



Orc Software AB – Interim Report January 1 – September 30, 2001

- Revenue for January-September 2001 increased by 67 percent to SEK 150 (90) million.
- Operating income for January-September 2001 increased by 72 percent to SEK 62 (36) million, giving an operating margin of 41.2 (40.5) percent.
- Revenue for July-September 2001 was SEK 55 (32) million and operating income in the same period increased to SEK 24 (14) million, giving an operating margin of 43.2 (43.1) percent.
- The leading Canadian financial institutions chose technology from Orc Software.
- The Board of Directors estimates that the target for the operating margin for 2001 will be significantly exceeded and that the result for 2002 will exceed previously communicated targets.
- Earnings per share for January-September amounted to SEK 3.26 (1.90).

We would like to express our deepest sympathy with those, including some of our customers and partners, who were affected in the most unthinkable way by the terrorist attack in New York on September 11. We offer condolences to those who lost family members, friends and colleagues, at the same time we are most thankful that none of the staff in the Orc Software office in New York were injured.

Although our office is just a couple of hundred meters from World Trade Center, it escaped without major damage and full-scale work could be resumed at the end of September. Our New York customers express strong determination that companies in the financial markets should continue their work as normally as possible. We intend to play our part in helping them do so.

Nils Nilsson, CEO of Orc Software

Significant events during the period

New customers

In July 2001, Orc Software signed a contract with a Canadian consortium consisting of BMO NesbittBurns, NBC National Bank Financial and RBC Dominion Securities for the supply of the Orc System for real-time trading on the Bourse de Montreal. An initial delivery of the Orc Trader application will take place in autumn 2001. The order will put the consortium among Orc Software's ten largest customers. Interest in the Orc System is strong in Canada and several new customers have been gained in the wake of the consortium's order. Sales to these customers will have full effect on revenue from the first quarter in 2002.

During third quarter 2001, new customers were also gained in the Netherlands, Germany and Hong Kong.

Nordnet, the Nordic countries' largest Internet broker, has chosen Orc Software as main supplier for internal trading systems for electronic exchanges. As a result the Orc System will be the platform for the entire Nordnet trading system.

Co-operation with Tradelab

During third quarter 2001, Orc Software and Tradelab, a company in the Öhman group (a Nordic brokerage house), began co-operation on automatic trading through the creation of BOT Orc Tradelab AB, a 50/50 joint venture company. The new company will do further development work on software developed by Tradelab. Sales and marketing will be carried out by Orc Software. The software can automatically match orders placed by customers with brokers and banks. The order is analysed in terms of action criteria set by the user and the deal is closed if these criteria are met. Using this system, a trader can process a significantly larger order flow than with manual processing. To get access to the software, the customer pays a licence fee to BOT Orc Tradelab. Orc Software and Tradelab have each invested SEK 1 million as share capital in the new company.

Co-operation with Nordnet

Nordnet and Orc Software have signed an agreement on strategic co-operation for joint sales of technology to banks and brokerage houses which will offer private customers electronic trading over the Internet. The co-operation is based upon a combination of the partners' existing products: Nordnet's (formerly TeleTrade's) real-time application WinTrade, and the Orc System's core technology with market connections to 35 different market places around the world. The co-operation means that brokerage houses and banks on the Swedish and international retail markets will be offered this technology.

Product development

Two new market connections were developed during July-September 2001: the Finnish derivatives exchange SOM in Helsinki and the Russian equity and bond exchange, Russian Trading System, RTS, in Moscow. At the end of the reporting period there were in total 35 market connections to various electronic exchanges around the world, plus co-operation with two trading networks and four information providers.

Events after reporting period

Orc ExNet

Orc Software is increasing its focus on the area of transaction-related services through the new company Orc ExNet Transaction Services. Orc ExNet will focus on offering Orc Software customers access to market places without the need for exchange membership. This will create opportunities for Orc Software to broaden its product range, e.g., by offering institutional customers new possibilities of trading through the Orc System.

Orc Software had previously established co-operation in transaction-related services with NeoNet and Bridge Trading Technologies. This co-operation will now be managed by the new company, and it is the intention of Orc ExNet to establish further co-operative ventures with international trading networks. The existing company jointly owned with Bridge, agilX, will be dissolved, although the co-operation agreement with Orc Software and Bridge continues. The values previously reported for agilX will be transferred to the new company. Orc Software owns 72 percent of the new company and three leading executives in Orc ExNet own the remainder.

