



Orc Software AB – Year-End Financial Report January 1 – December 31, 2001

- **Revenue for 2001 increased by 60 percent to SEK 210 (131) million.**
- **Operating income for 2001 increased by 72 percent to SEK 86 (50) million, giving an operating margin of 41.1 (37.8) percent.**
- **Revenue for the fourth quarter 2001 increased by 44 percent to SEK 59 (41) million with an operating income of SEK 25 (13) million, giving an operating margin of 41.7 (32.0) percent.**
- **Earnings per share for 2001 amounted to SEK 4.38 (2.83).**
- **Renewed financial targets of annual growth of more than 50 percent, and an operating margin of at least 30 percent for the period 2002-2004. The operating margin for 2002 is expected to exceed the target.**
- **The Board of Directors recommend a dividend of SEK 2.20 (1.40) per share for 2001.**

Markets

The financial markets witnessed considerable turbulence and substantial movements in share prices during 2001. The reasons were primarily the great uncertainty that reigned as to how deep and long the ongoing global economic decline would be. At the end of 2001, certain positive signs could however be observed, but considerable uncertainty still prevails. Orc Software's growth however, has not been directly influenced by a general downturn in the global economy. New business opportunities are constantly being created directly related to the decline in the economic climate, just as an improvement in the economic climate creates its own specific opportunities.

1. A restructuring process is currently in progress in several markets, with a transition from older trading techniques to modern electronic trading. In many countries, such as the USA, Canada and South Korea, this development has only just started and will continue for many years to come. This restructuring process in turn creates a demand for the type of technology that Orc Software can provide. The process is not directly dependent on the current economic climate and can in many cases even be accelerated by an economic decline, due to electronic trading being more effective and cheaper.

2. Orc Software's market penetration is still a long way below potential in many countries. Examples of countries with good growth opportunities for Orc Software are USA, South Korea, Canada, Germany, United Kingdom, France and Spain.
3. Orc Software's penetration within many of the large international investment banks is relatively low, and significant growth in this customer segment is expected during the coming years. During 2001, all large investment bank customers increased their use of Orc technology, in spite of substantial rationalization programs. This is partly due to the large investment banks having increased their use of markets that are still experiencing considerable growth, such as South Korea, and in many cases a direct cost-saving measure has been to use standardized systems instead of internally developed systems.
4. The technology that Orc Software provides is central to customers' business operations and is not exposed to any wide price competition primarily due to the technology being priced in relation to the income potential.
5. The considerable volatility on the world's stock exchanges created good business opportunities for many of Orc Software's customers, which in turn contributed to customers increasing their use of Orc technology.

Significant Events in 2001

International Expansion

A development office was established in St Petersburg during 2001, where the activities are orientated towards producing tools for the new product family that Orc Software will develop during the coming years.

Support and sales offices were opened in the autumn of 2001 in Hong Kong and Zurich with the objective of developing the business potential in those markets. It was also decided in the beginning of 2002 that Orc Software shall open sales and support offices in Montreal and Toronto during the first quarter.

New Customers

During 2001, Orc Software has among others signed contracts with Crédit Lyonnais, a new global customer for Orc Software, and with the Company's first customer in South Korea, Daewoo Securities.

Orc Software has also signed a contract with a Canadian consortium made up of BMO NesbittBurns, NBC National Bank Financial and RBC Dominion Securities for trading in equity derivatives. Invoicing to these customers will have a full effect on revenue during the first quarter 2002.

Interest in the Orc System is strong in Canada, particularly for derivatives trading, and a number of new customers have been added since the order from the consortium. In conjunction with Orc Software developing a connection to the stock exchange in Toronto in 2002, there also exists good growth potential in the Canadian equity market.

In the European market, one can note in particular a number of new customers in Holland, Italy, United Kingdom and Germany. In the Nordic Region, Nordnet has chosen Orc Software as main supplier of internal trading systems and connections to electronic

marketplaces. The Orc System thereby becomes the basic platform in Nordnet's entire trading system.

Product Development

During 2001, development work was concentrated on further improving the Orc System's performance and increased functionality in customer applications. Maintenance of existing exchange connections was also carried out, as well as the development of a number of new connections.

Exchange Connections

As of December 31, 2001, the Orc System was connected to 34 exchanges. Connections were established with the following exchanges in 2001:

- Bourse de Montreal, Canada
- Euronext, France, Belgium and Holland
- MONEP/MATIF, France
- Russian Trading System, Russia
- HEX (derivatives), Finland
- Stockholmsbörsen (bonds), Sweden
- TLX, Italy
- virt-x, United Kingdom/Switzerland

The objective is to increase the number of connections as more electronic marketplaces are established. During 2001, staff numbers were significantly strengthened within the development group working with exchange connections, which in turn will enable Orc Software to increase the pace of development within this field.

Orc ExNet

Orc Software is further investing in the field of transaction-related services through the newly started company, Orc ExNet Transaction Services AB. Orc ExNet shall focus on offering Orc Software's customers access to marketplaces without the need for exchange membership. This will create the possibility for Orc Software to broaden its product range and to increase the capacity use of the Orc System in order to provide, for example, institutional customers new trading opportunities in the Orc System.

In January 2002, an agreement was signed with Lexit Capital LLC, an American brokerage house with access to all the major US stock exchanges, and mainly orientated towards European institutions and banks. The purpose is to provide Orc Software's customers with the opportunity to trade on US marketplaces without requiring exchange memberships.

Orc Software has previously announced its co-operation within transaction-related services with NeoNet and Bridge Trading Technologies. These co-operation agreements are now handled by the new company, and Orc ExNet's goal is to establish further co-operation with international trading networks. The previously jointly owned company with Bridge, agilX, is being closed down. The co-operation agreement between Orc Software and Bridge, now Reuters, remains however. Operations within agilX are being transferred to the new company. Orc Software owns 72 percent of the new company, and three key employees in Orc ExNet hold the remaining part.

