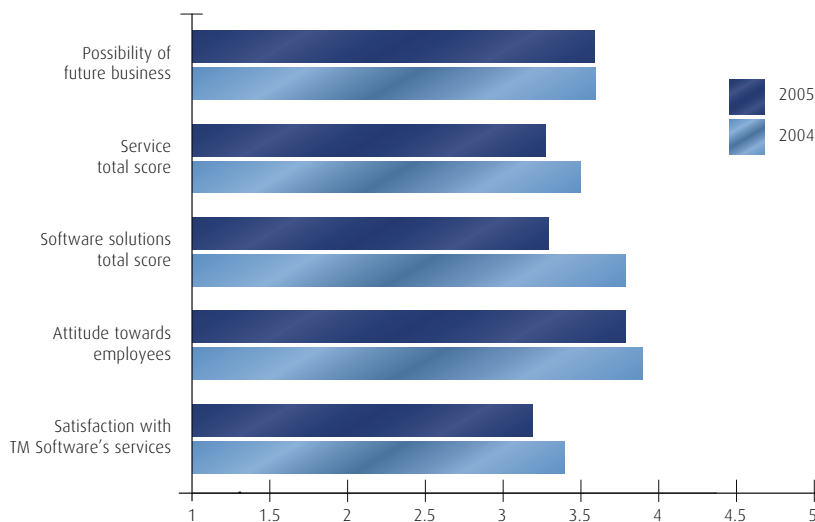
Product brands

Our products are dedicated to specific industries and fulfil well defined mission critical needs. TM Software makes a substantial investment in research and development activities every year, which is the base for our continuing excellence in creating unique products that serve the business needs of our chosen sectors.

Customers

The company has three primary goals regarding its customers. We aim to:

- Maximise customers' satisfaction with company products and services. Customer satisfaction is the foundation which has made it possible for the company to grow and prosper in order to reach its present status. Our customers have not only shown their approval by continuing to do business with us, they have also been our greatest advocates in Iceland as well as internationally. It is important for us to know how satisfied our customers are and therefore we regularly send out customer satisfaction surveys. The results of the surveys are the basis for improvement on projects aimed towards the customers. Satisfied customers will always be our primary goal while other goals may change from one time to another.
- Increase the number of customers in Iceland and abroad. We believe that it is important to increase the numbers of countries where our products are used and we have set goals that contribute to such increases.
- Increase the number of TM Software products and services used by present customers. Increase in regards to customers is not just to increase the number of customers; there are great possibilities to grow within the fields where the company has a dominant market



share. The strength of TM Software is best seen when our different business units, with different specialities, offer their customers integral solutions built on products of the company as a whole.

Great effort was put into these goals this year as in the previous year.

In the year 2005 many changes made in 2004 became apparent. The changes in mention are first and foremost those that affect the customers' perception of the company. It has been an ongoing process to introduce TM Software as a strong company and we feel that our efforts are giving us the results that we aim for. Our customers believe in the company and have shown that both in actions and words.

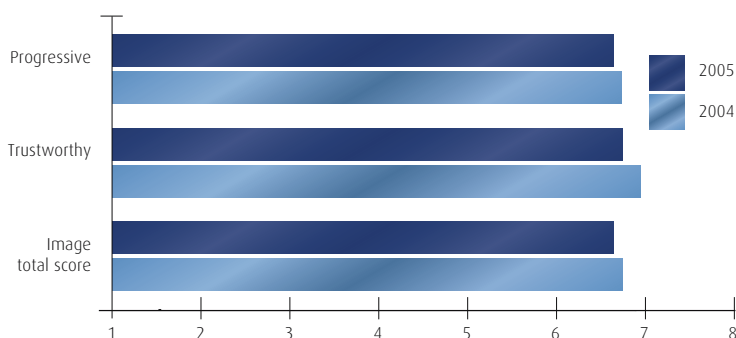
The results of our last customer satisfaction survey show that on the whole our customers are satisfied with the company products and services. The customers believe that the company is trustworthy and that it is progressive and its image is positive and strong. Even though we see a small decline in some indicators we are happy with the results in most areas but we understand that in some cases there is room for improvement.

Partners

In an ever changing environment of information technology, the goals can shift from time to time, and it is essential that companies are able to adapt to changes. But for a cooperation to develop naturally, certain stability is needed, which we achieve among other things with our partners.

Goals

- Strengthen our network of partners. To succeed in the international market, companies must create a strong network of partners. This network will not come into existence by chance. TM Software's partners have to fulfil defined criteria in markets where TM Software wants to establish itself.
- Active and mutual relationships. We want to add value for our partners in an active way and we want our partners to do the same for us.
- Keep creating knowledge and formal acceptance to ensure a basis for cooperation where applicable.
- Strengthen our relationship with leading companies and partner with those chosen companies we have not established a formal partnership.



Actions

- Education. Our employees have actively been training in areas that are in line with our partnerships' goals.
- TM Software has been active in opening communication channels to companies it wants to partner with.
- Effort has been put into keeping earned partner status and to strengthen the relationships for the benefit of all parties.

