



Intellectual Capital Report 2005

TM Software



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Preface

TM Software has been a leader in publishing intellectual capital information in recent years. In the last four annual reports we have included a detailed IC chapter that formally tried to shed light on development of the company's assets that are not registered in the annual accounts. In the year 2001, TM Software decided not to capitalize its goodwill, development costs and other immaterial assets that undeniably are a software house's largest and most important assets. With the transformation of annual reporting into the international financial reporting standard (IFRS) this will change partly, but there will still be a growing need to keep track of and report the company's intellectual capital. TM Software has also integrated the IC information gathered through surveys and its systems to its management, and targets are set for our managers in this sense as much as in the traditional operation of the units. This year, there is a substantial change in IC reporting. TM Software takes part in a Scandinavian project aimed at standardizing IC reporting.

The year 2004 was a year of transformation of TM Software. The company has grown from an annual turnover of ISK 780 million to ISK 3.500 million, largely explained by Skyggvir and Maritech again being part of the consolidated company. This has led to a total restructuring of our processes. That work

is not fully completed and therefore this IC report will only include units that are mostly operating in Iceland, meaning that information from Maritech International and Exper Germany are left out. The units that this report is based on are Libra, Origo, Skyggvir, Theriak and Vigor.

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 surveyed regularly for the last few years.

The report consists of six main parts: customers, partners, processes, staff, products and finances.

In the 2005 IC report, the aim is to:

- Give a true description of TM Software's status in regard to clients, budgets, strategic planning and finished and unfinished projects.
- Describe immaterial assets rather than financial.
- Use the results for operation and a successful knowledge management within the company.

Any and all constructive comments about this report are welcomed for the purpose of improving and clarifying it in the future.

Fridrik Sigurðsson
CEO
TM Software Inc.

Highlights on TM Software

Business challenges

The year 2004 in the operation of TM Software was a year of considerable changes and one can say that the company has been transformed into a large international software powerhouse. With Skyggnir and Maritech once again being part of the company, we have around 400 employees, offices in 15 countries on 4 continents, and we support over 1.500 customers worldwide.

Turnover (m.ISK)	3.456
EBITDA	335
EBIT	173
Financial expenses	94
Net profit	126
Equity	994

At the end of 2004, TM Software consisted of the following subsidiaries; Exper Germany, Libra, Maritech International, Origo, Skyggnir, Theriak Iceland, TM Europe, Vigor and the parent company. Associated companies are Hópvinnukerfi and Tölvusmidjan. The company's main business challenges are maintaining control while growing rapidly and harmonizing its processes.

Innovation and Development

TM Software is a software house and much of its resources are spent on development of its products. In the year 2004, around 12,3% of all working hours were spent on development of its main systems. The investment in its software products was 7,6% of gross income. On top of that, 70 million ISK were invested in education of our employees within the year (not including Maritech and Exper Germany).

Improvement of processes

Much effort has gone into improving and harmonizing processes within the company and its units. All units have based their work on defined processes in development and services, with slight variations. Implementation of an ITIL service standard is in process, and before the end of 2005 all major aspects of ITIL will be in full use.

Project management

Investment in knowledge of project management was extensive in 2004. 16 employees took part in a 6 weeks' course in project management and on top of that, around 70 attended a two day course which focused on the PRINCE2 philosophy. Four employees are now IPMA certified and one is PRINCE2 certified. The fact that TM Software is a project driven company means that it will emphasize both formal and informal training in project management. This way we strengthen our processes and increase the probability of timely delivery of projects, quality and cost efficiency.

IC report 2005

The last three annual reports have included an IC chapter emphasizing its importance for a company such as ours. The essence of this report will be used as an integral part of our annual report.

