



## Orc Software AB – Year-End Financial Report January 1 – December 31, 2002

- Revenue for 2002 increased by 31 percent to SEK 275 (210) million.
- Operating income for 2002 increased by 34 percent to SEK 115 (86) million, giving an operating margin of 41.6 (41.1) percent.
- Revenue for October-December 2002 increased by 20 percent to SEK 71 (59) million with an operating income of SEK 27 (25) million, giving an operating margin of 37.7 (41.7) percent.
- Orc Software believes that the revenue and operating margin for the first quarter of 2003 will be in line with the outcome for the fourth quarter of 2002.
- The Board of Directors recommends a dividend of SEK 3.00 (2.20) per share.
- The Board of Directors has decided to propose, at the Annual General Meeting 2003, that the Board be authorized to make decisions regarding the acquisition and transfer of Orc Software's own shares.
- Earnings per share for 2002 amounted to SEK 5.87 (4.38).

### **Markets**

The world's financial markets were characterized by a very harsh climate during 2002. The stock market declines of 2002 are, with only a few exceptions, the greatest in stock market history. The fourth quarter of 2002 was also characterized by negative performance, although the first half of the quarter offered a few positive signals.

During the year, cost cutting became the driving-force among participants in financial markets. At the same time, planned investments were postponed and demands on revenue-generating and business-critical systems increased. Consequently, the demand for software that automates manual processes increased. In order to meet this demand, Orc Software, during the year, launched a number of new products for automatic order management, specially designed for minimising costs within the brokerage business. Another

*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 19 countries. The Orc Software share is listed on Stockholmsbörsen's O-list.*

aspect distinguishing the market was a greater demand for cost efficient- and standardized solutions instead of custom made development projects.

During 2002 trading volumes on a large number of the world's derivative exchanges reached record highs due to the increasing volatility on the financial markets. In many cases stock market declines and heavy movements have created a profitable environment for market makers and proprietary traders. Orc Software has the strongest market position within these client groups and several of the new clients belong to this client category.

During the year electronic trading increased on exchanges worldwide. On the whole more exchanges are switching to electronic trading and in October electronic trading was more intensive than traditional floor trading for the first time on the CME and CBOT exchanges in Chicago. In November the long-awaited single stock futures trading was launched in the US. These instruments are traded only electronically, which should lead to further demand in the US for trading systems similar to those offered by Orc Software.

Although the general picture of the world's financial markets is negative, market performance differs among the various regions. Despite the difficult times, some markets are successfully maintaining decent trading volumes. Orc Software's global coverage makes it possible to direct resources to those markets that currently have the greatest potential. This possibility is further enforced by the alliance between Orc Software and Reuters.

### **Forecast for the first quarter 2003**

Orc Software believes that the revenue and operating margin for the first quarter of 2003 will be in line with the outcome for the fourth quarter of 2002.

### **Significant events in 2002**

#### **International expansion**

Orc Software continued its geographical expansion in 2002. In conjunction with the Montreal Stock Exchange converting to electronic trading, Orc Software acquired several new clients in Canada and opened offices in Montreal and Toronto in the beginning of 2002. From the fourth quarter the entire Canadian business is managed from the Toronto office.

Orc Software acquired its first Austrian client during the second quarter and opened an office in Vienna. Since then other major Austrian clients have signed contracts with Orc Software. The Japanese market is in a restructuring phase and in order to establish local presence Orc Software opened an office in Tokyo during the third quarter.

As of January 1, 2003, the Nordic market is covered entirely by the Stockholm office. Consequently the office in Copenhagen has been closed and the Stockholm office now supports the Danish as well as the Finnish and Norwegian clients.

The previously planned establishment in Seoul, South Korea, has been postponed until the first half of 2003. The business is planned to run in conjunction with the Tokyo office.

Currently Orc Software has 13 offices in 12 countries.

### **New clients**

Sales during the year were characterized by a continued broad international expansion on all continents, which resulted in new clients in 13 different countries. Particularly the number of clients increased during the second half of 2002, a result of investments in sales and distribution. A total of 22 new client sites were acquired, excluding the 13 exchange members of the International Securities Exchange (ISE) who now have signed agreements directly with Orc Software.

In Asia new clients were added primarily in Hong Kong and South Korea. Furthermore, Orc Software acquired new clients in Australia.

In North America, the number of clients increased as Orc Software signed contracts directly with ISE clients. As a subcontractor to OM, Orc Software had the US derivative exchange, ISE as a client. In turn, the ISE licensed Orc technology to ISE clients. During the year Orc Software signed agreements directly with these clients in order to provide better service and to be able to influence the clients and generate future sales. A total of 13 previous ISE clients had signed agreements with Orc Software at the end of 2002. Furthermore, agreements were signed with two hedge funds in the US and there is also an extensive interest for Orc Software's new technology, which provides clients with the ability to design their own solutions in development environments.