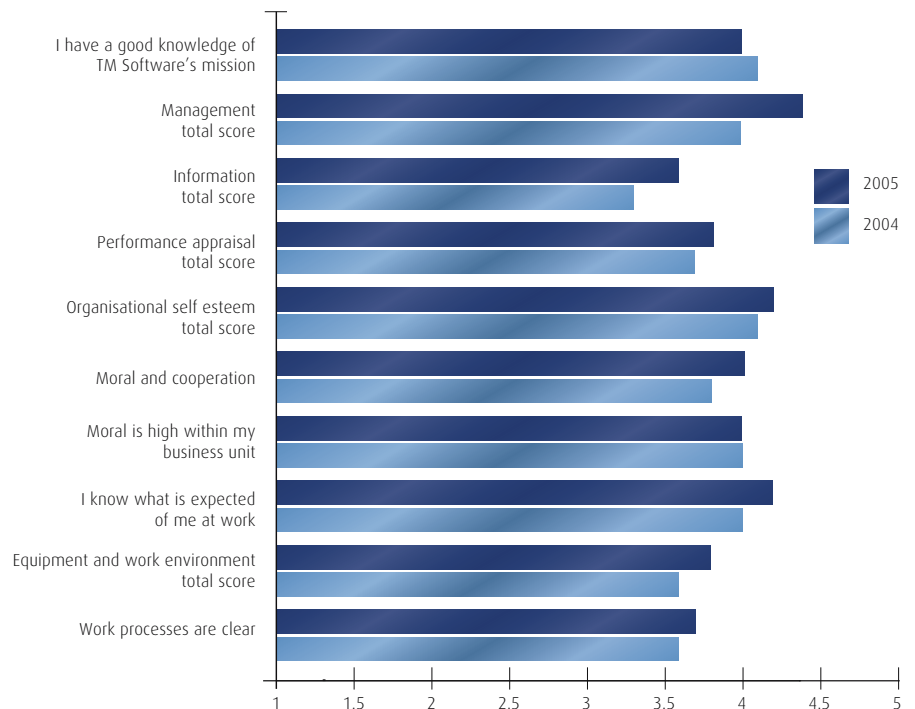
Processes

As before we have two major goals regarding processes; on one hand to implement best practices in TM Software and put aside what is not so good, and on the other hand to "glue the company together" with proven processes, both for our own benefit and even more our customers. To support this work, changes have been made to the organisational chart and structure of the company. That is in line with the flexibility that we are proud to claim as one of our core values.

This year we have kept on strengthening our project management functions. Both by training and certifications but also by hiring and increasing the number of dedicated project managers. Even though PRINCE2 is the main methodology for big projects and implementations we are starting to use MSF (Microsoft Solutions Framework) and MSF Agile in our programming departments.

Good service is always our goal and we do everything in our power to make sure the service complies with our customers needs and expectations. Our believe is and has been that implementing systematic service management achieves improved processes and eventually customer satisfaction. In the year 2005 we have started implementing ITIL and the implementation will be an ongoing project. But we are also looking to one of our biggest partners, Microsoft, and we are starting to adopt their version of service management that on daily basis is called MOF (Microsoft Operations Framework). MOF is in full harmony with ITIL and is therefore in line with our goals.

This year, BSI (The British Standard Institute) confirmed by inspection and audit that TM Software is working according to BS 7799. As this is the second year since the company got certified it was expected that some nonconformities might be found. But after a rigorous inspection the BSI report stated that TM Software was in compliance in all areas inspected. The only comments made by BSI were minor, which is rarely the case when companies go through the first audit after certification. For the processes and the company structure to work smoothly, an easy flow of information is needed between employees. We are constantly looking for ways to improve the stream of information and knowledge within TM Software. A big step was taken by implementing a new intranet. In the end of 2005 our emphasis was still on these matters, by continuing development of our in-house system that has been known under the name TM-Tracker and by implementing SharePoint.



Our employee handbook was revised and has been published in a new format. The aim of the handbook is to be an aid to our employees whether they are new recruits or seasoned staff members.

Progressive management has long been one of the characteristics of TM Software and the company and its managers systematically learn and adopt to new management trends at any time if applicable. TM Software has been leading in using Balanced Scorecard, knowledge management, IC reporting, weekly reporting, projects and time registry, development budgeting and more.

An annual employee survey is conducted by the consulting company Intellecta. In the year 2004 we started to see increasing harmony in answers within TM Software compared to previous surveys, and as we see the same trend in results this year we are confident that we are moving in the right direction with our processes.

Staff

Goals

- Increase the number of employees. As the business grows, we need to add new employees to our team. We want to recruit well educated ambitious people that strengthen our ability to deliver quality products on time.
- Continue to strengthen our knowledge base.
- Work satisfaction.
- Moral.

Actions

- Education. A number of seminars were held for our employees and many employees received various certifications from our partner network. A total of 80 employees attended a Microsoft SQL Server 2005 seminar with one of the most prominent specialist in that field.
- Much effort went into hiring new employees. Great emphasis was put on hiring the right people for the right tasks.
- Substantial investing was done in employee education. External cost for training was more than 27 million ISK and more than 24,000 hours were spent on education during the year.

A progressive company needs a force of progressive and enthusiastic employees. They have the knowledge, ability and experience to take on technical issues of different sizes and complexities. But for a company to excel, it is necessary to nurture the right spirit, which we strive for

in all our actions at TM Software. Our values, TRUST, AMBITION and FLEXIBILITY, are our guidelines in our daily work and also demonstrate to new employees and to our customers what characterises the mindset of the employees at TM Software.

At the same time as we are known for ambitious employees and progressive company culture, we take pride in being a family-friendly working environment that strives to accommodate as possible any situations that may arise between employees and their families. We are proud of our equal rights policy, which makes clear what line we follow in regards to equality and family matters. Our employees have shown their appreciation in words and actions and as a result of that TM Software was recently awarded for outstanding work within a company that promotes increased flexibility and ease of coordination of work and private life. The award is a symbolic object given to a chosen company to show that its work is noticed and appreciated by the community.

As said before an annual employee survey was conducted by Intellecta and the results show a very positive trend in answers. Furthermore the outcome of annual employee interviews held by our managers with each employee show a consistent harmony with the survey. The total number of employees at TM Software was 432 in end of 2005. The report is based on information from 415 employees. Information from Libra and the smallest TM Software business units, 10 or less, are excluded.