Facts about TM Software

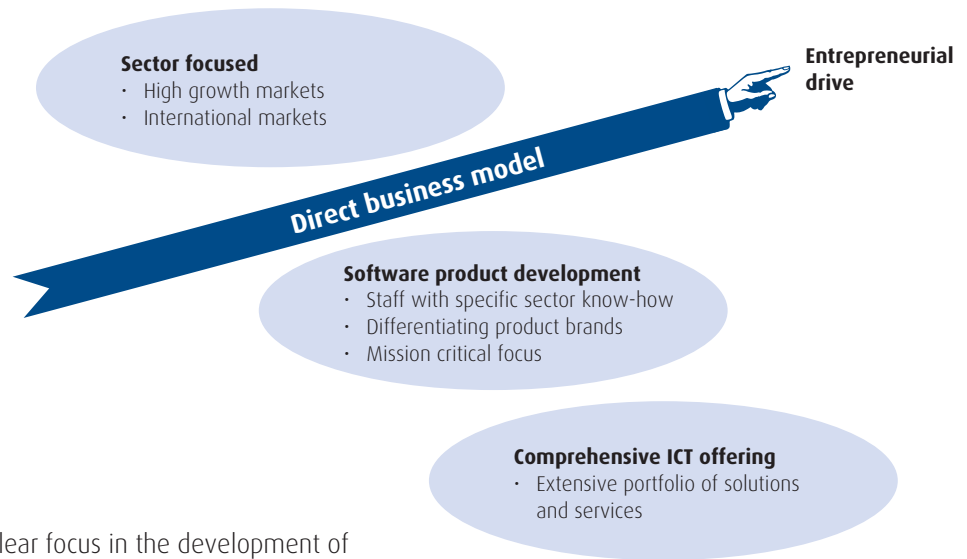
TM Software's vision is to be an international leader in providing high value software solutions in our selected sectors. We do so by turning business needs into software solutions. We create tangible benefits for our customers by producing mission critical software products, sold as our own brands and reinforced by comprehensive Information and Communication 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 the 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 integratory in nature, as opposed to providing radical functionality enhancements. TM Software takes a more active role by operating business units that specialise in both the integration aspects and the operation and maintenance of our installed solutions we ensure the cost effectiveness of the total solutions.
- **Consolidation** - The IT industry has been, and currently still is, consolidating. TM Software has been active in this area as well. The experience gained in the consolidation arena, combined with the 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, resulting in problematic IT infrastructure for our clients. 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 in active partnerships with the leading technological providers in the world such as Microsoft or IBM, ensures the long term viability of our solutions.
- **Market maturity** - IT clients take quality and reliability for granted. Focus nowadays is in global solutions, smooth integration and ROI. Our products and solutions are dedicated to producing strong ROI models for our customers. TM Software has been frequently appraised by its customers as a high quality vendor with strong processes and timely delivery of our solutions.

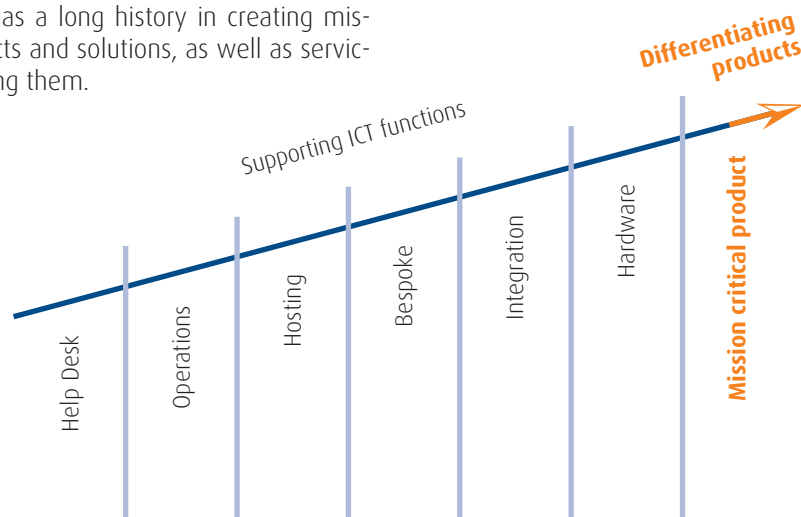
What makes us different?