Best Prospectus 2000

On October 3, 2001 Orc Software was awarded the prize for Best Swedish Prospectus 2000. The jury cited the following as one of the reasons for the reward: "A thoroughly good prospectus which describes the company's business in a simple and accessible manner."

Orc Software's financial targets

Uncertainty about global economic developments has hit equity markets around the world hard in recent months. One consequence has been that Orc Software's primary customer group, banks and brokerage houses, have announced general cost reductions during the third quarter. Nevertheless, Orc Software has not been affected by these general cutbacks in the financial sector. This is mainly because:

- Orc Software has its strongest position in the area of Market Making and Proprietary Trading on the world equity markets in general and the derivatives markets in particular. These areas have not been greatly affected by cutbacks, and it is from these areas that the greater part of Orc Software's income comes today.
- Increased price volatility on global financial markets has a positive effect for Orc Software, because the need for structured risk management increases during difficult market conditions. Real-time risk management constitutes one of the most important elements in the Orc System.
- Due to its global presence, Orc Software is affected to a significantly lesser degree than many other companies by a general downturn in global markets. In many countries, a structural transformation is taking place, as a result of which traditional trading technologies are being replaced by electronic trading, and more and more asset types are being traded electronically, including bonds and commodities. Markets where this is happening include Canada, South Korea and the USA. This structural transformation has created demand pressure which more than compensates for reduced activity in the more established electronic market places.

- For customers of Orc Software, the Orc System is both an income generating tool and a means of reducing costs by making transactions cheaper and more efficient. Cost cutbacks mean a greater need to cover more markets with fewer staff. The Orc System can meet this need by integrating information from 35 different market places in a single workstation.

In addition, the need to reduce costs brings forward the choice between developing a proprietary trading system or relying on an external specialist supplier, replacing an internal cost which is difficult to quantify with a well defined and easily forecasted external cost.

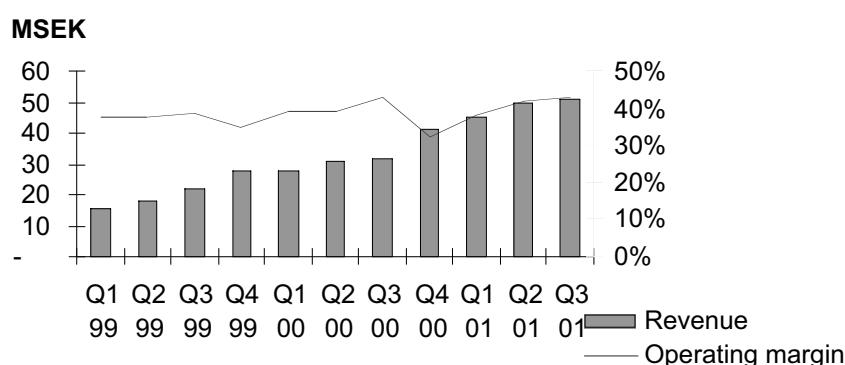
Orc Software's business model, where customers sign a contract for one year or longer and pay in advance, not only has positive financial effects such as low capital commitment and strong cash flow, but also creates long-term customer relationships and high income visibility.

At the time of the Orc Software IPO, the Board of Directors communicated the following financial targets for 2000-2002: increased revenues at the same annual rate as achieved by the Group during 1995-1999, which was slightly above 50 percent and an operating margin of at least 30 percent.

The Board of Directors estimates that the target for the operating margin for 2001 will be significantly exceeded and that the result for 2002 will exceed previously communicated targets.