Number of employees year end	415
Number of new employees	86
Number of departed employees	57
Average age	37.7
Average number of years with TM Software	5.1
Female	22%
Male	78%
University education	61%
Sick leave	3.4%
Working hours on education	2.6%
Formal employee interviews	332

Trust

Trust is a key concept in TM Software's operations. Trust is a word with a variety of meanings. Like the Icelandic word "traust" (a cognate of "trust"), the English word trust applies to showing as well as enjoying trust. The term implies trustworthiness, reliability, security, honesty and sincerity, and reason for respect and expectation, even in the face of difficulty. The word applies to individuals, corporations and particular assign-

ments. A fuller understanding of the word is provided by such ideas as integrity, deserving, fulfilling, confiding, support, faith and nurturing, honesty and sincerity, certainty and security.

By placing the word trust foremost in our every activity, we become not only worthy of trust but also gain trust in our associates.

- We are worthy of trust:
 - We take responsibility.
 - We carry each job out professionally.
 - We work honestly according to expressed goals and procedures.
- We trust our associates and colleagues.

We also realise that trust is no mere gift. We have to earn trust and prove worthy of it. Therefore, we are happy to receive any suggestions on improvements.

Ambition

We want our professional ambitions to be fulfilled, and we understand that professional pride cannot be maintained for long unless all three stakeholders are in each instance satisfied, i.e. the employees, customers and shareholders. Our accomplishments shall be measurable and outstanding.

This entails our placing self-examining demands on professional methods, initiative, inventiveness and success.

- We aspire to excel in the fields we advance into.
- We are ambitious on behalf of:
 - Ourselves.
 - Our solutions.
 - Our customers.
 - Our company.

Flexibility

We realise that few sectors are as dynamic as the area of our operation. Therefore we constantly look out for flexibility in the way we do business.

- We see opportunity in change.
- We make continuous efforts to adapt to innovation.
- We are constantly moving towards progress.
- We seek further knowledge.
- We share our knowledge.
- We respect different opinions on technology, procedures and management.
- We realise that flexibility characterises the organisation and structure of our company.

Our logo reflects our name, i.e. TM Software. It also reflects our values. The T is obvious, standing for Trust. Removing the horizontal part of the T, the old runic symbol Yew appears. The rune stands for a bow with a strung arrow. The arrow stands for Ambition; our pride and willingness to achieve results. The bow reflects our Flexibility and strength.

By regularly conducting employee surveys and with active feedback, we track how well we are progressing in regards to employee satisfaction and working environment. The outcome of the surveys and dialogue gives an indication on where we are succeeding and where we need improvement.

Our employees take part in creating guidelines and setting goals for improvement on projects that are ongoing at any given time.

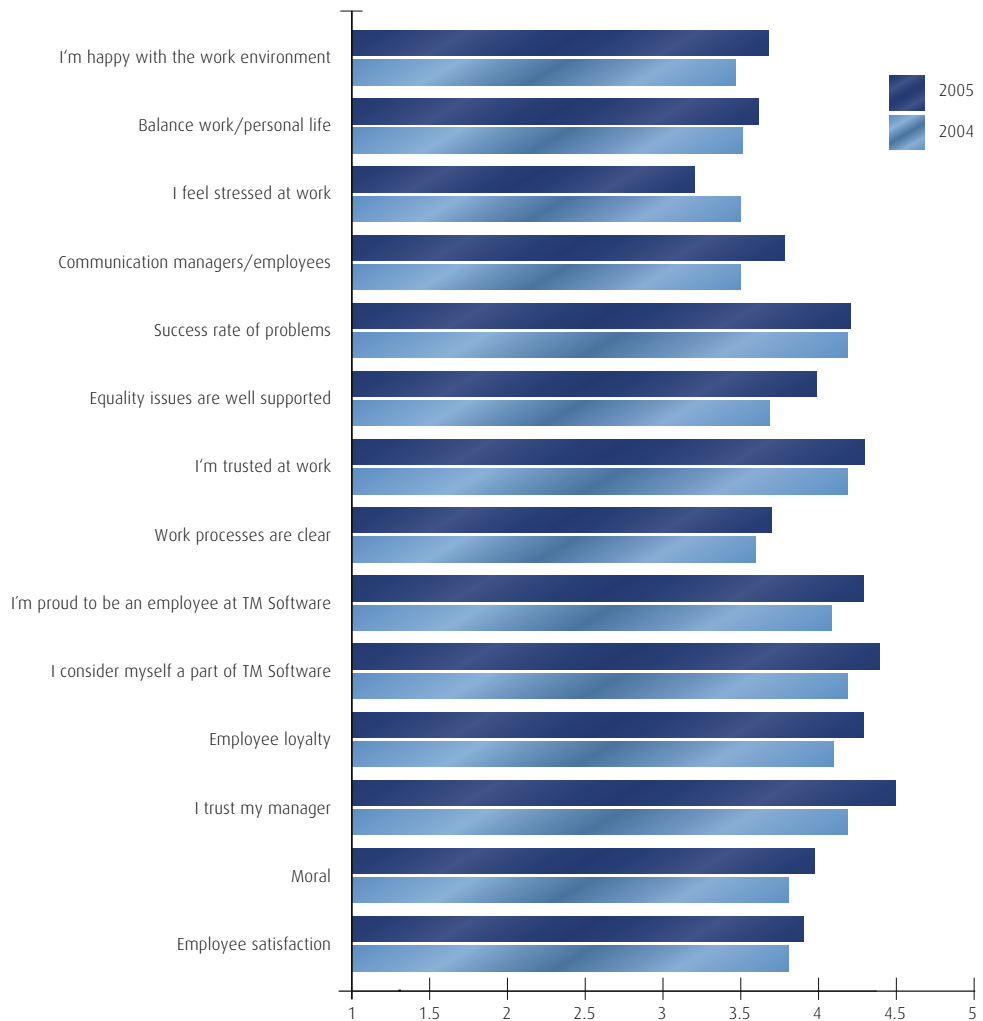
The annual employee survey shows that our employees are proud to work at TM Software and view themselves as an integral part of the company. They consider themselves well informed on the strategy of the company and its values, 4.1 on the scale 1-5. TM Software's employee turnover was around 12% in 2005. Moral is high and most indicators are at a satisfying level.