Through the co-operation with NeoNet, Orc ExNet can now provide access to a number of European marketplaces without the customers needing to have membership status.

Ecovision and Infront

Orc Software has signed an agreement with Ecovision concerning direct trading in marketplaces via the Orc System initially through Fischer Partners Fondkommission as brokerage house, and in January 2002 also through E*TRADE. This service enables institutional investors and other large clients that use the Ecovision ProTrader to trade in all stock markets that these brokerage houses, via the Orc System, are connected to. This in turn will significantly broaden Orc Software's customer base.

Orc Software has signed a similar agreement with Norwegian Infront that provides users of The Online Trader, an information system marketed by Infront, the possibility to trade via the Orc System.

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 retail investors electronic trading over the Internet. The co-operation is based on a combination of the partners' existing products: Nordnet's (formerly TeleTrade's) real-time application WinTrade, and the Orc System's core technology. The co-operation means that brokerage houses and banks in the Swedish and international retail markets will be offered this technology.

Orc Tradelab Robotic Trading

During the third quarter, Orc Software and Tradelab, a company within the Öhman group, entered into a co-operation agreement concerning automatic trading, and formed Orc Tradelab Robotic Trading AB, a company jointly owned in equal shares. The new company shall further develop software developed by Tradelab. Marketing and sales will be carried out by Orc Software. The software can automatically match orders that customers have electronically placed with brokerage houses and banks. The order is analysed as per decision criteria stipulated by the user, and the order is finalised if these criteria are fulfilled. By using this system, a trader can handle a considerably larger order flow compared with manual handling. In order to obtain access to the software, the customer pays a licence fee to Orc Tradelab. Orc Software and Tradelab have invested SEK 1 million each in the new company.

Revenue¹

Full year

The Group's revenue increased in 2001 by 60 percent to SEK 210 (131) million, of which systems revenue represented 93 (95) percent. The remaining part consisted mainly of hardware sales and consultancy revenue.

Of the increase in systems revenue in 2001, calculated as the change in the twelve-month value of existing contracts excluding foreign exchange effects, sales to new customers represented 49 percent and new orders from customers that existed at the beginning of the year, 51 percent.

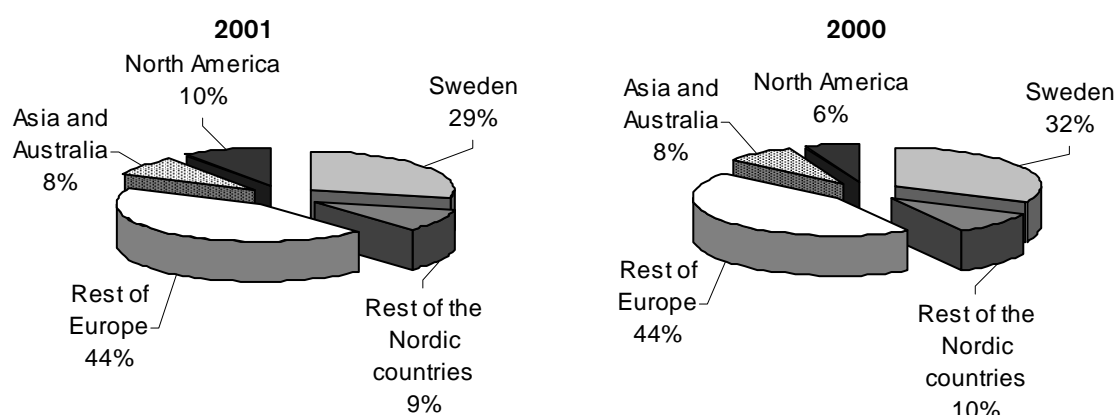
Internet-related sales amounted to SEK 11 (5) million for the year, which meant a marginal increase compared to last year since the revenue for 2000 was mainly attributed to the second half of that year and thereby did not have full effect in 2000.

Other operating income increased by 76 percent from SEK 6.8 million to SEK 12.0 million as a result of the increased sales of services of the subsidiaries and certain development projects. Hardware sales were basically unchanged compared with the previous year.

The majority of Orc Software's customers are located in Europe. During 2001, sales to customers outside Sweden represented approximately 71 (68) percent of total sales. Orc Software obtained customers during 2001 in yet one more country, South Korea, and at the end of the year the Company had customers in a total of 18 (17) countries.

The fastest growing markets are North America with +186 percent, Europe excluding the Nordic Region, +59 percent and the Nordic Region excluding Sweden, +46 percent. Asia/Australia and Sweden grew by 45 percent each. Of the year's actual increase in sales of SEK 77 million, Europe excluding the Nordic Region accounted for SEK 34 million, Sweden SEK 19 million and North America SEK 13 million.