The Nordic countries were greatly affected by mergers and cut-backs but there are some examples of clients who are expanding, especially with Orc Software's new technologies for amongst other things automated order management.

In Europe outside the Nordic countries, the business climate was also harsh but expansion was evident, for example, in Germany, Austria, Switzerland and Italy. For example, TradingLab, one of Italy's leading investment banks and a leader in the warrants market, signed an agreement with Orc Software for the licensing of new technology to support TradingLab's trading and risk management.

### **Strengthened sales organisation**

Several changes regarding the sales efforts took place during the year. From an organizational point of view, sales and support were divided into two groups in order to clearly delineate the areas of responsibility between the sales- and support departments, both internally and externally. The sales department will focus on new sales and the support department is responsible for ensuring that Orc Software delivers first class support and focuses on additional sales to existing clients.

### **Reuters alliance**

In June 2002 Orc Software entered into a distribution agreement with Reuters – the world's leading supplier of financial information systems – whereby Reuters globally markets and distributes Orc Software's products. Reuters distributes Orc Software's technology independently or integrated with Reuters own products and solutions. The alliance enables Reuters to offer a complete order management system to professionals in equity and derivative trading. In 2003, Reuters will integrate Orc Software's order management functionality into its flagship product, Reuters 3000 Xtra. This will provide Reuters customers with access to a completely integrated product for financial information, order management and exchange connectivity.

The joint marketing and distribution agreement continues according to plan. The first phase focuses on participants of Euronext, the London Stock Exchange and Xetra. Thereafter, the products will be developed for additional markets in Europe, North America and Asia.

Pilot installations were conducted during the autumn of 2002 and Orc Software and Reuters will be updating the market on sales activities during the next few months. Financially the alliance had marginal effects for 2002.

### **E2E Infotech**

During the year Orc Software invested GBP 100 000 in the British company E2E Infotech and thereby owns a third of the company. E2E offers consulting services to Orc Software's clients. By offering add-ons and client adaptations to the Orc System, E2E has developed a portfolio of components for the Orc system, which effectively may replace many of the adaptations that are currently managed by the clients themselves. A number of new sales for the year have already demonstrated the value of the alliance. The holding had a marginally negative effect on net income for 2002.

### **Orc ExNet**

During 2002 Orc ExNet signed agreements with four new partners in addition to the previous co-operation with NeoNet. Thus, at the end of December 2002, via its co-operation partners, Good Morning Securities, Indosuez WI Carr, Lexit Capital, NeoNet and Samsung Securities, Orc ExNet could offer access to 22 different equity- and derivative markets around the world.

Furthermore, during the year, Orc ExNet established its own IP-network, allowing Orc Software's clients easy and cost efficient access to all the alliance partners with whom they wish to trade.

### **Market connections**

As of December 31, 2002, the Orc System was connected to 43 exchanges. Connections were established with the following exchanges in 2002:

- Euwax, Germany
- Irish Stock Exchange (ISE Xetra), Ireland
- London Stock Exchange (RSP), United Kingdom
- MEFF, Spain
- Nasdaq Liffe Markets, USA
- Sydney Futures Exchange, Australia
- The Stock Exchange of Hong Kong, China
- Tokyo International Financial Futures Exchange, Japan
- Toronto Stock Exchange, Canada

In addition, a connection to HyperFeed, an information supplier offering market data, primarily from North American markets, was added.

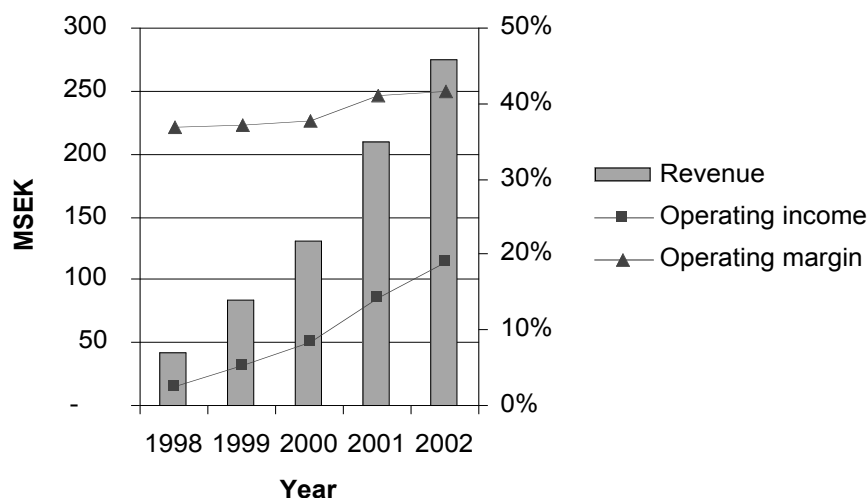
## **Post year-end events**

### **Changes in Orc Software's management**

As of April 1, 2003 Ulrika Hagdahl, Executive Vice President and one of Orc Software's founders, will resign from her employment in the company. Ulrika will continue to work actively with the company's development as a member of the Board of Directors until the next Annual General Meeting and will thereafter be available for re-election.