Products

TM Software's main goal for its products is to be leading in its field by creating solid brands of excellent products adapted for international markets:

Man-years development, total	482.4
Man-months development in 2005	340
Number of countries trademark	18
Number of countries products in use	20

We achieve this by extensive product development and increasing the quality, securing our Intellectual Property Rights and internationalisation of our software systems. A growing emphasis is on product focus and strengthening our brands. Well defined and known brands are essential for a growing company aiming at an increasing market share on international markets. Therefore, the goal is both to increase awareness of our products and to increase the number of countries our brands are registered. These goals are compliant with TM Software's strategy of growth, domestically and internationally. Great effort is put into development, both in current products and new. TM Software keeps expanding its product base, with new



systems and additions to its current products, new versions, modules and functionality. The most common element in our development is quality. In all our innovations, we want our additions to our solution suite to live up to the standard we are known for.

Finances

The key principles in financial management are efficiency and discipline. Our managers are provided with effective equipment for control. In an ever changing business environment and in a company that grows at a tremendous speed, financial discipline is essential. A finance manual describes processes in financial management, reporting, "paper trail", auditing, authorisations of engaging the company, and principles of work in the financial department. Each manager is given a "Management rhythm" paper describing dates of management meetings, board meetings, reporting deadlines throughout each year.

Financial management, bookkeeping, purchasing, collecting etc. is centralised, creating harmonious handling of financial matters and reporting structure.

All managers attend weekly meetings to discuss management issues.

- The first each week the supporting divisions deliver their report for the management team.
- Financial reporting is done monthly and the operational outcome of the prior month is delivered before the 10th of the following month. The results are presented and discussed in the second week each month.
- Consolidated accounts are presented in the third week each month.
- Managers deliver a weekly report on the status of time registry of which results are discussed.

Indicators and results in accordance to the PIP setup

Human Capital

Category	Indicators	Measurements		
Employees	Number of employees	Number of employees year end	415	
	Age distribution	Average age	37.7	
		Average number of years with TM Software	5.1	
	Education	University education	61%	
	Gender	Female %	22%	
		Male %	78%	
		Equality issues are well supported*	4	
Staff turnover and recruiting	Staff turnover	Number of new employees	86	
		Number of departed employees	57	
		Employee turnover %	12%	
Skills and competence	Competency development/ in Service training	External cost for training	>27 MISK	
		Hours invested on education	24,000	
		Working hours on education %	2.6%	
		Total amount invested in employee education	150 MISK	
	Sharing of knowledge	Moral and cooperation*	4	
Employee satisfaction and attitude	Job satisfaction	Employee satisfaction*	4	
		Sick leave	3.4%	
		Balance of work and personal life*	3.6	
		I feel stressed at work*	3.2	
	Common identity and team spirit	I'm proud to be an employee of TM Software*	4.3	
		I have a good knowledge of TM Software's mission*	4	
		Employee loyalty*	4.3	
		Moral is high within my business unit*	4	
		Moral*	4	
		Organisational self esteem - total score*	4.2	
	Motivation	I consider myself a part of TM Software*	4.4	
		Performance appraisal - total score*	3.8	
		Environment and innovativeness	I know what is expected of me at work*	4.2
			I'm trusted at work*	4.3
Work processes are clear*	3.7			
Executive competency	Employee attitude towards executives	Management - total score*	4.4	
		I trust my manager*	4.5	
		Communication managers/employees*	3.8	
		Success rate of problems*	4.2	

* Information from employee survey. Numbers are on the scale 1-5, 1 being the lowest and 5 being the highest.

Structural Capital

Category	Indicators	Measurements	
Information systems	Information captivation/ distribution	Intranet	Yes
		Human Resources Management	Yes
		Information – total score**	3.6
		Knowledge Management	Yes
	Formal quality system	BS7799	Certified
Innovativeness	R&D costs	% of working hours spent on development	6.7%
		Man-months development in 2005	340
		Man-years development – total	482.4
		Investment in software products % of gross income	6.6%
Competence development	Performance reviews	Formal employee interviews	332
	Competence plan/training	Average training cost per employee	360,000 ISK
Working conditions	Physical conditions	I'm happy with the work environment*	3.7
		Equipment and work environment – total score**	3.8
	Workforms	Balance of work and personal life*	3.6
		Work processes are clear*	3.7

* Information from employee survey. Numbers are on the scale 1-5, 1 being the lowest and 5 being the highest.

Relational Capital

Category	Indicators	Measurements	
Market and Image	Customer groups	Public and private in different sectors	
	Customer satisfaction	Service – total score*	3.3
		Attitude towards employees*	3.8
		Image – total score**	6.7
	Customer loyalty	Possibility of future business*	3.6
	Quality of product and service	Software solutions – total score*	3.3
		Satisfaction with TM Software's services*	
	Brands and IPR's	Numbers of countries products in use	18
		Numbers of countries trademark	20
Trust and integrity	Trustworthy**	6.8	
Innovation	Progressive**	6.7	
Visibility of expertise	Website	www.t.is	
	Public appearances	Presentations, lectures, published articles, conferences	>50
		Awards	3

* Information from customer satisfaction survey. Numbers are on the scale 1-5, 1 being the lowest and 5 being the highest.

** Information from customer satisfaction survey. Numbers are on the scale 1-10, 1 being the lowest and 10 being the highest.

Auditor's Report

To the board of directors and shareholders of TM Software hf.

We have audited the accompanying balance sheet of TM Software hf. as of December 31st 2005, and the related statement of income for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Financial Statements of the foreign subsidiaries of TM Software hf. were audited by other auditing firms in their countries.