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 is close to its 20th anniversary and has a long history in creating mission critical products and solutions, 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 such as hardware leasing, integration and bespoke development, hosting and operations, help desk and many more.

Industry expertise

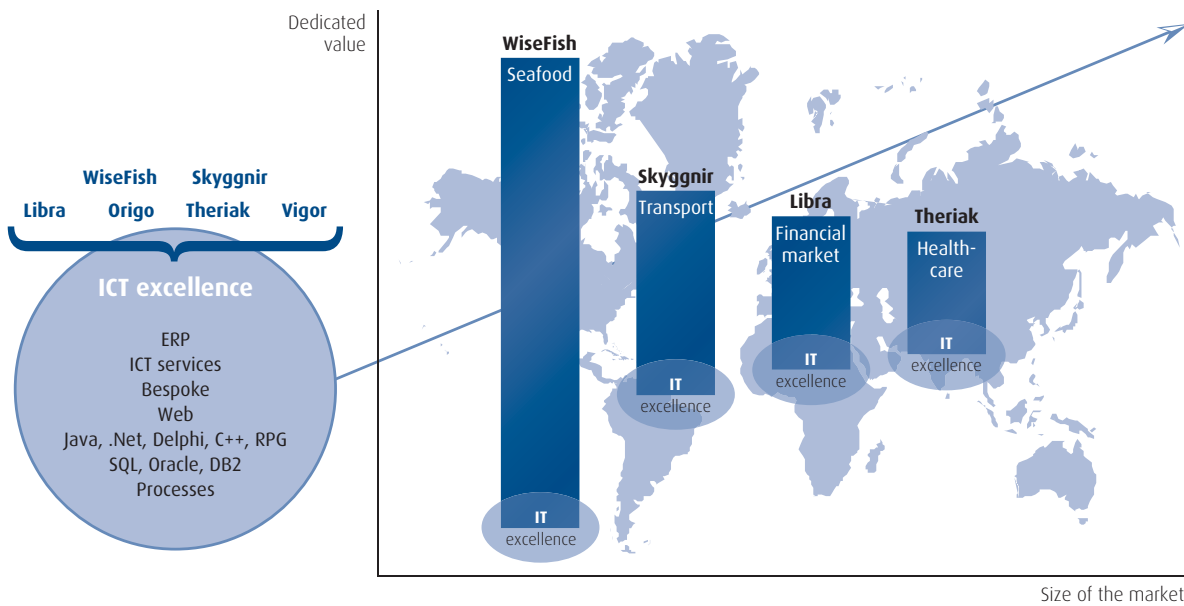
TM Software is specialised in the Healthcare industry with the **Theriak** products, in the Seafood sector with the **WiseFish** product suite, in the Transport industry with the **Skyggvir** solution, and in the Financial market with the back office **Libra** systems. We are active internationally in all these industries, and we are leaders in some of them.

Additionally, we are serving other sectors, primarily in Iceland, our home market, such as the Utilities industry with our **Vigor** billing systems, or the Municipalities and Retail with our ERP and ICT products, just to mention some of them.

Product brands

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

Product	Sector	Mission Critical Service
Theriak	Healthcare	Clinical IT
WiseFish	Seafood	Processing
Libra	Financial Market	BO systems
Vigor	Utilities	Billing
Skyggvir	Transport	Cargo IT operation



Cross-industry expertise

Our customers enjoy our comprehensive portfolio of ICT offerings. These include a whole set of Enterprise Resource Planning (ERP) products, ICT outsourcing and operations, bespoke development, integration capabilities, internet solutions, and several other. Most of our ICT services are supporting our customers' mission critical activities.

