



## Orc Software AB – Interim Report January 1 – March 31, 2001

- Revenue for January-March 2001 increased by 67 percent to reach SEK 45 (27) million.
- The operating income increased by 55 percent to reach SEK 17 (11) million, making an operating margin of 38 percent.
- Strong sales at the end of last year result in increased license revenue in 2001
- A strong start to 2001 with an increased demand in Europe. The development of the US operation continues, which has resulted in an increased demand in this market as well.
- Orc Software meets an increased demand from customers active in bond trading, primarily in the Nordic market.
- Earnings per share amounted to SEK 0.93 (0.57)

### **Markets**

Despite a turbulent stock market of reduced turnover and falling prices, the demand for Orc Software's products has increased. This is due to a combination of the fact that the market participants have emphasized risk management in difficult market conditions and that the focus on the importance of the core systems has increased. Extended opening hours at exchanges around the world is strengthening this trend.

During the first quarter of 2001, the Swedish bond market took the first steps towards a transition to electronic trading when the PMI system for price information was replaced by the Stockholmsbörsen's Saxess system. Demand for Orc technology for trading in interest-bearing instruments has been significant and is indicating an increasing trend.

*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 17 countries.*

## Significant events during the period

### Exchange connections

As of March 31, 2001, the Orc-system was connected to 33 exchanges. During the period connections were established with the following exchanges:

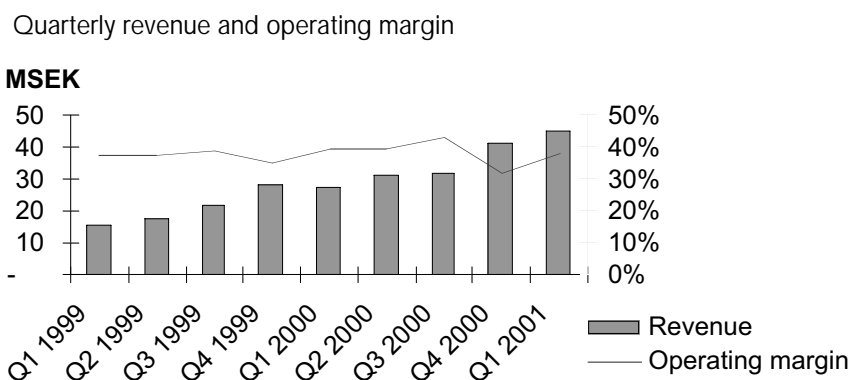
- Montreal Stock Exchange
- MONEP/Matif
- Stockholmsbörsen (bonds)

## Revenue

The Group's revenue for January-March 2001 increased by 67 percent to reach SEK 45 (27) million. Revenue increased by 9 percent compared to the previous quarter. System sales accounted for some 93 (97) percent of the revenue. The remaining portion consisted primarily of hardware revenue and consulting fees.<sup>1</sup>

Orc Software is meeting an increased demand primarily from the Italian, British and North American stock and derivatives markets. With regards to trading in new asset classes, there has been a particular increase in demand from customers who are active within bond trading in the Nordic countries.

The increasing number of users among existing customers during a period when the market for stocks and derivatives was under pressure emphasizes how important the Orc system is for most of the Company's customers. In addition, the economic slow-down is counteracted by a consistent concentration on new geographic areas and on trade with new asset classes, for example, bonds.

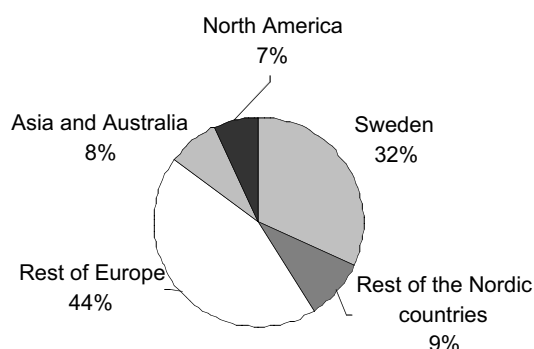


Total Internet-related revenue during the period amounted to SEK 2.2 million. Orc Software is meeting a continued high demand for Internet-related products from customers with a focus on institutional investors, which is counteracting a fall in new sales to Internet brokers.

During the period sales to customers outside Sweden amounted to some 68 percent of the total sales. At the end of the period, Orc Software had customers in 17 countries.

<sup>1</sup> Other operating income previously included leasing income. This is now reported under system sales. This change is the result of the fact that leasing sales to an increasingly degree are being integrated with system sales.

## Revenue by geographic market January-March 2001



As of March 31, 2001, the number of client sites was 127, of which 13 use iOrc technology compared to 122 and 13 respectively at the beginning of the year. The average income per client site<sup>2</sup> amounted to some SEK 1.4 million.