Sales

Quarterly revenue and operating margin

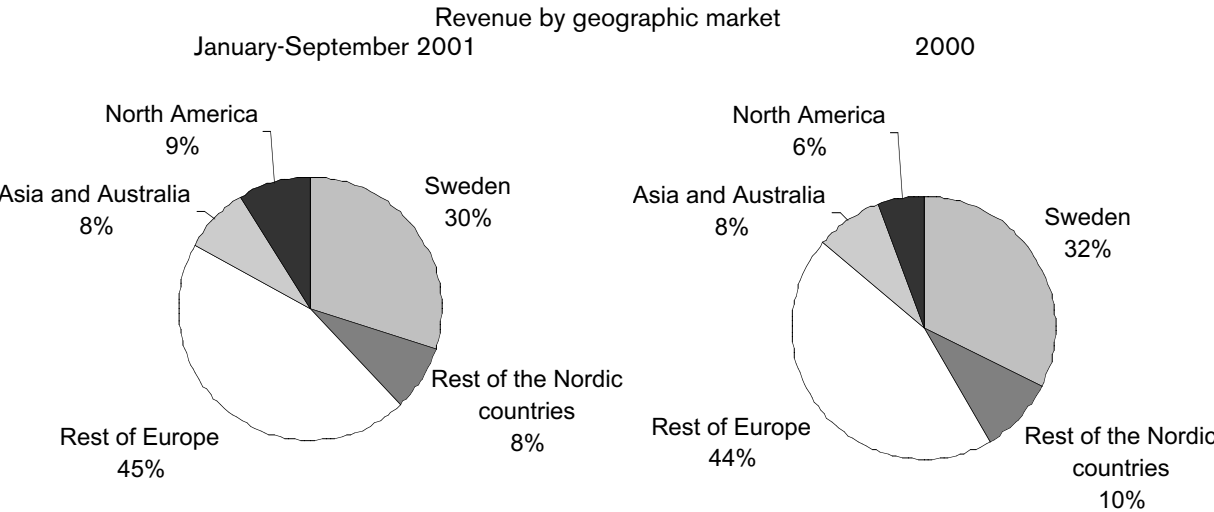


January-September 2001

Group revenue increased during January-September 2001 by 67 percent to SEK 150 million (SEK 90 million in January-September 2000). About 95 (95) percent of sales were accounted for by systems sales. The remainder consisted mainly of hardware sales and consultancy income.¹

¹ Other income previously included leasing income, which is now reported under systems sales. The change is due to the fact that leasing sales are increasingly integrated with systems sales.

In the period January-September 2001, sales to customers outside Sweden constituted about 70 (64) percent of total sales. At the end of September 2001, Orc Software had customers in 18 countries.



Internet-related income during the period amounted SEK 2.8 million.

The number of client sites at September 30, 2001, was 140, of which 13 use iOrc technology, compared with 133 and 13 respectively at the end of June 2001. Average income per client site² during January-September 2001 was approximately SEK 1.4 million.

July-September 2001

Group revenue increased during July-September by 72 percent to SEK 55 (32) million. Compared to the preceding quarter, sales rose by 10 percent.

Leading international investment banks accounts for a majority of Orc Software's sales. Despite turbulence in financial markets, demand from every one of these customers continued to increase during the third quarter, either by virtue of geographical expansion or of new market connections and new user groups.

Sales to new and existing customers were strong in all geographic regions throughout the period. In percentage terms, sales rose most in the USA and Asia. In Asia interest from Orc Software customers is particularly strong in the Hong Kong and South Korean markets.

The greatest sales success was achieved in Canada in connection with the Bourse de Montreal switching from manual to electronic trading. Its full effect on Orc Software's income will not be felt until first quarter 2002. Hence, North America and Asia/Australia are expected to further increase their share of total sales.

² Calculated as total systems sales divided by average number of client sites units during the period, expressed as an annualised figure.

Results

January-September 2001

Operating income rose in January-September 2001 by 72 percent to SEK 62 (36) million, equivalent to an operating margin of 41.2 (40.5) percent. The widening margin during the year was a consequence of a relatively stable cost level as costs, excluding purchase cost of goods sold, increased by only 9 percent between third quarter 2001 and fourth quarter 2000 while systems sales rose by 32 percent.

The profit contribution of currency movements, calculated as the shift in average exchange rates between January-September 2000 and January-September 2001, was SEK 5.8 million, mainly as a result of the weakening SEK, which at the close of the reporting period was 10.81 against the USD and 9.95 against the Euro. Hedging measures reduced operating income by SEK 2.8 million.

At September 30, 2001, future cash flow equal to USD 11 million was hedged against the SEK with an average maturity of 7 months and average exchange rate of 10.45.

July-September 2001

Operating income rose in July-September by 71 percent to SEK 24 (14) million, equal to an operating margin of 43.2 (43.1) percent.