ICT excellence

ERP <ul style="list-style-type: none"> • Business solutions • CRM solutions • MBS solutions 	Outsourcing and Operations <ul style="list-style-type: none"> • Customer Service Center • Messaging • Networking • Storage • Desktop Management
Software development & Integration <ul style="list-style-type: none"> • Mission critical software development • Software integration • Business process integration 	Consulting <ul style="list-style-type: none"> • Solution Consulting • Project Management • Management Consulting

Customers

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

- Maximize 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 become what it is today. Our customers have not only shown their approval by continuing to do business with us, they have also been our greatest advocate in Iceland and abroad. It is important for us to know how satisfied our customers are and therefore we send out customer satisfaction surveys regularly. The results from the surveys are the basis for improvement projects aimed at the customer. Satisfied customers will always be our primary goal while other goals may change from one time to another.
- Increase number of customers in Iceland and abroad. We believe that it is important to increase the number of countries where our products are used and we have set goals that contribute to such an increase.
- Increase the number of TM Software products and services used by present customers. Increase with regards to customers is not just to increase the number of customers, there are great possibilities to grow within the fields where different units of the company have dominant market share. The strength of TM Software is best seen when different units with different specialities offer their customers integral solutions built on products of the company as a whole.

Great effort has been put into these goals this year. The following points elaborate on a selection:

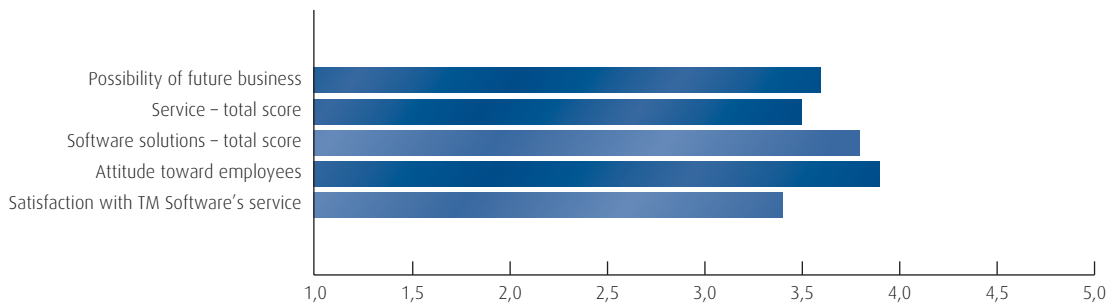
- Increase in number of offices. An office was opened in the Netherlands to manage sales and service operations in Europe. Exper Germany was bought to attend to sales operations in Germany and Austria.
- Incorporation of companies. All Skyggfir shares were bought and a lot of work has been put into the integration of Skyggfir sales operations into TM Software. The operation of eMR and Theriak has also been integrated and the integration of the operations of Íslenska vefstofan and Origo is completed.

- Integration of sales operations. We have established a joint sales office for all the TM Software units, thus strengthening the cross-selling function of the company.
- Improved product offer. All units of the company have improved their product offer in the year. For example, Libra has advanced into the pension fund companies with a new system and the Libra loan system has been installed in more loan institutions. The Theriak Saga system has been through a thorough improvement process and new versions of the Vigor systems have strengthened its position.
- Change of image. This year, a change of the TM Software image was implemented. Now we put emphasis on one company, with less focus on the individual units.