We conducted our audit in accordance with generally accepted auditing standards in Iceland. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of TM Software hf. as of December 31st 2005 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Reykjavík, June 1st, 2006

Deloitte hf.

Birkir Leósson
State Authorised Public Accountant

Lúðvík Þráinsson
State Authorised Public Accountant

Endorsement by the Board of Directors and Managing Director

The principal activity of TM Software hf. is giving professional service in various fields including: The healthcare industry with the Theriak products, the seafood sector with the WiseFish products, the transport industry with Skyggni's solutions and in the financial market with the Libra systems.

TM Software's net profit of the year amounted to ISK 268.9 million. According to the Balance Sheet the Company's assets amount to ISK 3,383.8 million, the year's end book value of equity is ISK 1,098.7 million and the Company's equity ratio is 32.5%.

At year-end, shareholders in TM Software hf. numbered 106, same as at the beginning of the year. Three shareholders owned more than 10% of the shares in the Company at year-end: Áning ehf., Friðrik Sigurðsson and FL Group hf. The Board of Directors recommends no payment of dividends to shareholders in 2006. As regards changes in the equity of the Company, the Board refers to the notes attached to the Financial Statements.

The accompanying Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS). The implementation of IFRS at January 1, 2005 resulted in a decrease of ISK 208 million in shareholder's equity. It is the opinion of the Board of Directors and the Managing Director that these Financial Statements present all the information necessary to show the position of the Company at year-end, the operating results for the year and the financial developments during the year 2005. The Board of Directors and Managing Director hereby confirm the Financial Statements for the year 2005 with their signatures.

Kópavogur, June 1st, 2006

Board of Directors:
Friðrik Jóhannsson - Chairman of the board
Guðmundur Örn Gunnarsson
Sindri Sindrason
Örn Þórisson

Managing Director:
Friðrik Sigurðsson

Income Statement 2005

	Notes	31.12.2005	31.12.2004
Revenue		3,986,840,890	3,480,971,699
Other revenue		464,369,520	0
Total revenue		4,541,210,410	3,480,971,699
Cost of sales		(586,534,609)	(513,500,901)
Salaries and related expenses	4	(2,319,172,770)	(1,837,569,790)
Other operating expenses		(897,781,660)	(794,839,112)
Depreciation and amortisation	8	(187,514,779)	(208,460,672)
Operating profit		460,206,592	126,601,224
Share of profit/loss of associates		(14,807,727)	(6,102,002)
Financial income	5	21,612,904	11,285,021
Finance costs	6	(100,927,065)	(114,977,133)
Profit before taxes		366,084,704	16,807,110
Income tax	16	(97,136,189)	(3,662,995)
Profit for the year		268,948,515	13,144,115
Attributable to:			
Equity holders of the parent		216,488,469	25,201,267
Minority interest		52,460,046	(12,057,151)
		268,948,515	13,144,115
Earnings per share	17	1.12	0.14

Balance Sheet December 31, 2005

Assets

	Notes	31.12.2005	31.12.2004
Non-current assets			
Property, plant and equipment	8	212,153,508	197,549,352
Goodwill	9	847,067,154	597,548,098
Other intangible assets	10	342,453,696	292,612,345
Investments in associates	11	6,373,134	41,602,676
Available-for-sale investments	12	20,857,357	912,622
Deferred tax assets	16	251,171,128	264,354,523
		1,680,075,977	1,394,579,616
Current assets			
Inventories	13	142,576,856	108,357,218
Trade receivables	18	899,631,479	606,492,065
Other receivables	18	539,475,062	116,759,259
Cash and cash equivalents	18	122,067,418	99,472,475
		1,703,750,815	931,081,017

Assets		3.383.826.792	2.325.660.633
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Equity and liabilities

	Notes	31.12.2005	31.12.2004
Capital and reserves	14		
Share capital		193,357,732	193,357,732
Capital reserves		1,232,435,513	1,232,435,513
Translation reserves		(30,890,767)	(20,623,657)
Retained earnings		(417,003,663)	(633,492,132)
Equity attributable to equity holders of the parent		977,898,815	771,677,456
Minority interest		120,761,108	169,637,798
Total equity		1,098,659,923	941,315,254
Non-current liabilities			
Bank loans	15	967,136,024	327,940,159
Deferred tax liabilities	16	88,083,000	0
Pension liability	20	15,600,000	17,000,226
		1,070,819,024	344,940,385
Current liabilities			
Trade and other payables		261,636,251	177,226,000
Bank overdrafts and loans		162,439,039	289,695,684
Current maturities of non-current liabilities		144,266,539	115,324,080
Current tax liabilities	7	2,079,713	2,831,679
Other current liabilities		643,926,303	454,327,551
		1,214,347,845	1,039,404,994
Liabilities		2,285,166,869	1,384,345,379
Total equity and liabilities		3,383,826,792	2,325,660,633

Statement of Cash Flows 2005

	Notes	31.12.2005	31.12.2004
Operating activities			
Net income		216,488,469	25,201,267
Operating items not involving cash:			
Depreciation		187,514,779	208,460,672
Exchange rate difference		(23,091,655)	(3,296,080)
Profit on sale of assets		(462,107,373)	(10,664,051)
Deferred tax asset - change		99,760,139	4,191,265
Other calculated items		67,689,588	(5,955,145)
Working capital provided by operating activities		86,253,947	217,937,928
Change in assets and liabilities			
Increase in inventories		(41,297,309)	(7,850,027)
Increase in receivables		(294,198,495)	(232,576,437)
Increase in payables		461,049,228	202,582,094
Net cash provided by operating activities		211,807,371	180,093,558
Investing activities			
Purchases/sales of property, plant and equipment	8	(520,373,457)	(146,940,963)
Purchases of investments available for sale		(20,000,000)	0
Installments of investments held for trading		5,316,669	0
Acquisition of investments in an associate		(213,502,090)	(28,703,892)
		(748,558,878)	(175,644,855)
Financing activities			
Dividends paid	14	0	(4,666,667)
Repayments of borrowings		(206,524,858)	(154,590,245)
Bought own shares		(83,664,000)	(7,267,400)
New bank loans raised		900,820,579	112,805,331
Short term loans		(59,107,163)	5,334,400
		551,524,558	(48,384,581)
Net increase (decrease) in cash and cash equivalents		14,773,051	(43,935,878)
Cash and cash equivalents at the beginning of the year		107,294,367	139,015,827
Cash taken over at merger		0	4,392,526
Cash and cash equivalents at the end of the year		122,067,418	99,472,475