Revenue per Geographic Market



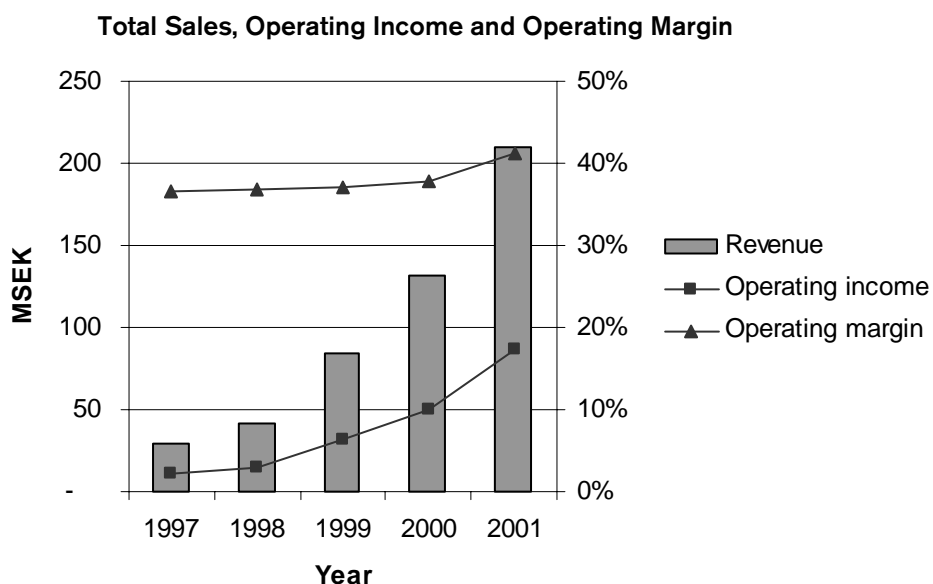
¹ Revenue and operating margin for the quarters and the full year 2001 are reported after taking into account an increase in revenue that arose in the amount of SEK 1.7 million subsequent to the capitalization of development expenses, in accordance with the Swedish Financial Accounting Standards Council's recommendation no. 15 (RR15).

Revenue per Geographic Market

SEK million	2001	2000	Q4 2001
Sweden	61	42	16
Rest of Nordic Region	19	13	6
Rest of Europe	92	58	25
Asia and Australia	16	11	7
North America	20	7	4
Work performed by the company for its own use and capitalized	2	-	1
Total	210	131	59

The number of client sites at December 31, 2001 was 145 (122), of which 13 (13) use iOrc technology. Average income per client site² during 2001 was SEK 1.5 (1.1) million.

The Group's largest customers include, in no particular order of priority, Citibank, JP Morgan and Merrill Lynch. At the end of 2001, the Group's five largest customers represented a total of 22 percent of sales. No individual customer represented more than 5 percent of sales.



Fourth Quarter

Sales during the fourth quarter 2001 amounted to SEK 59 million, representing an increase of 44 percent compared with the same quarter 2000, and of 7 percent compared with the third quarter 2001.

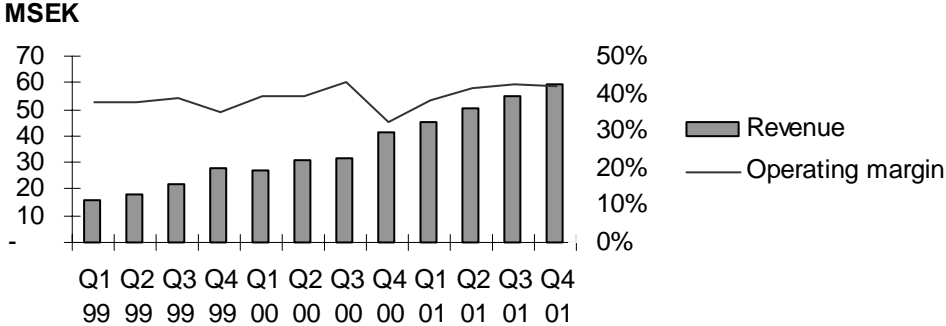
At the end of November, members of the Bourse de Montreal started to trade electronically via the Orc System. This implies that licence invoicing for the large order from a consortium of Canada's leading financial institutions started in December. The order also contributed to an increase in other operating income during the fourth quarter in the form of training and installations carried out in conjunction with the start of electronic trading on the Bourse de Montreal.

² Calculated as total systems revenue divided by the average number of client sites during the period.

All global investment banks maintained or increased their use of the Orc System during the fourth quarter, in spite of the uncertain economic climate.

Orc ExNet's sales started during the fourth quarter, and contributed marginally to the increase in systems revenue compared with the third quarter.

Quarterly Revenue and Operating Margin



Earnings³

Full Year

The operating income increased in 2001 by 72 percent to SEK 86 (50) million, representing an operating margin of 41.1 (37.8) percent. This is the highest operating margin in Orc Software's history, and implies that the operating margin showed an increasing trend during the period 1997-2001, despite the fact that the 1998 and 1999 operating margins are not fully comparable as income and costs related to the distribution operations taken over in 1999 were previously invoiced as a net item, and reported in such way in Orc Software's income statement.

The increasing margin is a consequence of that Orc Software, as supplier of standardised software, has low production and distribution costs for each additional licence sold. Orc Software's business model implies that customers sign a twelve-month contract or longer, and pay in advance. This contributes not only to positive financial effects such as low capital commitment and strong cash flow, but also to long-term customer relationships.

The increasing profitability and the subsequently strengthened financial position have enabled Orc Software to establish very stable foundations for continued growth.

Fourth Quarter

The operating income for the fourth quarter 2001 amounted to SEK 25 (13) million, representing an increase of 92 percent compared with the same quarter 2000, as well as an increase of 5 percent compared with the third quarter 2001.

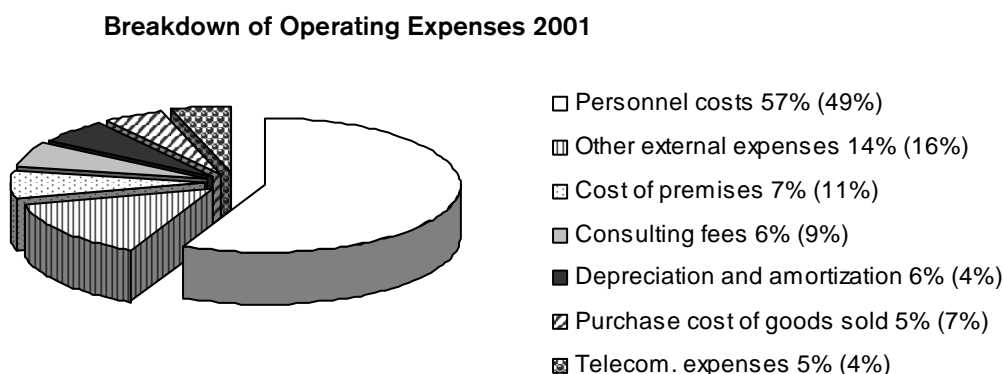
The operating margin for the fourth quarter amounted to 41.7 (32.0) percent, compared with 42.7 percent during the third quarter 2001. The slightly lower operating margin for the fourth quarter in relation to the third quarter was essentially due to costs related to the Canadian order, as well as the new offices in Zurich and Hong Kong.