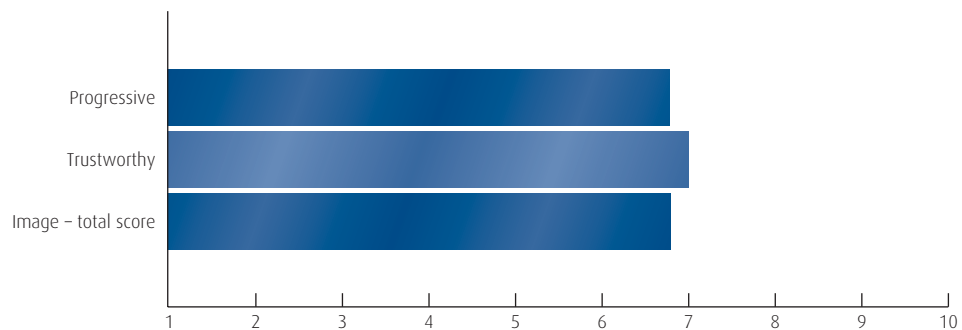
Even though the pillars of TM Software rest on strong and established foundations, there is a new look to the company. Before, emphasis was on independence and uniqueness of different units of the company. Each unit was focused on advancement in its field. Now, all units of the company are leading in their field in Iceland and many are advancing in markets abroad. All our media coverage introduces a new and powerful company. A lot of effort has been put into the introduction of the new company in the media. This way we ensure that TM Software has the same status in our customers' mind as the company did before the organisational changes were made. The facts speak for themselves and despite the changes, our customers believe in the company and have shown that both by actions and words. A trusting relationship between TM Software and its customers was the key to a smooth transition through which the company values, TRUST, AMBITION and FLEXIBILITY, have been our guiding light.

Some changes have affected our customers directly. Sales operations of the company have been centralized, as mentioned before, and a director of sales operations has been hired. This enables us to capitalize on TM Software's size and offer customers of different units more of the company products and services. How these changes work out will become apparent in the year 2005. In 2004, the number of customers per unit with businesses larger than one million ISK per year increased to 167 from 148. That is an increase of 13%.

The business of the twenty largest customers of the operational units amount to 1.571 million ISK in the year 2004 but a comparable number for the year 2003 is 1.369 million ISK, with an increase of 15% between years.



The results of our last customer satisfaction survey show that our customers are satisfied with the company products and services. The customer believes that the company is trustworthy and that it is progressive and its image is positive and strong. We are happy with the results as in most areas, we are receiving very high marks. As this was the first joint survey for all operational units of TM Software under one name it caused some confusion to our customers.



Partners

In an everchanging 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, a certain stability is needed, which we achieve with our partners. Our set goals are as follows:

- Strengthen our network of partners. To succeed in the international market, companies must create a strong network of partners, and this network will not come into existence by chance. TM Software partners have to fulfill a defined criteria in markets where TM Software wants to place itself.

- Active and mutual relationships. We want to actively add value for our partners and we want our partners to do the same for us.
- Create knowledge and formal acceptance to ensure a basis for cooperation where applicable.
- Partner with leading companies.

Actions:

- Education. A number of seminars were held for our employees on technology, sales technique, service and project management. Many employees got various certifications from our partner network.

- TM Software has been active in opening communication channels to companies it wants to partner with.

In the year 2004 various goals were met in partnership activities.

- Microsoft Gold partner (2x) according to the new certification guidelines from Microsoft
 - SV competency
 - Advanced infrastructure competency
 - Security Solutions competency
 - Networking competency
 - Integrated e-Business competency
- Citrix Silver solution advisor
- Oracle certified partner (to be completed in Q3 2005)
- Cisco partner (to be completed in Q3 2005)
- Trend Micro partner
- Ironport Brightmail partner
- Two security certificates that approves TM Software Skyggnir efficiencies in operation and protection of its customers data:
 - ISO/IEC 17799:2000
 - BS 7799-2:2002

Processes

As the company develops and grows, the need for more harmonious and formal processes increases. We have set two major goals. On one hand to implement the best practice in all our units and drop the worst, and on the other hand to "glue the company" together with common processes, both for our own benefits and even more for our customers. The project has therefore first and foremost been to harmonize and smooth the current processes and workflows, and not so much in total restructure. It is still clear that current processes that have been developed within the units, will now cover the whole company. The way to the above goals has been planned thoroughly and will provide a better working environment and professionalism.

Investment in knowledge of project management was extensive in 2004. 16 employees took part in a 6 weeks' course in project management and around 70 went on a two day course which focused on the PRINCE2 philosophy. Four employees are now IPMA certified and one is PRINCE2 certified. The fact that TM Software is a project driven company means that it will emphasize both formal and informal training in project management. This way, we strengthen our

processes and increase the probability of timely delivery of projects, quality and cost efficiency.