Operating expenses

Operating expenses in January-September 2001 were SEK 88 (54) million, and in July-September 2001 they were SEK 31 (18) million. Cost of premises rose somewhat in July-September 2001 when the company moved into new premises in New York. Data and telecommunications expenses rose by almost SEK 1 million due to an accelerated rate of development of new market connections, while consulting fees were unchanged on the previous quarter. Other external expenses fell by more than SEK 1 million, mainly as a result of an improved cost control. Personnel expenses rose by almost SEK 1 million as a result of recruitment and bonus allocations in respect of the previously communicated incentive programme.

Equity/assets ratio and profitability

The equity/assets ratio at the end of September 2001 was 67 percent compared to 72 percent at the end of 2000. Return on capital employed rose from 52 percent in 2000 to 55 percent in January-September 2001, while return on equity was unchanged at 40 percent.

Cash flow and investments

The consolidated cash flow before changes in working capital and investments was SEK 54 million in January-September 2001. Group investments were SEK 9 million, comprising investment in inventories and intangible assets and investment in BOT Orc Tradelab AB, the company jointly owned with Tradelab.

The consolidated cash flow after changes in working capital and investments was SEK 69 million in the period January-September 2001, and SEK 25 million in the period July-September 2001. Operating capital was minus SEK 32 million.

During the period the group had no interest-bearing debt. Liquid funds and current investments totalled SEK 207 million.

In January-September 2001, the ratio of cash flow before financial items and taxes to operating income before depreciation was 1.3.

Taxes

The tax rate for the period January-September 2001 was 27 (29). Tax expenses are calculated after estimated tax for parent company and respective subsidiaries.

Personnel

At the end of September 2001 Orc Software had 100 (80) employees. The average number of employees during January-September 2001 was 91 (69). The number of women at the end of September 2001 was 19 (20) and the number of men 81 (60).

The parent company

The parent company's revenue increased in January-September 2001 by 36 percent to SEK 121 (89) million³. Earnings before appropriations and tax increased by 45 percent to SEK 61 (42) million.

Accounting principles

The Group's accounting principles are unchanged on those stated in the previous report.

As announced previously, Orc Software will from January 1, 2002 capitalize the development costs in market connections and depreciate these over three years, in accordance with the Swedish Financial Accounting Standards Council's recommendation no. 15 (RR15) relating to capitalization of development costs, which come into effect on January 1, 2002. This new principle will be applied for the first time in the preparation of the interim report for January-March 2002. If the development costs in respect of market connections were to be activated and applied to the period January-September 2001, SEK 2.8 million would have been reported on the balance sheet as a fixed asset.

The development in St. Petersburg is however such that it justifies capitalization in accordance with the relevant principles. The company has therefore decided to book these costs, amounting to SEK 1 million, as fixed assets in the balance sheet as at September 30, 2001.

³ Orc Software took over overseas invoicing from OM Technology in 2000, and has administered most of the invoicing from the parent company. The subsidiaries invoice the parent company in an amount based on the subsidiaries' actual costs with income margins added. These costs are set-off against income in the parent company's accounts, which means that the periods are not fully comparable.

Consolidated income statement

TSEK	Jan-Sept 2001	Jan-Sept 2000	July-Sept 2001	July-Sept 2000	Jan-Dec 2000
Operating revenue					
Systems sales	142 417	85 897	51 100	29 247	124 581
Other operating income	7 126	4 108	3 556	2 367	6 768
Total revenue	149 543	90 005	54 656	31 614	131 349
Operating expenses					
Purchase cost of goods sold	-4 046	-4 317	-1 899	-302	-5 682
External expenses					
Cost of premises	-6 222	-6 511	-2 235	-1 965	-9 024
Data and telecom expenses	-4 681	-1 692	-1 779	-726	-3 646
Consulting fees	-6 161	-4 209	-2 203	-841	-7 312
Other external expenses	-12 632	-7 243	-3 729	-1 207	-12 831
Personnel expenses	-49 456	-27 036	-17 415	-12 027	-39 963
Depreciation	-4 771	-2 518	-1 799	-933	-3 193
Total expenses	-87 969	-53 526	-31 059	-18 001	-81 651
Operating income	61 574	36 479	23 597	13 613	49 698
Financial items					
Financial income	4 711	1 799	1 950	595	3 527
Financial expenses	-40	-14	-19	-8	-78
Net financial items	4 671	1 785	1 931	587	3 449
Income after net financial items	66 245	38 264	25 528	14 200	53 147
Tax on net income for the period	-17 829	-11 146	-6 659	-4 342	-12 449
Net income for the period	48 416	27 118	18 869	9 858	40 698
Earnings per share, SEK	3.26	1.90	1.27	0.69	2.83
Amount of shares at the end of the period, thousand	14 850	14 250	14 850	14 250	14 850
Average number of shares, thousand	14 850	14 250	14 850	14 250	14 373