³ Revenue and operating margin for the quarters and the full year 2001 are reported after taking into account an increase in revenue that arose in the amount of SEK 1.7 million subsequent to the capitalization of development expenses, in accordance with the Swedish Financial Accounting Standards Council's recommendation no. 15 (RR15).

Operating Expenses⁴

Operating expenses increased in 2001 by SEK 41 million, to SEK 123 (82) million, representing an increase of 50 percent compared to the previous year.

A breakdown of operating expenses for 2001 is presented in the diagram below.



The largest increase in absolute terms is that for personnel costs, which increased by 75 percent to SEK 70 (40) million. This is an effect of both an increase in number of employees, where the average number increased by 40 percent, and a higher cost per employee. The higher cost per employee is due primarily to an increased sales-based commission, as well as a profit-related bonus that became due when the operating income significantly exceeded the Board of Director's target for the year. Another reason for an increase in the average salary was that the number of employees in management position increased, a consequence of the new offices.

Cost of premises was somewhat higher compared with last year. The office in St Petersburg was established at the end of the second quarter and the new establishments in Hong Kong and Zurich took place in the fourth quarter.

Telecommunication expenses increased by 83 percent to SEK 6.6 (3.6) million as a consequence of the increased number of establishments outside Sweden, more employees and an accelerated rate of development concerning new market connections.

Consulting fees decreased somewhat in spite of the increased rate of development, which in turn was a consequence of that increased internal development resources, particularly in Russia, reduced the need of external development resources.

Other external expenses increased by 38 percent to SEK 18 (13) million, which is a natural effect of the growth in operations. The cost of Orc Software's external reporting has also increased further to the stock exchange listing at the end of 2000.

Depreciation and amortization more than doubled to SEK 6.9 (3.2) million, primarily as a consequence of upgrading the server environment in Stockholm, as well as new investments in computers and office equipment, which to a significant extent took place at the end of 2000, thereby having full effect during 2001.

⁴ As a consequence of Orc Software's working methods, where there exists considerable overlapping between sales and development work, Orc Software reports its results in accordance with the principle for an income statement presented by type of cost. An evaluation of the Group's development expenses is also carried out.

The purchase cost of goods sold was basically unchanged in comparison with last year, as a consequence of hardware sales remaining at the same level.

An increase in personnel costs was noted in the fourth quarter from SEK 17.7 million during the third quarter to SEK 20.0 million, primarily as a result of new establishments and increased provisions for sales commissions and profit-related bonus. Cost of premises increased from SEK 2.4 million in the previous quarter to SEK 3.0 million, due to the establishments in Zurich and Hong Kong and a slight increase in rent in Stockholm. The increase of other external expenses from SEK 4.0 million to SEK 4.7 million is amongst other things a result of costs related to the installation of the Orc System in Canada. Consulting fees decreased from SEK 2.2 million in the third quarter to SEK 1.0 million in the fourth quarter.

Development Expenses

Orc Software constantly invests considerable resources in product development of new and existing applications. The main part of development expenses consists of salaries. At the end of the year, 42 people worked with product development in Frankfurt, London, Moscow, St Petersburg and Stockholm. Other product development expenses consist of computer equipment and premises for the product developers, as well as external consultants.

As of January 1, 2002, Orc Software will capitalize the part of the Group's expenses related to development and market connections, as a consequence of a change in accounting principles. If the capitalization of development expenses related to market connections was to be implemented already for 2001, SEK 4.2 million would be stated as fixed assets in the balance sheet as at December 31, 2001.

The development investment in St Petersburg is however of such a kind that Orc Software believes that it is motivated to capitalize these expenses, amounting to SEK 1.7 million and report the expenses as fixed assets in the balance sheet as at December 31, 2001.

The development expenses, including expenses for the development activities in St Petersburg that have been capitalized, increased by approximately SEK 6 million, and represented approximately 21 (28) percent of sales in 2001. An increased use of internal resources, and therefore a decreased use of external consultants, contributed to a decline in the development expenses' share of turnover. The development expenses are expected to represent a significant part of operating expenses in the future.

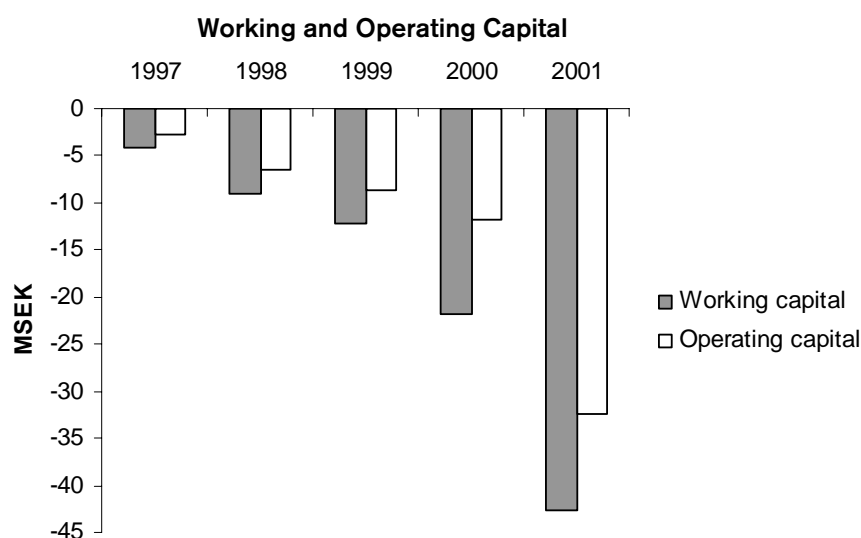
Financial Items

Financial items improved to SEK 7.1 (3.4) million as a result of a considerable increase of liquid funds – in turn due to a positive cash flow from ongoing operations, as well as the cash from the new share issue that was carried out in conjunction with the stock market listing in October 2000. The Group's liquid funds increased during the year from SEK 159 million to SEK 224 million, of which SEK 173 (0) million consisted of short-term investments.