## Earnings

The operating income increased during the period by 55 percent to reach SEK 17 (11) million, which is equivalent to an operating margin of 38 (39) percent.

The effect of exchange rate fluctuation on income, calculated as the difference between the relevant average exchange rates for the first quarter in 2000 and the first quarter in 2001, amounted to SEK 1 million, primarily as a result of the very strong US dollar, which was SEK 10.41 at the end of the period. The effect of hedges that were made affected the operating income in the amount of SEK -2.3 million.

As of March 31, 2001, future flows equivalent to SEK 70 million had been hedged, making a total of USD 7 million sold against SEK with an average remaining term of approximately 7 months and at an average forward rate of SEK 9.96.

## Operating expenses

The operating expenses during this period amounted to SEK 28 (17) million, which is the same as the previous quarter. Personnel costs increased from SEK 13 to 15 million from the previous quarter, which can be explained by the increased number of employees and the higher cost per employee. The higher cost is linked, among other things, to the increased number of employees in areas where salary levels are high, for example, New York.

Consulting costs have fallen from SEK 3 to 2 million compared with the previous quarter, which is in line with the Company's strategy to increase the internal development resources in order to reduce the need for external consultants.

Other external costs have also been reduced from SEK 6 to 3 million compared to the previous quarter, partly as a result of a number of items of a non-recurring nature during the previous period.

---

<sup>2</sup> Calculated as total system sales divided by the average number of client sites during the period and expressed as a twelve-month figure.

## **Equity/assets ratio and profitability**

The equity/assets ratio at the end of the period amounted to 62 percent compared to 72 percent at the end of last year. The lower equity/assets ratio is a result of the fact that the dividend that was approved but not paid out was entered as a liability. The return on capital employed fell from 52 percent for 2000 to 51 percent for the period and the return on shareholders' equity fell from 40 to 38 percent. The slightly lower return is a result of an increase in the average amount of the shareholders' equity.

## **Cash flow and investments**

The consolidated cash flow before changes in working capital and investments from January to March 2001 amounted to SEK 15 million. The operating capital amounted to SEK -10 million (-12 at the beginning of the year) as a result of an increase in the Group's accounts receivable, which in turn is linked to the billing date in relation to the report date.

The Group's investments during the period amounted to SEK 2 million, and relate to the purchase of equipment.

The Group's cash flow after investments amounted to SEK -9 million. The dividend for 2000 that was approved by the Annual General Meeting was SEK 1.40 (1.10) per share, which is equivalent to SEK 21 (16) million. This will be disbursed in April 2001.

During this period, the Company had no interest-bearing liabilities and the liquid funds as of March 31, 2001 amounted to SEK 150 million, of which SEK 120 million consisted of short term loans to OM Treasury AB at market terms.

The ratio between cash flow before financial items and taxes and the operating income before depreciation during the period amounted to -0.3 as a result of an increased working capital.

## **Tax situation**

During the period the tax rate was 25 (28) percent. Tax costs are calculated according to the estimated tax for the parent company and each subsidiary.

## **Personnel**

At the end of March 2001 Orc Software had 87 (51) employees. The average number of employees during the period January-March 2001 was 86 (52). At the end of March 2001 18 (15) of the employees were women and 69 (36) were men.

Orc Software employees will be given the opportunity to acquire call options issued by D. Carnegie AB, on behalf of principal shareholders in Orc Software, on existing Orc Software shares. Similar to last year's scheme, this options scheme will not result in any dilution and will not affect Orc Software's earnings. A maximum of 250,000 options will be issued and offered to Orc Software employees. The options will have a strike price that is 25 percent over the volume weighted average price of Orc shares during the period from April 23 to May 7, 2001 and the maturity date will be March 1, 2004.

## **Financial objectives**

The Board's three-year target and the goal for 2001 remain unchanged.

The Board's objective for the period 2000-2002 is that Orc Software will increase its revenue in line with the average growth achieved by the Group during the period 1995-1999, equivalent to a growth of slightly more than 50 percent.

The Board of Directors is aiming for an operating margin during the period 2000-2002 of at least 30 percent.

The Board of Directors' goal for 2001 is that Orc Software shall have a revenue growth of slightly more than 50 percent and an operating margin of at least 30 percent.

## **The parent company**

The parent company's revenue increased by 50 percent to reach SEK 36 (24) million<sup>3</sup>. The earnings before appropriations and tax increased to reach SEK 16 (11) million.

## **Accounting principles**

The Group's accounting principles are unchanged compared to the previous report.