## Revenue<sup>1</sup>

Total revenue, operating income and operating margin



### Full year 2002

The Group's revenue increased in 2002 by 31 percent to SEK 275 (210 in the corresponding period 2001) million.

Systems revenue increased by 26 percent to SEK 247 (196) million, which represents approximately 90 (93) percent of the total revenue. About 10 percent of systems revenue represents the initial revenue from some of the new and very advanced products launched in 2002. Since the client pays a larger initial sum for these products, in addition to the quarterly license fees, this income can vary from quarter to quarter, which on the whole makes revenue performance somewhat less predictable. As these products mature, the level of standardization increases and consequently the income model becomes more and more similar to the traditional model that is based on quarterly license fees.

Other operating revenue increased by 25 percent to SEK 15 (12) million and primarily represents hardware sales as well as consulting revenue.

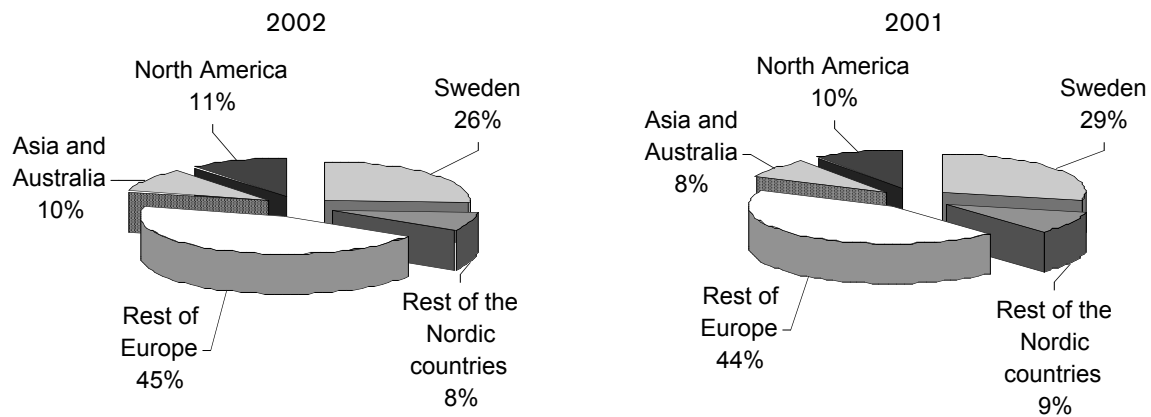
The remaining amount of the increased revenue relates to the capitalization of development expenses, which increased from SEK 2 to 13 million.

In 2002 Orc ExNet noted continuous growth both in the number of clients and in revenue. Since growth began at relatively low levels, the total financial effect for the Group is marginal.

Sales to clients outside of Sweden represented approximately 74 (71) percent of total sales for 2002. At the end of December 2002, Orc Software had clients in 19 (18) countries.

<sup>1</sup> Revenue and operating margin for 2002 and 2001 are calculated after taking into account an increase in revenue 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



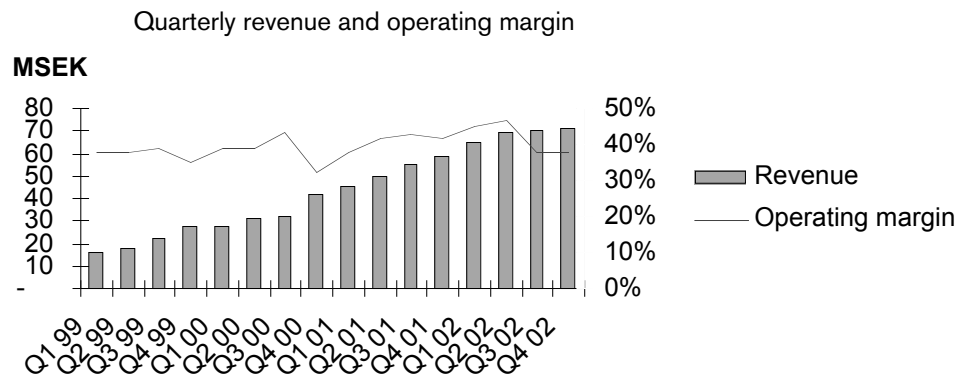
SEK millions	2002	2001	Change in %
Sweden	69	61	13
Rest of the Nordic Countries	21	19	11
Rest of Europe	117	92	27
Asia and Australia	27	16	69
North America	28	20	40
Work performed by the company for its own use and capitalized	13	2	-
<b>Total</b>	<b>275</b>	<b>210</b>	<b>31</b>

The fastest growing markets for Orc Software are Asia and Australia. Of the year's actual increase in sales of SEK 54 million, Europe, excluding the Nordic countries, accounted for SEK 25 million, Asia and Australia for SEK 11 million and North America and Sweden for SEK 8 million each.