Income after financial items increased by 75 percent to SEK 93 (53) million and the net income by 59 percent to SEK 65 (41) million.

Operating Capital and Working Capital

Orc Software's operating capital amounted to SEK -32 (-12) million at the end of 2001. The background to the negative operating capital was the relatively small amount of fixed assets and the negative working capital commitment as a result of working capital liabilities being greater than working capital assets. The working capital decreased by SEK 21 million to SEK -43 (-22) million. The principal reason behind the negative working capital commitment is the large item of Accrued expenses and prepaid income that consists almost exclusively of licence fees, which are invoiced quarterly in advance.



Asset Turnover Ratio

Total assets increased by 42 percent and amounted at year-end to SEK 293 (206) million. The asset turnover ratio amounted to 1.2 (1.3), a decrease that is explained by the high growth in capital employed, which in turn essentially pertains to the increase in shareholders' equity in conjunction with the new share issue.

Equity/Assets Ratio and Return on Capital Employed

The equity/assets ratio amounted at year-end to 65 (72) percent, a change that follows the increase of non-interest bearing liabilities. Return on capital employed increased to 55 (52) percent, and return on equity decreased to 38 (40) percent. The fact that the return on capital employed increased, and the return on equity decreased is a consequence of the higher tax burden in 2001.

Cash Flow and Investments

The Group's cash flow before changes in working capital and investments amounted to SEK 78 (46) million.

The Group's investments amounted during the year to SEK 14 (12) million, and included computer and office equipment amounting to SEK 9.4 million, of which 0.7 concerned units leased out to customers. Intangible assets amounted at year-end to SEK 5.8 (0) million in the form of the capitalization of development expenses related to the development investment in St Petersburg, as well as intangible assets related to Orc ExNet.

Financial fixed assets consisted of the 50 percent holding in Orc Tradelab, as well as a holding in Orc Education, of which Orc Software owns 35 percent.

The changes in working capital amounted to SEK -21 million.

The Group's cash flow after investments increased to SEK 85 (44) million.

The dividend for 2000 amounted to SEK 21 (16) million. The Group did not have any interest-bearing liabilities during the year, and liquid funds increased by SEK 65 million from SEK 159 to 224 million.

The strong cash flow and the relatively small investments implied that the ratio between cash flow, before financial items and tax, and the operating income before depreciation and amortization, amounted to 1.1 (1.0) in 2001. The increase is partially due to improved cash management procedures.

Other Financial Information

Financial Risk Management

Foreign Currency Risks

i) Transaction Exposure

The majority of Orc Software's invoicing to customers in the Nordic Region takes place in Swedish kronor. Customers outside the Nordic Region are invoiced primarily in US dollars, although invoicing is also done in euro, Danish kronor as well as Canadian and Australian dollars. The Group has a significant exposure in US dollar and euro, where revenue significantly exceeds expenses, as well as in British pounds where expenses exceed revenue due to invoicing to customers in the UK being primarily denominated in US dollars.

The Group's exposed net inflow amounted in 2001 to approximately SEK 87 million, the detail of which is set out in the table below.

Inflow 2001	SEK millions
USD	61
EUR	15
DKK	6
AUD	4
CAD	1
Total	87
Outflow 2001	
GBP	13
CHF	1
Total	14

The effect of exchange rate fluctuations variations in foreign currencies, calculated as a change of the respective average exchange rates between 2000 and 2001, amounted to SEK 7.9 million, and was primarily due to the weakened Swedish kronor, which at year-end had a rate of SEK 10.67 against the US dollar and SEK 9.58 against the euro. Foreign exchange hedging resulted in an effect on operating level of SEK -2.5 million.

Significant net exposure in each respective currency is hedged for the coming three to twelve months, in accordance with the Group's policy, with a certain possibility of deviation in special cases. As at December 31, 2001, future flows equivalent to SEK 171 (38) million had been hedged, consisting entirely of USD 16 (4) million hedged against the Swedish kronor with an average remaining period of 7.4 (5.8) months, and at an average exchange rate of 10.51 (9.64)⁵. These foreign exchange hedges represent approximately 18 months of future net flows.

At financial year-end, non-realised foreign exchange losses on existing forward contracts amounted to SEK 1.9 million, valued at the SEK/USD exchange rate of 10.67.

ii) Balance Sheet Exposure

It is Orc Software's policy to hedge significant exposure in foreign currencies. At year-end, Orc Software did not have any significant balance sheet exposure in foreign currencies.

Liquidity Management

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

The Group's short-term investments, which at year-end amounted to a nominal value of SEK 175 million, consisted of Swedish commercial papers with "K1" credit ratings.

Credit Risks

In general, Orc Software's customers, who among others consist of investment banks, banks and brokerage houses, represent a capital-strong segment with a subsequently low risk for credit losses. Orc Software works actively to inform its customers of the importance of paying on time, which together with that customers pay in advance, for quarterly periods or longer, has led to the Group's credit losses being negligible.

No credit losses occurred in 2001.