Good service that fulfills the customers' expectations is the key to our reputation. Good service is of course always our goal and we do everything in our power to make sure the service complies with needs and expectations. We believe that implementing systematic service management achieves improved processes and eventually customer satisfaction. This is why we have started implementing the ITIL service standard and aim to have most of the standards' main elements fully functional before year end 2005. In the beginning of 2006, we plan to have a third party confirmation on the systems' function and then get a formal certificate of compliance. The first steps have already been taken with the training of employees and some of them have been issued a so called ITIL Foundation certification.

In the modern environment of companies and institutions, a growing value is bound in computer files and electronic information that need safe storage and yet to be instantly accessible. One can even say that information is the foundation of modern business, the key to growth and prosperity. Any loss of delicate or important business information can directly affect competition, position and cash flow. It can harm the image, and have a serious long-term effects on a company's operation. To minimize the odds of this, TM Software has implemented a safety management system compliant with IST ISO/IEC 17799:2000 and IST BS 7799-2:2002 standards. The system is now certified by the British Standard Institute, the most respected institute in this field in the world.



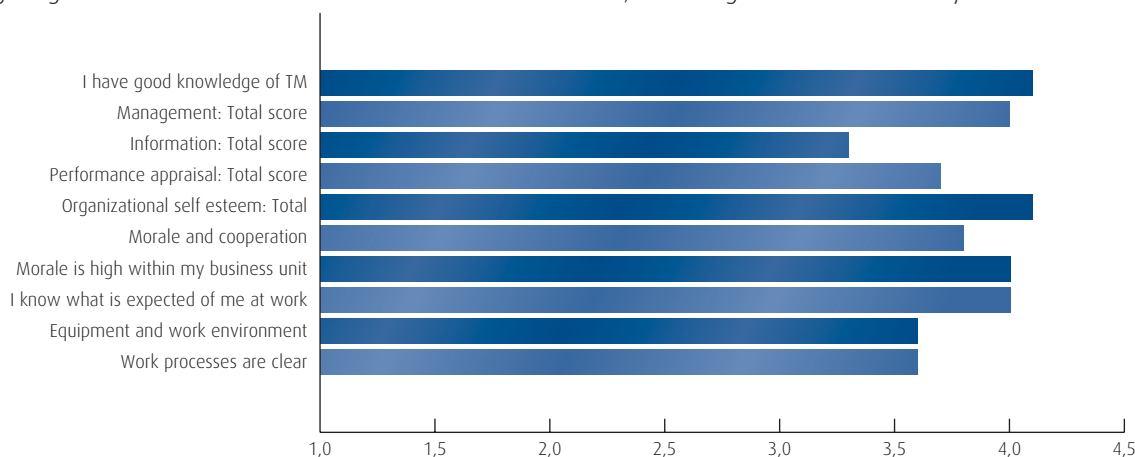
Certificate no. IS80473

When harmonizing and increasing the number of processes, the key elements are that the equipment and information systems of the company supports the work. Much effort has been put into finding the right systems for the company and the assessment of which to use and which to drop. Whether the systems handle incident management, file management, group working or mail management, they have all been evaluated and tested for meeting the company's requirements of less waste and more efficiency.

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 within TM Software. The biggest step so far has been implementing a new intranet.

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

A progressive company needs a force of progressive and enthusiastic employees. They possess 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



An annual employee survey is conducted by Intellecta. An increasing harmony is seen in answers between our business units compared to previous surveys, and thus we feel that we are moving in the right direction with our processes. Substantial investing was done in employee education. External cost for courses was more than 20 million ISK and more than 9.400 hours were spent on education during the year.

demonstrate to new employees and to our customers what characterizes the mindset of the employees at TM Software.

The total number of employees at TM Software was 397 in end 2004. The report is based on information about and from 205 employees. Information from Maritech and Exper Germany is not included.