In order to bring the Company's accounting procedures in line with recommendation no. 15 (RR15) of the Swedish Financial Accounting Standards Council that will go into effect as of January 1, 2002 regarding capitalization of development costs, the Company has decided that as of January 1, 2002, it will capitalize the portion of its costs that pertain to the development of market connections, and it will write these off over a period of three years. This new principle will thus be applied for the first time in the preparation of the interim report for January-March 2002.

---

<sup>3</sup> Since Orc Software took over overseas invoicing from OM Technology in 2000, it 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 cancelled out against income in the parent company's accounts, which means that the periods are not fully comparable.

## Income statement<sup>4</sup>

SEK thousand	Jan.-March 2001	Jan.-March 2000	Jan.-Dec. 2000
<b>Operating revenue</b>			
System sales	42 161	26 625	124 581
Other operating income	2 993	818	6 768
<b>Total revenue</b>	<b>45 154</b>	<b>27 443</b>	<b>131 349</b>
<b>Operating expenses</b>			
Purchase cost of goods sold	-1 839	-1 887	-5 682
External expenses			
Cost of premises	-2 094	-2 158	-9 024
Data- and telecom expenses	-1 892	-454	-3 646
Consulting fees	-1 714	-1 583	-7 312
Other external expenses	-3 672	-2 816	-12 831
Personnel expenses	-15 373	-7 054	-39 963
Depreciation	-1 400	-745	-3 193
<b>Total expenses</b>	<b>-27 984</b>	<b>-16 697</b>	<b>-81 651</b>
<b>Operating income</b>	<b>17 170</b>	<b>10 746</b>	<b>49 698</b>
<b>Financial items</b>			
Financial income	1 298	566	3 527
Financial expenses	-15	-3	-78
<b>Net financial items</b>	<b>1 283</b>	<b>563</b>	<b>3 449</b>
<b>Income after net financial items</b>	<b>18 453</b>	<b>11 309</b>	<b>53 147</b>
Tax on net income for the year	-4 673	-3 198	-12 449
<b>Net income for the year</b>	<b>13 780</b>	<b>8 111</b>	<b>40 698</b>
Earnings per share, SEK	0.93	0.57	2.83
Amount of shares at the end of the period, thousand	14 850	14 250	14 850

<sup>4</sup> 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.

## Balance sheet<sup>5</sup>

SEK thousand	March 31, 2001	Dec. 31, 2000
<b>ASSETS</b>		
<b>Fixed assets</b>		
Tangible assets		
Equipment	14 491	14 334
Financial assets		
Shares in associated companies	2 710	2 710
<b>Total fixed assets</b>	<b>17 201</b>	<b>17 044</b>
<b>Current assets</b>		
Current receivables		
Accounts receivable	51 181	24 841
Other receivables	4 685	3 912
Prepaid expenses and accrued income	2 062	1 066
Cash and bank balances	150 224	159 116
<b>Total current assets</b>	<b>208 152</b>	<b>188 935</b>
<b>TOTAL ASSETS</b>	<b>225 353</b>	<b>205 979</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Restricted shareholders' equity		
Share capital	1 485	1 485
Share premium reserve	87 197	87 197
Restricted reserves	18 040	18 040
Non-restricted shareholders' equity		
Retained earnings	19 797	-176
Translation difference	-15	65
Net income for the year	13 780	40 698
<b>Total shareholders' equity</b>	<b>140 284</b>	<b>147 309</b>
<b>Provisions</b>		
Deferred tax liability	6 922	6 922
<b>Total provisions</b>	<b>6 922</b>	<b>6 922</b>
<b>Current liabilities</b>		
Accounts payable	2 552	4 488
Tax liabilities	5 326	6 283
Approved, unpaid dividend	20 790	-
Other liabilities	5 571	6 281
Accrued expenses and prepaid income	43 908	34 696
<b>Total current liabilities</b>	<b>78 147</b>	<b>51 748</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>225 353</b>	<b>205 979</b>
Pledged assets	None	None
Contingent liabilities	None	None

### Specification of the shareholders' equity

	Share capital	Restricted reserves	Unrestricted shareholders' equity	Total
Opening balance January 1, 2001	1 485	105 237	40 587	147 309
Approved, unpaid dividend			-20 790	-20 790
Translation difference			-15	-15
Net income for the period			13 780	13 780
Closing balance March 31, 2001	1 485	105 237	33 562	140 284

<sup>5</sup> 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.