Notes

1. General information

TM Software hf. is a limited company and complies with the Icelandic limited companies laws nr. 2/1995. The principal activities of TM Software hf. is giving professional service in various fields including: the healthcare industry with the Theriak products, the seafood sector with the WiseFish products, the transport industry with Skygginn's solutions, and in the financial market with the Libra systems.

2. Accounting Policies

Basis of preparation

The financial statements of TM Software hf. for the year 2005 are prepared according to International Financial Reporting Standards (IFRS) as adopted by the EU. They are covered by IFRS 1, International Financial Reporting Standards, First-time Adoption of the IFRS, because they are the Company's first IFRS consolidated financial statements. The financial statements are prepared in Icelandic krónur. An explanation of how the transition to IFRS's has affected the reported financial position, financial performance and cash flows for the Company is provided in note 18. The note shows changes of comparative sums of the Company's equity and profit as they were presented according to the previous GAAP for the year 2004 and as they are presented according to IFRS. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The consolidated financial statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders equity. Immaterial minority interest is not accounted for in the consolidated financial statements. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. One of the purposes of consolidated financial statements is to show only the net external sales, expenses, assets and liabilities of the consolidated entities as a whole. Hence, intercompany transactions have been eliminated within the consolidated businesses in the presentation of the consolidated financial statements. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the consolidation.

Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Consolidation's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at each balance sheet date. The amount of impairment is calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on weighted average cost of capital, which represents the cost of debt and equity after taxation. Impairment charges are measured on the basis of comparison of estimated fair values (discounted expected future cash flows) with corresponding book values. On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Risk management

TM Software hf. overall plan towards foreign exchange risk is to manage risk by applying natural hedging to as much extent as possible and that way keep risk within acceptable level. The company does not apply forward contracts, derivatives or other form of financial hedging tools.

Revenue recognition

Revenue from product sales are recognised when earned as required by generally accepted accounting principles. Product sales are recognised when goods are delivered, title has passed and are shown in the income statement net of value added tax, discount and internal sales. Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations (including comparatives) are expressed in ISK using exchange rates prevailing on the balance sheet date.

Income and expense items of foreign subsidiaries, are translated at the average exchange rates for each quarter.

Translation differences from foreign companies are posted to translation reserves among equity. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Borrowing costs

All borrowing costs are recognised in the period they incur.

Taxation

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The consolidated company's current tax liability is calculated using the tax rates for each country.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Property, plant and equipment

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the consolidation and the cost of the asset can be measured in a reliable manner.

Property, plant and equipment which qualifies for recognition as an asset is initially measured at cost.

The cost of a property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

The depreciable amount of the asset is allocated on a fixed annual percentage of the historical cost over its useful life, less residual value.

Other intangible assets

Other intangible assets are recognised in an acquisition of subsidiaries only if an asset can be identified, it is probable that the asset will generate future economic benefits and the cost of the asset can be measured reliably.

Research expenditure is recognised as an expense as incurred. Cost incurred on development projects is recognised as intangible assets when it is probable that the project will generate future economic benefits, considering its technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred.

Impairment

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Inventories

Inventories are stated at the lower of cost or net realisable value, after taking obsolete and defective goods into consideration. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Investments

Bonds and long-term receivables which the company has the expressed intention and ability to hold to maturity (loans and receivables) are valued at cost, less an allowance for estimated irrecoverable amounts.

Investment held for trading are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period.

Other investments are classified as available-for-sale. Investment available-for-sale is recorded in fair value which is market value if the value is based on a reliable assumption, for example by the public stock exchange. For available-for-sale investment, gains and losses arising from changes in fair value are recognised directly in equity in the period they incur. If the market value cannot be estimated in a reliable way, then the investment available-for-sale is recorded at cost, less an allowance for future losses.

Receivables

Accounts receivables are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off.

Bank loans and other non-current liabilities

Bank loans and other non-current liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable. Borrowing costs are recognised in profit or loss in the year they are incurred.

Trade payables

Trade payables are valued at nominal value and accounts payable in other currencies have been booked at the exchange rates prevailing on the balance sheet date.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Stock option contracts

The Company has made no stock option agreements with directors, employees and other parties relating to operations.

3. Business and geographical segment

Business segments

For management purposes, the Company is currently organised into four operating divisions; health, seafood, domestic and operations. These divisions are the basis on which the Company reports its primary segment information. Principal activities are as follows:

Health	- development and distribution of healthcare software
Seafood	- development and distribution of seafood software
Domestic	- various software development
Operations	- ICT outsourcing systems

2005	Domestic	Health	Operations	Seafood	Total
Total revenue	842,928,195	558,301,113	1,795,986,358	1,192,319,696	4,389,535,362
Inter-segment sales	(168,833,765)	(62,631,980)	(129,787,156)	(41,441,571)	(402,694,472)
External sales	674,094,430	495,669,133	1,666,199,202	1,150,878,125	3,986,840,890

Operating profit					460,206,592
Finance cost					(79,314,161)
Share of loss of associates					(14,807,727)
Loss before tax					366,084,704
Income tax expense					(97,136,189)
Profit for the year					268,948,515

The Company does not allocate its expenditure between segments.