Sensitivity Analysis

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

Factor	Change	Effect on Operating
		Income for Full Year, SEK millions
Licence price	+/- 5%	+/- 9.8
Salary costs	+/- 5%	-/+ 3.2
Development expenses	+/- 5%	-/+ 2.2
SEK/USD	+/- 5%	+/- 4.8 ⁶
SEK/GBP	+/- 5%	-/+ 0,7 ⁶
SEK/EUR	+/- 5%	+/- 0,8 ⁶

⁵ Out of which USD 4 million are hedged with options, which enable a sale at SEK/USD rates up to approximately 11.10 with a floor of 10.50, which is the rate at which this calculation is based.

⁶ Without taking into consideration existing hedging contracts.

Taxes

The tax rate for 2001 amounted to 30 (23) percent. The lower tax rate last year was a result of the utilization of a reserve. The higher tax rate in 2001 is partially due to an increased share of taxable profits in countries with a higher tax rate.

Employees

At the end of 2001, Orc Software employed 107 (84) people, representing an increase of 27 percent. The average number of employees was 94 (67). The increase in number of employees is primarily due to the newly opened office in St Petersburg and the offices in Stockholm and London. Otherwise, only small changes have taken place at each respective office. The increase has essentially taken place within product development, which increased by 40 percent, and within sales and support, which increased by 24 percent. At year-end, the number of women was 19 (20) and the number of men 88 (64). The average age of the employees was 30 (31) years.

Employees by Office			Employees by Function		
	2001	2000		2001	2000
Stockholm	46	40	Sales and Support	47	38
Moscow	15	14	Product Development	42	30
London	13	10	Finance and Administration	14	12
St Petersburg	11	-	Group Management	4	4
Milan	6	5	Total	107	84
Sydney	5	5			
Frankfurt	3	3			
Copenhagen	3	3			
New York	3	4			
Hong Kong	1	-			
Zurich	1	-			
Total	107	84			

Incentive scheme

Should Orc Software achieve a consolidated operating income that significantly exceeds the financial targets set by the Board of Directors, a profit-related bonus will be paid in 2002. The incentive scheme was drawn up by the Board of Director's remuneration committee, which consists of representatives from both management and the Board.

Financial Targets

At the time of the IPO, Orc Software communicated the following targets for 2000-2002: increased revenue in line with the average growth that the Group achieved during the period 1995-1999, representing annual growth of more than 50 percent, and an operating margin of at least 30 percent. These targets were achieved in 2000 and 2001. The Group also achieved the forecast of a higher operating margin for 2001, which was communicated during the last quarter of the year.

At the beginning of 2002, the Board of Directors extended the target of annual growth of more than 50 percent and an operating margin of at least 30 percent to also cover the

period 2002-2004. Moreover, the Board of Directors estimates that the operating margin for 2002 will exceed the target.

Dividend Policy

It is the intention of The Board of Directors for the Company to continue to pay a dividend of approximately 50 percent of net income after tax to the shareholders, provided that a healthy capital structure be maintained.

Shareholders

The number of shareholders of Orc Software amounted at December 31, 2001 to 1 144 (2 110). During 2001, Orc Software's principal shareholders – OM, Ulrika Hagdahl, Nils Nilsson and D. Carnegie – reduced their holdings in Orc Software by a total of 1 980 700 shares, representing 13 percent of the Company's share capital.

Orc Software's ten largest known shareholders	No. of Shares	% of Shares
OM	4 988 075	33,6
Ulrika Hagdahl*	1 337 000	9,0
Nils Nilsson*	1 331 000	9,0
D. Carnegie	894 825	6,0
Tredje AP-Fonden	424 300	2,9
Fidelity Funds	303 600	2,0
Carnegie Funds	298 040	2,0
Goldman Sachs International	292 400	2,0
Roburs Small Cap Fund Sweden	252 500	1,7
Ronny Wester	200 252	1,3
Other Shareholders	4 528 008	30,5
Total	14 850 000	100,0

Source: VPC AB, direct and nominee shareholders December 28, 2001.

*Ulrika Hagdahl and Nils Nilsson own 2 582 000 shares in Orc Software through Cancale Förvaltnings AB, a company jointly owned in equal shares by the two parties.

Dividends

The Board of Directors has resolved to recommend a dividend of SEK 2.20 (1.40) per share for 2001, representing a total of SEK 33 (21) million and 50 (51) percent of net income. The proposed record day for dividends is Friday, April 19, 2002. If the Annual General Meeting votes in favor of the proposal, the dividends are expected to be paid through VPC AB on Wednesday, April 24, 2002.

The Parent Company

The parent company's revenue increased by 39 percent to SEK 163 (117) million. Income after financial items increased to SEK 89 (51) million. Liquid funds amounted at year-end to SEK 212 (156) million, of which SEK 173 (0) million consisted of short-term investments.

Accounting Principles

Orc Software's accounting principles follow the recommendations of the Swedish Financial Accounting Standards Council. This implies that the same accounting principles and evaluation methods have been used as those used in the previous annual report, with the exception of the development expenses in St Petersburg that started to be incurred during

the second quarter 2001. These expenses are of such a nature that Orc Software considers it to be motivated to capitalize these expenses 2001.

Orc Software will from January 1, 2002 capitalize the development expenses in market connections, and depreciate them over three years, in accordance with the Swedish Financial Accounting Standards Council's recommendation no. 15 (RR15) relating to the capitalization of development expenses, which came into effect on January 1, 2002. This new principle will be applied for the first time in the Company's interim report for January-March 2002.