Staff

Goals

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

Actions

- Education. A number of seminars were held for our employees in sales technique, service and project management. Many employees received various certifications from our partner network.
- Values. A part of harmonizing processes and culture of our business units was defining TM Software's values.
- One company. To change the image of the company, we focused on our common strengths.

Number of employees year end (excl. Maritech)	205
Number of new employees	58
Number of departed employees	13
Average age	36
Average number of years with company	5,7
Female	19%
Male	80%
University degree	66%
Sick leave	2,1%
Working hours on education	2,2%
Formal employee interviews	143

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, reli-

ability, security, honesty and sincerity, and reason for respect and expectation, even in the face of difficulty. The word applies to individuals, corporations and particular assignments. 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 out each job professionally
 - We work 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 glad to receive any suggestions about 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 want to lead in the fields we advance into
- We are ambitious on behalf of:
 - Ourselves
 - Our solutions
 - Our customers
 - Our company

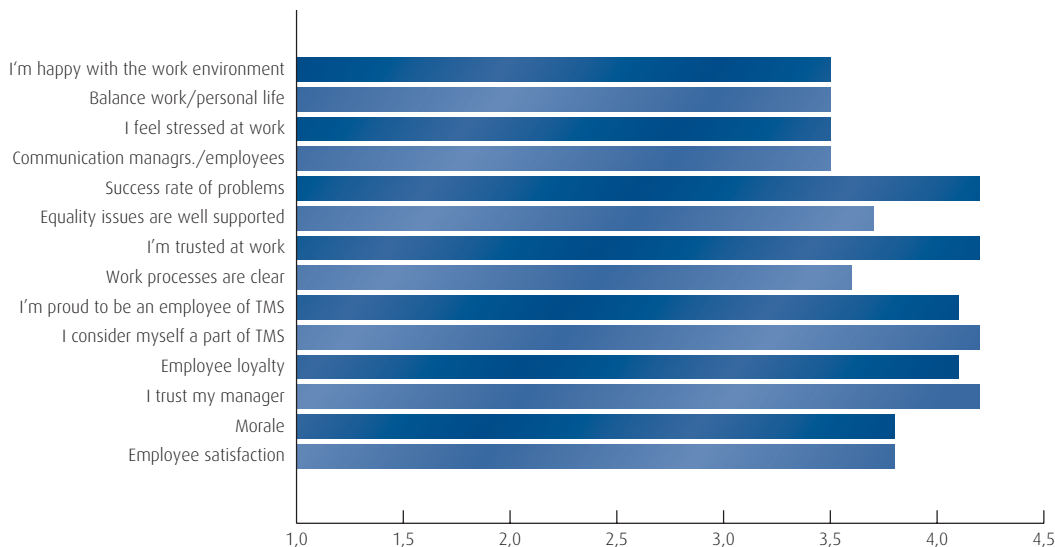
Flexibility

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 toward progress
- We seek further knowledge
- We share our knowledge
- We respect differing 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 as far as employee satisfaction and working environment is concerned. 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 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 in both instances. TM Software's employee turnover is very low, around 6% in 2004. Morale is also 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	286,9
Man-months development	311
Number of countries trademark	18
Number of countries products in use	8

We achieve this by extensive product development and increasing the quality, securing our Intellectual Property Rights and internationalization of our software systems. A growing emphasis is on product focus and strengthening our brands. For a growing company aiming at an increasing market share on international markets, well defined and known brands are essential. 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, domestic and international. 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