	Domestic	Health	Operations	Seafood	Total
Total assets	612,665,666	831,747,557	1,236,509,728	702,903,841	3,383,826,792
Total liabilities	288,604,810	318,253,761	1,182,396,482	495,911,816	2,285,166,869

2004	Domestic	Health	Operations	Seafood	Total
Total revenue	635,352,464	383,785,754	1,570,995,379	1,266,004,078	3,856,137,675
Inter-segment sales	(112,194,572)	(98,529,625)	(123,556,582)	(40,885,197)	(375,165,976)
External sales	523,157,892	285,256,129	1,447,438,797	1,225,118,881	3,480,971,699

Operating profit					126,601,224
Finance cost					(103,692,112)
Share of loss of associates					(6,102,002)
Loss before tax					16,807,110
Income tax expense					(3,662,995)
Profit for the year					13,144,115

	Domestic	Health	Operations	Seafood	Total
Total assets	78,420,639	385,339,227	1,130,304,092	731,596,675	2,325,660,633
Total liabilities	82,781,200	82,634,078	744,877,951	474,052,150	1,384,345,379

Geographical segments

Sales revenue by geographical market	2005	2004
Iceland	2,544,969,014	2,487,597,385
Norway	611,710,317	668,129,789
Europe	554,280,084	93,362,717
America	275,881,475	231,881,808
	3,986,840,890	3,480,971,699

4. Salaries

Salaries and salary-related expenses paid by the Company are specified as follows:

	2005	2004
Salaries	1,757,598,836	1,486,830,542
Salary-related expenses	544,573,934	350,739,248
	2,302,172,770	1,837,569,790

Average number of positions	461	388
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The total salaries and benefits of the CEO and Board of Directors for the year 2005 was ISK 16.2 million.

5. Financial income

	2005	2004
Interest income	21,612,904	11,202,588
Profit of shares in other companies	0	82,433
	21,612,904	11,285,021

6. Finance costs

	2005	2004
Exchange rate difference	15,242,220	(1,215,820)
Interest expenses	(116,169,285)	(113,761,313)
	(100,927,065)	(114,977,133)

7. Dividends

In the year 2005 no dividend was paid to shareholders.

8. Property, plant and equipment

	Buildings and sites	Computers, equipment, vehicles	Total
Cost at 1 January 2005	129,725,768	243,032,469	372,758,237
Depreciated at 1 January 2005	(35,143,838)	(140,065,047)	(175,208,885)
Additions	1,417,395	82,489,794	83,907,189
Disposals	0	(9,319,628)	(9,319,628)
Depreciation for the year	(3,406,717)	(51,606,039)	(55,012,756)
Translation difference	(5,120,089)	149,440	(4,970,649)
At 31 December 2005	87,472,519	124,680,989	212,153,508

Carrying Amount

At 1 January 2005	94,581,930	102,967,422	197,549,352
At 31 December 2005	87,472,519	124,680,989	212,153,508

Depreciation rates	2-5%	6-33%
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9. Goodwill

	2005
At January 1	597,548,098
Additions	273,218,411
Disposal	(15,825,109)
Impairment	(7,710,888)
Translation difference	(163,358)
At December 31	847,067,154

10. Other intangible assets

	2005
At January 1	292,612,345
Additions	174,754,031
Amortisation	(124,791,135)
Translation difference	(121,545)
At December 31	342,453,696

11. Subsidiaries

	Proportion of ownership	Principal activity
Shares in subsidiaries		
Origo ehf., Iceland	100.00%	Software
Theriak ehf., Iceland	100.00%	Software
Vigor ehf., Iceland	100.00%	Software
Skyggfir hf., Iceland	100.00%	ICT services
eMR hugbúnaður hf., Iceland	100.00%	Software
Libra ehf., Iceland	83.68%	Software
Exper Germany, Germany	100.00%	Software
Theriak Europe, Holland	100.00%	Software
Maritech International AS, Norway	50.66%	Software
Subsidiaries of Maritech International AS are specified as follows:		
Maritech AS, Norway	100.00%	Software
Maritech ehf, Iceland	100.00%	Software
Maritech Software Inc, Canada	100.00%	Software
Maritech UK, Scotland	100.00%	Software
Surefish Inc., USA	100.00%	Software
Maritech Chile, Chile	99.90%	Software
FarmControl ehf., Iceland	100.00%	Software
Shares in associates		
Hópvinnukerfi ehf	36.68%	Software
Shares in other companies		
Various companies		Software

12. Available for sale investments

	2005	2004
Shares in other companies	857,357	912,622
Other available-for-sale investments	20,000,000	0
	20,857,357	912,622
At January 1	912,622	2,000
Additions	20,000,000	0
Transferred into group from Maritech	0	910,622
Exchange rate adjustments	(55,265)	0
At December 31	20,857,357	912,622

13. Inventories

	31.12.2005	31.12.2004
Computer hardware	142,576,856	108,357,218
	142,576,856	108,357,218

14. Equity

Share capital is specified as follows:

	Shares	Ratio	Amount
Total share capital at December 31 2005	193,357,732	100.0%	193,357,732
Own shares at December 31 2005	0	0.0%	0
	193,357,732	100.0%	193,357,732

Each share of one ISK carries one vote.