Income Statement

SEK thousands	2001	2000	Oct-Dec 2001	Oct-Dec 2000
Operating revenue				
Systems revenue	196 037	124 581	53 620	38 684
Work performed by the company for its own use and capitalized	1 700	-	658	-
Other operating income	11 980	6 768	4 854	2 660
Total revenue	209 717	131 349	59 132	41 344
Operating expenses				
Purchase cost of goods sold	-5 729	-5 682	-1 683	-1 365
External expenses				
Cost of premises	-9 366	-9 024	-3 006	-2 513
Telecommunication expenses	-6 620	-3 646	-1 939	-1 954
Consulting fees	-7 162	-7 312	-1 001	-3 103
Other external expenses	-17 746	-12 831	-4 694	-5 588
Personnel costs	-69 936	-39 963	-19 995	-12 927
Depreciation and amortization	-6 900	-3 193	-2 129	-675
Total expenses	-123 459	-81 651	-34 447	-28 125
Operating income	86 258	49 698	24 685	13 219
Financial items				
Profit/loss from participation in associated companies	-133	-	-133	-
Financial income	7273	3 527	2561	1 728
Financial expenses	-58	-78	-18	-64
Financial items	7 082	3 449	2 410	1 664
Income after financial items	93 340	53 147	27 095	14 883
Tax on net income for the period	-28 400	-12 449	-10 571	-1 303
Minority interest's part of the income for the period	123	-	123	-
Net income for the year	65 063	40 698	16 647	13 580
Earnings per share, SEK	4.38	2.83	1.12	0.92
Number of shares, end of period, thousands	14 850	14 850	14 850	14 850
Average number of shares, thousands	14 850	14 373	14 850	14 733

Balance Sheet

SEK thousands	Dec 31, 2001	Dec 31, 2000
ASSETS		
Fixed assets		
Intangible assets		
Capitalized development expenditure	1 700	-
Goodwill	478	-
Other intangible fixed assets ⁷	3 648	-
Tangible assets		
Equipment	16 478	14 334
Financial assets		
Shares in associated companies	902	2 710
Total fixed assets	23 206	17 044
Current assets		
Current receivables		
Accounts receivable	38 938	24 841
Other receivables	3 776	3 912
Prepaid expenses and accrued income	2 864	1 066
Short-term investments	172 984	-
Cash and bank balances	51 305	159 116
Total current assets	269 867	188 935
TOTAL ASSETS	293 073	205 979
EQUITY AND LIABILITIES		
Equity		
Restricted equity		
Share capital	1 485	1 485
Restricted reserves	119 615	105 237
Non-restricted equity		
Non-restricted reserves	5 644	-111
Net income for the year	65 063	40 698
Total equity	191 807	147 309
Minority interest	625	-
Provisions		
Deferred tax liability	12 415	6 922
Total provisions	12 415	6 922
Current liabilities		
Accounts payable	3 051	4 488
Tax liabilities	14 232	6 283
Other liabilities	7 109	6 281
Accrued expenses and prepaid income	63 834	34 696
Total current liabilities	88 226	51 748
TOTAL EQUITY AND LIABILITIES	293 073	205 979
Pledged assets	None	None
Contingent liabilities	None	None

⁷ This item pertains to Orc ExNet.

Specification of the Group's goodwill

The goodwill that arose in conjunction with the forming of Orc ExNet amounted at year-end to SEK 478 000. Orc Software is amortizing this intangible asset over a period of 60 months, and the amortization charge is reported as a financial expense under the heading Financial items.

SEK Thousands	
Acquisition value less accumulated amortization at the beginning of the period	0
Goodwill arisen during the period	486
Amortization for the period	-8
Acquisition value less accumulated amortization at the end of the period	478

Specification of Equity

2001	Share Capital	Restricted Reserves	Non-restricted Equity	Total
Opening balance January 1, 2001	1 485	105 237	40 587	147 309
Dividend for 2000	-	-	-20 790	-20 790
Translation difference	-	-	285	285
Transfer to statutory reserve in accordance with distribution of earnings	-	20	-20	-
Movement between restricted and unrestricted equity	-	14 418	-14 418	-
Other adjustments	-	-60	-	-60
Net income for the year	-	-	65 063	65 063
Closing balance Dec. 31, 2001	1 485	119 615	70 707	191 807

2000	Share Capital	Restricted Reserves	Non-restricted Equity	Total
Opening balance January 1, 2000	1 425	34 589	21 291	57 305
Dividend for 1999	-	-	-15 675	-15 675
New share issue	60	64 922	-	64 982
Translation difference	-	-	65	65
Sale of subsidiary	-	-	-66	-66
Movement between restricted and unrestricted equity	-	5 726	-5 726	-
Net income for the year	-	-	40 698	40 698
Closing balance Dec. 31, 2000	1 485	105 237	40 587	147 309

Oct-Dec 2001	Share Capital	Restricted Reserves	Non-restricted Equity	Total
Opening balance October 1, 2001	1 485	105 257	68 613	175 355
Translation difference	-	-	-135	-135
Movement between restricted and unrestricted equity	-	14 418	-14 418	-
Other adjustments	-	-60	-	-60
Net income for the period	-	-	16 647	16 647
Closing balance Dec. 31, 2001	1 485	119 615	70 707	191 807

Oct-Dec 2000	Share Capital	Restricted Reserves	Non-restricted Equity	Total
Opening balance October 1, 2000	1 425	34 589	32 731	68 745
New share issue	60	64 922	-	64 982
Translation difference	-	-	2	2
Movement between restricted and unrestricted equity	-	5 726	-5 726	-
Net income for the period	-	-	13 580	13 580
Closing balance Dec. 31, 2000	1 485	105 237	40 587	147 309

Cash Flow Statement

SEK thousands	2001	2000
Operating activities		
Operating income	86 258	49 698
Adjustment for items not included in cash flow	1 358	26
Depreciation and amortization	6 900	3 193
Financial items	6 784	3 317
Income tax paid	-22 884	-10 217
Cash flow from operating activities before changes in working capital	78 416	46 017
Changes in working capital		
Changes in operating receivables	-15 786	-21 897
Changes in operating liabilities	36 477	31 729
Total change in working capital	20 691	9 832
Cash flow from operating activities	99 107	55 849
Investment activities		
Investments in intangible fixed assets	-1 664	-
Investments in tangible fixed assets	-9 363	-9 224
Investments in financial fixed assets	-3 594	-2 710
Sale of tangible fixed assets	520	-
Purchase/sale of shares and participations	-	7
Cash flow from investment activities	-14 101	-11 927
Financing activities		
Dividends	-20 790	-15 675
New share issue	-	64 982
Cash flow from financing activities	-20 790	49 307
Change in liquid funds	64 216	93 229
Opening liquid funds	159 116	65 887
Exchange differences in liquid funds	957	-
Closing liquid funds	224 289	159 116