Consolidated balance sheet

SEK thousand	Sept 30, 2001	Sept 30, 2000	Dec 31, 2000
ASSETS			
Fixed assets			
Intangible assets			
Capitalized development expenditure	1 043	-	-
Tangible assets			
Equipment	16 824	10 606	14 334
Financial assets			
Shares in associated companies	3 745	-	2 710
Total fixed assets	21 612	10 606	17 044
Current assets			
Current receivables			
Accounts receivable	27 107	30 573	24 841
Other receivables	4 818	3 042	3 912
Prepaid expenses and accrued income	2 061	2 059	1 066
Current investments	157 778	-	-
Cash and bank balances	49 163	69 066	159 116
Total current assets	240 927	104 740	188 935
TOTAL ASSETS	262 539	115 346	205 979
EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted shareholders' equity			
Share capital	1 485	1 200	1 485
Unregistered share capital	-	225	-
Share premium reserve	87 197	22 275	87 197
Restricted reserves	18 060	12 304	18 040
Non-restricted shareholders' equity			
Retained earnings	19 777	4 563	-176
Translation difference	420	-63	65
Net income for the period	48 416	27 118	40 698
Total shareholders' equity	175 355	67 622	147 309
Provisions			
Deferred tax liability	6 922	4 692	6 922
Total provisions	6 922	4 692	6 922
Current liabilities			
Accounts payable	2 999	323	4 488
Tax liabilities	14 203	7 121	6 283
Other liabilities	4 474	4 980	6 281
Accrued expenses and prepaid income	58 586	30 608	34 696
Total current liabilities	80 262	43 032	51 748
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	262 539	115 346	205 979
Pledged assets	None	None	None
Contingent liabilities	None	None	None

Specification of the shareholders' equity

	Share capital	Restricted reserves	Non-restricted shareholders' equity	Total
Opening balance January 1, 2001	1 485	105 237	40 587	147 309
Dividend for 2000	-	-	-20 790	-20 790
Translation difference	-	-	420	420
Transfer to statutory reserve in accordance with distribution of earnings	-	20	-20	0
Net income for the period	-	-	48 416	48 416
Closing balance September 30, 2001	1 485	105 257	68 613	175 355

Consolidated cash-flow statement

SEK thousand	Jan-Sept 2001	Jan-Sept 2000	2000
Operating activities			
Operating income	61 574	36 475	49 698
Adjustment for items not included in cash flow	819	-1 063	26
Depreciation	4 771	2 518	3 193
Financial items	4 251	1 789	3 317
Income tax paid	-17 829	-11 147	-10 217
Cash flow from operating activities before changes in working capital	53 586	28 572	46 017
Changes in working capital			
Changes in operating receivables	-4 167	-23 471	-21 897
Changes in operating liabilities	28 514	18 733	31 729
Total change in working capital	24 347	-4 738	9 832
Cash flow from operating activities	77 933	23 834	55 849
Investment activities			
Acquisition of tangible fixed assets	-7 240	-4 987	-9 224
Acquisition of financial fixed assets	-1 043	-	-2 710
Purchase/sale of shares and participations	-1 035	7	7
Cash flow from investment activities	-9 318	-4 980	-11 927
Financing activities			
Dividends	-20 790	-15 675	-15 675
New share issue	-	-	64 982
Cash flow from financing activities	-20 790	-15 675	49 307
Change in liquid funds and current investments	47 825	3 179	93 229
Opening liquid funds	159 116	65 887	65 887
Closing liquid funds	206 941	69 066	159 116