## Consolidated cash-flow statement<sup>6</sup>

SEK thousand	Jan.-March 2001	2000
<b>Operating activities</b>		
Operating income	17 170	49 698
Adjustment for items not included in cash flow	210	26
Depreciation	1 400	3 193
Financial items	989	3 317
Income tax paid	-4 673	-10 217
<b>Cash flow from operating activities before changes in working capital</b>	<b>15 096</b>	<b>46 017</b>
<b>Changes in working capital</b>		
Changes in operating receivables	-27 962	-21 897
Changes in operating liabilities <sup>7</sup>	5 537	31 729
<b>Total change in working capital</b>	<b>-22 425</b>	<b>9 832</b>
<b>Cash flow from operating activities</b>	<b>-7 329</b>	<b>55 849</b>
<b>Investment activities</b>		
Acquisition of tangible fixed assets	-1 563	-9 224
Acquisition of financial fixed assets	-	-2 710
Sale of shares and participations	-	7
<b>Cash flow from investment activities</b>	<b>-1 563</b>	<b>-11 927</b>
<b>Financing activities</b>		
Dividends	-	-15 675
New share issue	-	64 982
<b>Cash flow from financial activities</b>	<b>-</b>	<b>49 307</b>
Change in liquid funds	-8 892	93 229
Opening liquid funds	159 116	65 887
Closing liquid funds	150 224	159 116

## Key ratios<sup>6</sup>

	Q1 2001	Q1 2000	2000
Operating margin, %	38	39	38
Return on equity, %	38	-	40
Return on capital employed, %	51	-	52
Asset turnover ratio	1.3	-	1.3
Equity/assets ratio, %	62	-	72
Average number of employees	86	52	67
Earnings per share, SEK	0.93	0.57	2.83
Equity per share, SEK	9.45	-	9.92
No. of shares at end of period, thousand	14 850	14 250	14 850

<sup>6</sup> 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.

<sup>7</sup> The item Approved, unpaid dividend is not included in Changes in operating liabilities.

## Quarterly values<sup>8</sup>

### Income statement

SEK thousand	Q1 2000	Q2 2000	Q3 2000	Q4 2000	Q1 2001
<b>Operating revenue</b>					
System sales	26 625	30 025	29 247	38 684	42 161
Other operating income	818	923	2 367	2 660	2 993
<b>Total revenue</b>	<b>27 443</b>	<b>30 948</b>	<b>31 614</b>	<b>41 344</b>	<b>45 154</b>
<b>Operating expenses</b>					
External expenses	-8 898	-10 033	-5 041	-14 523	-11 211
Personnel expenses	-7 054	-7 955	-12 027	-12 927	-15 373
Depreciation	-745	-840	-933	-675	-1 400
<b>Total expenses</b>	<b>-16 697</b>	<b>-18 828</b>	<b>-18 001</b>	<b>-28 125</b>	<b>-27 984</b>
<b>Operating income</b>	<b>10 746</b>	<b>12 120</b>	<b>13 613</b>	<b>13 219</b>	<b>17 170</b>
<b>Net financial items</b>	<b>563</b>	<b>635</b>	<b>587</b>	<b>1 664</b>	<b>1 283</b>
Tax on income for the year	-3 198	-3 606	-4 342	-1 303	-4 673
<b>Net income for the period</b>	<b>8 111</b>	<b>9 149</b>	<b>9 858</b>	<b>13 580</b>	<b>13 780</b>

### Balance sheet

SEK thousand	June 2000	Sept 2000	Dec 2000	Mar 2001
<b>Fixed assets</b>	<b>8 989</b>	<b>10 606</b>	<b>17 044</b>	<b>17 201</b>
<b>Current assets</b>				
Accounts receivable	32 592	30 573	24 841	51 181
Other receivables	3 491	5 101	4 978	6 747
Cash and bank balances	57 898	69 066	159 116	150 224
<b>Total current assets</b>	<b>93 981</b>	<b>104 740</b>	<b>188 935</b>	<b>208 152</b>
<b>TOTAL ASSETS</b>	<b>102 970</b>	<b>115 346</b>	<b>205 979</b>	<b>225 353</b>
Shareholders' equity	58 816	67 622	147 309	140 284
Provisions for deferred tax liability	4 690	4 692	6 922	6 922
Other interest-free liabilities	39 464	43 032	51 748	78 147
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>102 970</b>	<b>115 346</b>	<b>205 979</b>	<b>225 353</b>

<sup>8</sup> 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**

July 11            Interim report for the second quarter of 2001  
October 10       Interim report for the third quarter of 2001  
January 2002     Year-end report for 2001

Stockholm, April 18, 2001

Board of Directors

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

For further information please contact:

Nils Nilsson, CEO, tel.: +46 8 545 122 50

Susanne Nilsson, Investor Relations, tel.: +46 8 545 124 57

[www.orcsoftware.com](http://www.orcsoftware.com)

## **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.

### **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.