Key Ratios

	2001	2000	Oct-Dec 2001	Oct-Dec 2000
Operating margin, %	41.1	37.8	41.7	32.0
Return on equity, %	38	40	36	51
Return on capital employed, %	55	52	59	56
Asset turnover ratio	1.2	1.3	1.3	1.5
Equity/assets ratio, %	65	72	65	72
Average number of employees	94	67	104	82
Earnings per share, SEK	4.38	2.83	1.12	0.92
Equity per share, SEK	12.92	9.92	12.92	9.92
Number of shares at end of period, thousands	14 850	14 850	14 850	14 850

Quarterly Figures⁸

Income Statement

SEK thousands	Q1 2000	Q2 2000	Q3 2000	Q4 2000	Q1 2001	Q2 2001	Q3 2001	Q4 2001
Operating revenue								
Systems revenue	26 625	30 025	29 247	38 684	42 161	49 156	51 100	53 620
Work performed by the comp. for own use and capitalized	-	-	-	-	-	404	639	658
Other operating income	818	923	2 367	2 660	2 993	577	3 556	4 854
Total revenue	27 443	30 948	31 614	41 344	45 154	50 137	55 295	59 132
Operating expenses								
External expenses	-8 898	-10 033	-5 041	-14 523	-11 211	-10 863	-12 225	-12 323
Personnel costs	-7 054	-7 955	-12 027	-12 927	-15 373	-16 895	-17 674	-19 995
Depreciation and amortization	-745	-840	-933	-675	-1 400	-1 572	-1 799	-2 129
Total expenses	-16 697	-18 828	-18 001	-28 125	-27 984	-29 330	-31 698	-34 447
Operating income	10 746	12 120	13 613	13 219	17 170	20 807	23 596	24 685
Net financial items	563	635	587	1 664	1 283	1 457	1 931	2 410
Tax on income for the period	-3 198	-3 606	-4 342	-1 303	-4 673	-6 497	-6 659	-10 571
Minority interest's part of the income for the period	-	-	-	-	-	-	-	123
Net income for the period	8 111	9 149	9 858	13 580	13 780	15 767	18 869	16 647

Balance Sheet

SEK thousands	June 2000	Sept 2000	Dec 2000	Mar 2001	June 2001	Sept 2001	Dec 2001
Fixed assets	8 989	10 606	17 044	17 201	18 071	21 612	23 206
Current assets							
Accounts receivable	32 592	30 573	24 841	51 181	28 268	27 107	38 938
Other receivables	3 491	5 101	4 978	6 747	7 150	6 879	6 640
Cash and bank balances and short-term investments	57 898	69 066	159 116	150 224	182 183	206 941	224 289
Total current assets	93 981	104 740	188 935	208 152	217 601	240 927	269 867
TOTAL ASSETS	102 970	115 346	205 979	225 353	235 672	262 539	293 073
Equity	58 816	67 622	147 309	140 284	156 231	175 355	191 807
Minority interest	-	-	-	-	-	-	625
Provisions for deferred tax liability	4 690	4 692	6 922	6 922	6 922	6 922	12 415
Total current liabilities	39 464	43 032	51 748	78 147	72 519	80 262	88 226
TOTAL EQUITY AND LIABILITIES	102 970	115 346	205 979	225 353	235 672	262 539	293 073

⁸ The distribution of income and costs between the first and second quarters of 2000 is calculated based on a standardized method. This is due to the OM Group having administered some of the invoicing 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. Revenue and operating margin for the quarters and the full year 2001 are reported after taking into account an increase in revenue that arose in the amount of SEK 1.7 million subsequent to the capitalization of development expenses, in accordance with the Swedish Financial Accounting Standards Council's recommendation no. 15 (RR15). This implies that the amounts concerned in the second and third quarters 2001 have been restated in accordance with this accounting principle.

Forthcoming Financial Events 2002

March	Annual Report 2001
April 11	Interim Report for the first quarter
April 16	Annual General Meeting
July 11	Interim Report for the second quarter
October 10	Interim Report for the third quarter

The full annual report will be available at Orc Software's Swedish office in the beginning of March 2002. It will also be distributed to the shareholders.

Annual General Meeting

The Annual General Meeting will be held on April 16, 2002 at 3 p.m. in the conference hall at Armémuseum, Riddargatan 13, Stockholm, Sweden.

Stockholm, January 23, 2002

The Board of Directors

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Orc Software develops and markets standardized and turnkey software systems for pricing, trading and risk management in real time in international financial, commodities and energy markets. The company is a leading international software vendor with clients in 18 countries. The Orc Software share is listed on Stockholmsbörsen's O-list.

Definitions of ratios

Operating margin

Operating income as a percentage of revenue.

Return on capital employed

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

Return on equity

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

Equity/assets ratio

Shareholders' equity as a percentage of total assets.

Capital employed

Total assets less non-interest bearing liabilities, including deferred tax liability in untaxed reserves.

Shareholders' equity

Shareholders' equity at the end of the period.

Operating capital

Total assets less non-interest bearing liabilities, including deferred tax liability in untaxed reserves, as well as cash and bank balances and current investments.

Working Capital

Operating assets less operating liabilities.

Asset turnover ratio

Revenue divided by average capital employed.

Investments in fixed assets

Investments in fixed assets, after disposals.

Average number of employees

Average number of employees for the period, based on head-count 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.