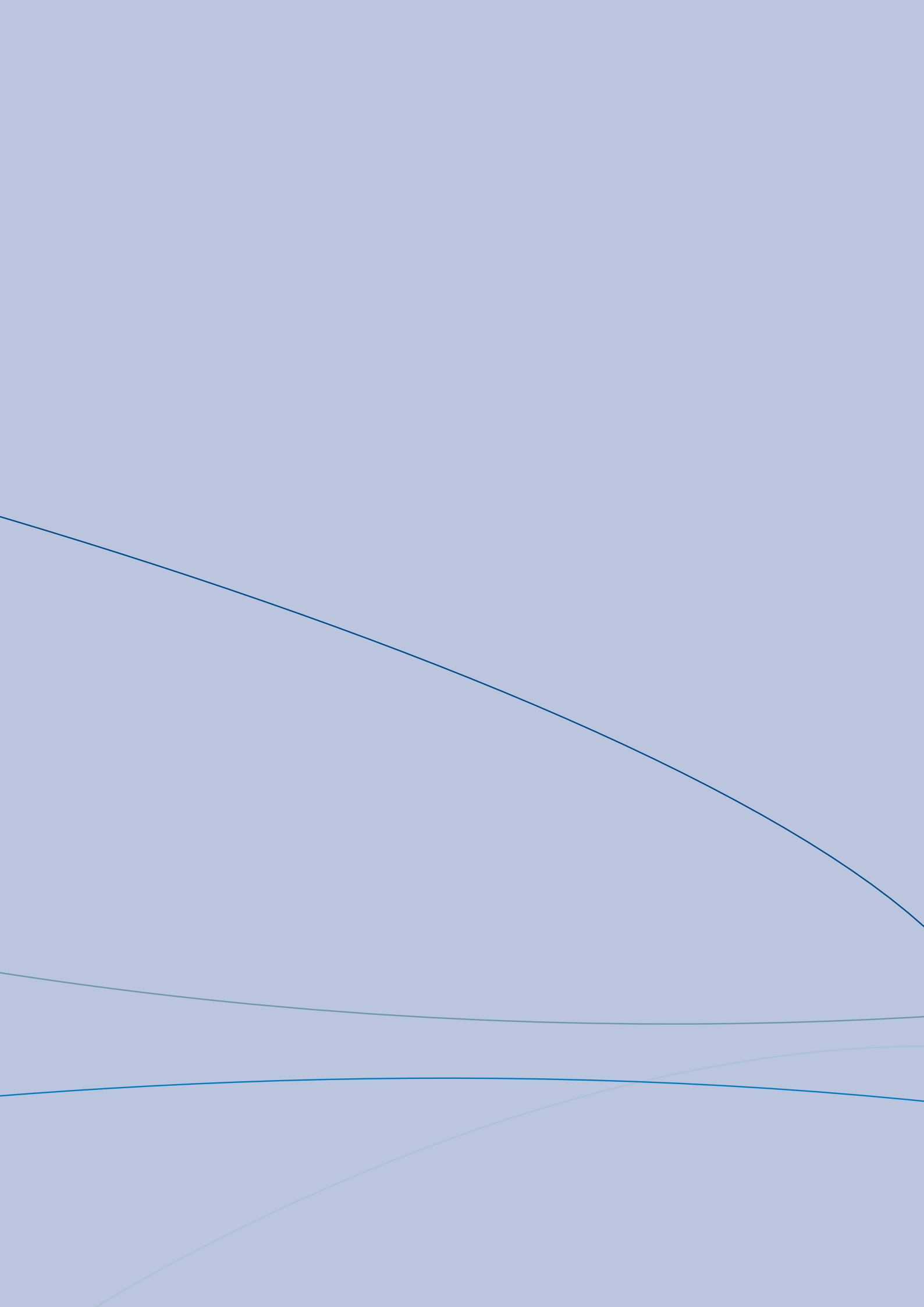
The key principles in financial management are efficiency and discipline. Our managers are provided with effective equipment for control. In an everchanging business environment and in a company that grows at a tremendous speed, financial discipline is essential. A finance manual describes processes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

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

All managers attend weekly meetings to discuss management issues. 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 on a management meeting the second Monday each month and discussed there.

Consolidated accounts are presented on management meetings the third Monday each month.

Managers deliver a report on the status of time registry weekly and the results are discussed on weekly management meetings.





TM Software
Holtasmári 1
201 Kópavogur
Iceland

Tel +354 545 3000
Fax +354 545 3001
postur@t.is
www.t.is