	Capital stock	Capital in excess of par	Translation difference	Retained earnings	Total
Equity 1.1.2004	151,832,576	859,960,669		(557,158,827)	454,634,418
IFRS adjustments				(101,534,572)	(101,534,572)
Restated equity 1.1. 2004	151,832,576	859,960,669	0	(658,693,399)	353,099,846
New shares	41,525,156	372,474,844			414,000,000
Net profit				25,201,267	25,201,267
Translation difference			(20,623,657)		(20,623,657)
Equity 1.1.2005	193,357,732	1,232,435,513	(20,623,657)	(633,492,132)	771,677,456
Net profit				216,488,469	216,488,469
Translation difference			(10,267,110)		(10,267,110)
Equity 31.12.2005	193,357,732	1,232,435,513	(30,890,767)	(417,003,663)	977,898,815

15. Non current liabilities

Bank loans	31.12.2005	31.12.2004
Debts in ISK	420,003,150	91,841,422
Debts in NOK	344,944,022	288,759,258
Debts in EUR	163,819,765	12,761,594
Debts in SEK	105,650,177	3,107,633
Debts in USD	34,412,613	0
Debts in GBP	13,511,200	5,940,807
Debts in CAD	8,988,874	22,199,058
Debts in CHF	6,753,380	7,669,594
Debts in DKK	6,732,114	10,540,014
Debts in JPY	6,587,268	444,859
	1,111,402,563	443,264,239
Amount due for settlement within 12 months	(144,266,539)	(115,324,080)
Non-current liabilities 31 December 2005	967,136,024	327,940,159

Installments of non-current liabilities are specified as follows:

	Loans from credit institutions	
Current maturities		144,266,539
Installments 2007		117,551,104
Installments 2008		173,499,958
Installments 2009		169,770,978
Installments 2010		411,797,249
Installments later		94,516,734
		1,111,402,563

16. Deferred tax

	Deferred tax assets	Deferred tax liabilities	Total
At 1 January 2005	264,354,523	0	264,354,523
Calculated tax for the year	(9,053,189)	(88,083,000)	(97,136,189)
Translation difference and other adjustments	(4,130,206)		(4,130,206)
At 31 December 2005	251,171,128	(88,083,000)	163,088,128

The following are the major deferred tax liabilities and assets recognised:

Property, plant and equipment	21,917,271
Intangible assets	(55,787,400)
Other items	(58,973,019)
Loss carry forward	255,931,275
	163,088,128

17. Earnings per share

Earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of outstanding shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2005	2004
Net profit attributable to shareholders	216,488,469	25,201,267
Weighted average number of outstanding shares in issue	193,357,732	179,746,709
Earnings per share	1.12	0.14

18. Explanation of transition to IFRS

This is the first year the Company's financial statements are prepared in accordance with IFRS. In accordance with IFRS 1, the transition to IFRS is explained. Transition date is January 1, 2004.

Reconciliation of balance sheet at 31 December 2004

	Previous GAAP	Effect of transition to IFRS's	IFRS's
Goodwill	797,439,580	(199,891,482)	597,548,098
Development cost	295,041,563	(2,429,218)	292,612,345
Property, plant and equipment	197,825,810	(276,457)	197,549,353
Investments in associates	41,602,676	0	41,602,676
Available for sale investments	912,622	0	912,622
Tax asset	322,544,344	(58,189,821)	264,354,523
Total non-current assets	1,655,366,595	(260,786,978)	1,394,579,617
Inventories	108,357,218	0	108,357,218
Trade receivables	606,492,064	0	606,492,064
Other receivables	116,759,259	0	116,759,259
Cash and cash equivalents	99,472,475	0	99,472,475
Total current assets	931,081,016	0	931,081,016
Total assets	2,586,447,611	(260,786,978)	2,325,660,633
Bank loans	327,940,159	0	327,940,159
Pension liability	0	17,000,226	17,000,226
Bank overdrafts and loans	289,695,684	0	289,695,684
Trade and other payables	177,226,000	0	177,226,000
Liabilities to shareholders	125,816,661	0	125,816,661
Current maturities of non-current liabilities	115,324,080	0	115,324,080
Current tax liabilities	2,831,679	0	2,831,679
Other current liabilities	328,510,889	0	328,510,889
Total liabilities	1,367,345,152	17,000,226	1,384,345,378
Total assets less total liabilities	1,219,102,459	(277,787,204)	941,315,255
Share capital	193,357,732	0	193,357,732
Capital reserves	1,232,435,513	0	1,232,435,513
Translation reserves	(20,623,657)	0	(20,623,657)
Retained earnings	(425,538,146)	(207,953,986)	(633,492,132)
Minority interest	239,471,017	(69,833,219)	169,637,798
Total equity	1,219,102,459	(277,787,205)	941,315,254

Reconciliation of income statement for YTD 2004

	Previous GAAP	Effect of transition to IFRS's	IFRS's
Revenue	3,480,971,699	0	3,480,971,699 0
Cost of sales	(513,500,901)	0	(513,500,901)
Salaries and related expenses	(1,837,569,790)	0	(1,837,569,790)
Other operating expenses	(794,839,112)	0	(794,839,112)
Depreciation and amortisation	(163,085,678)	(45,374,994)	(208,460,672)
Operating profit	335,061,896	(45,374,994)	126,601,224
Loss on shares in other companies	(54,354,119)	54,436,552	82,433
Share of loss of associates	(6,102,002)	0	(6,102,002)
Financial costs and income	(103,774,545)	0	(103,774,545)
Profit before taxes	7,745,550	54,436,552	16,807,110
Income tax	137,768,123	(141,431,118)	(3,662,995)
Minority interests	(13,892,993)	25,950,144	12,057,151
Profit of the year	131,620,680	(61,044,422)	25,201,266

19. Commitments

The Company and its subsidiaries have mortgaged its accounts receivable against remaining loans. Part of the Company's bank loans have a negative pledge clause.

The Company has made a lease contract for its new head office in Kópavogur Iceland. The contract has a duration of 20 years and starts on October 1st 2007.

The Company has operating lease commitments for computer hardware, now with the remaining balance of ISK 157.9 million. Part of that is for resale, ISK 88.5 million. The amount will be charged at the relevant rental time of each agreement, which is maximum three years.

20. Pension liability

The Company has contractual pension obligations. On the basis of relevant calculations, it is estimated that the net value of this obligation is ISK 17 million.

21. Events after the balance sheet date

The Company has purchased 49.34% of the shares in Maritech International AS and owns after that 100% of the shares in Maritech International AS.

22. Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on June 1st, 2006.