Key ratios

	Jan-Sept 2001	Jan-Sept 2000	July-Sept 2001	July-Sept 2000	2000
Operating margin, %	41.2	40.5	43.2	43.1	37.8
Return on equity, %	40	58	46	62	40
Return on capital employed, %	55	82	62	90	52
Asset turnover ratio	1.2	1.9	1.3	2.0	1.3
Equity/assets ratio, %	67	59	67	59	72
Average number of employees	91	69	96	72	67
Earnings per share, SEK	3.26	1.90	1.27	0.69	2.83
Equity per share, SEK	11.81	4.75	11.81	4.75	9.92
No. of shares at end of period, thousand	14 850	14 250	14 850	14 250	14 850

Quarterly values⁴

Income statement

SEK thousand	Q1 2000	Q2 2000	Q3 2000	Q4 2000	Q1 2001	Q2 2001	Q3 2001
Operating revenue							
Systems sales	26 625	30 025	29 247	38 684	42 161	49 156	51 100
Other operating income	818	923	2 367	2 660	2 993	577	3 556
Total revenue	27 443	30 948	31 614	41 344	45 154	49 733	54 656
Operating expenses							
External expenses	-8 898	-10 033	-5 041	-14 523	-11 211	-10 686	-11 845
Personnel expenses	-7 054	-7 955	-12 027	-12 927	-15 373	-16 668	-17 415
Depreciation	-745	-840	-933	-675	-1 400	-1 572	-1 799
Total expenses	-16 697	-18 828	-18 001	-28 125	-27 984	-28 926	-31 059
Operating income	10 746	12 120	13 613	13 219	17 170	20 807	23 597
Net financial items	563	635	587	1 664	1 283	1 457	1 931
Tax on income for the period	-3 198	-3 606	-4 342	-1 303	-4 673	-6 497	-6 659
Net income for the period	8 111	9 149	9 858	13 580	13 780	15 767	18 869

Balance sheet

SEK thousand	June 2000	Sept 2000	Dec 2000	Mar 2001	June 2001	Sept 2001
Fixed assets	8 989	10 606	17 044	17 201	18 071	21 612
Current assets						
Accounts receivable	32 592	30 573	24 841	51 181	28 268	27 107
Other receivables	3 491	5 101	4 978	6 747	7 150	6 879
Cash and bank balances and current investments	57 898	69 066	159 116	150 224	182 183	206 941
Total current assets	93 981	104 740	188 935	208 152	217 601	240 927
TOTAL ASSETS	102 970	115 346	205 979	225 353	235 672	262 539
Shareholders' equity	58 816	67 622	147 309	140 284	156 231	175 355
Provisions for deferred tax liability	4 690	4 692	6 922	6 922	6 922	6 922
Other interest-free liabilities	39 464	43 032	51 748	78 147	72 519	80 262
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	102 970	115 346	205 979	225 353	235 672	262 539

⁴ The distribution of income and costs between the first and second quarters of 2000 is calculated based on a standardized method. This is because OM Technology administered some of the billing up to and including the first 6 months of 2000. As a result, no comparative figures relating to the balance sheet for the first quarter of 2000 can be given.

Upcoming financial reports

January 23, 2002 Year-end report for 2001

Stockholm, October 10, 2001

Board of Directors

This interim report has not been examined by Orc Software's auditors.

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Definitions of ratios

Operating margin

Operating income as a percentage of the revenue.

Return on capital employed

Operating income plus financial income as a percentage of the average capital employed.

Return on equity

Net income for the period as a percentage of the average shareholders' equity.

Equity/assets ratio

Shareholders' equity as a percentage of the total assets.

Capital employed

Total assets minus interest-free debt, including deferred tax liability in untaxed reserves.

Shareholders' equity

Shareholders' equity at the end of the period.

Operating capital

Total assets minus interest-free debt, including deferred tax liability in untaxed reserves, as well as cash and bank balances and current investments.

Asset turnover ratio

Revenue divided by average capital employed.

Investments in fixed assets

Investments in fixed assets, after any disposals.

Average number of employees

Average number of employees for the period, based on head counts at the beginning of the period and at the end of each quarter.

Earnings per share

Net income for the period divided by the average number of shares.

Equity per share

Shareholders' equity at the end of the period divided by the number of shares at the end of the period.