At year-end the number of client sites<sup>2</sup> equaled 164 (145). The average income per client site<sup>3</sup> for the year was SEK 1.6 (1.5) million.

The Group's largest clients for 2002 were, in no particular order, Carnegie, Citibank, JP Morgan, Merrill Lynch, and TradingLab. The Group's five largest clients represented a total of 20 percent of revenue during 2002. No individual client represented more than 5 percent of revenue.

### Fourth quarter 2002



<sup>2</sup> The number of client sites includes the sites that as of year-end pay a license fee.

<sup>3</sup> Calculated as the total systems revenue divided by the average number of client sites for the period.

The Group's revenue increased in the fourth quarter of 2002 by 20 percent to SEK 71 (59) million. Compared to the previous quarter revenue increased by 1 percent.

Systems revenue as well as other operating income remained largely unchanged between the quarters. Other operating income contained a slightly larger portion of consulting income in the fourth quarter.

The fourth quarter was characterized by a significant number of new clients geographically located throughout Australia, France, Germany, Italy, South Korea, Sweden, Switzerland, the US and United Kingdom. 13 new client sites were added and 10 were lost. Seven smaller clients cancelled their contracts. Furthermore, a notification of cutbacks was received from one of the largest clients who in conjunction with a geographical consolidation of the trading business chose to convert to an in-house trading solution. This will have a financial impact as of the third quarter of 2003.

## **Earnings**

### **Full year 2002**

Operating income for 2002 increased by 34 percent to SEK 115 (86) million, representing an operating margin of 41.6 (41.1) percent.

Orc Software grew extensively during the comparative periods. From the beginning of 2001, the number of employees increased from 84 to 138, which for example, includes a doubling of the development department to 58 employees. Since the second half of 2001, Orc Software has grown with six new sales and support offices in five new countries. This represents an intentional commitment within product development and international expansion aiming to generate growth. Some of these investments do not provide immediate returns but contribute to the foundation that supports Orc Software's continual international expansion. Despite this expansion, Orc Software has successfully maintained high margins. This was accomplished through intensified control of costs but also because the company, as a supplier of a standardized software product, has low incremental production- and distribution costs.

### **Fourth quarter 2002**

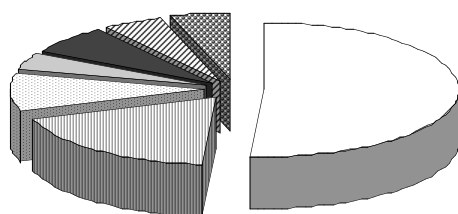
Operating income for the fourth quarter 2002 increased by 8 percent to SEK 27 (25) million. The operating margin amounted to 37.7 (41.7) percent. Operating income was largely unchanged from the previous quarter.

Operating margin for the second half of the year decreased in comparison with the first half of the year due to an aggressive sales and distribution drive, which is still not fully reflected on the income side. During the third and fourth quarters the company utilized external resources to further improve the sales process as well as to support the part of the organization working on the alliance with Reuters. During the third quarter Orc Software furthermore established a sales and support office in Japan. Orc Software also made significant investments in product development including among other things automated trading. The lower operating margin can also be attributed to increased hardware sales, which generally have a lower margin than systems revenue.

Orc ExNet contributed positively to the period's earnings.

## Operating expenses<sup>4</sup>

Breakdown of operating expenses 2002



□ Personnel costs	51% (57%)
▨ Other external expenses	19% (14%)
▤ Cost of premises	9% (7%)
▥ Consulting fees	4% (6%)
■ Depreciation and amortization	7% (6%)
▩ Purchase cost of goods sold	5% (5%)
▪ Telecom. expenses	5% (5%)

Operating expenses increased for 2002 by 31 percent to SEK 161 (123) million. In comparison to the previous quarter operating expenses increased marginally.

Personnel costs for 2002 decreased in relative terms but increased in absolute terms by 17 percent to SEK 82 (70) million. For the same period the average number of employees increased by 32 percent. On the whole personnel costs for the fourth quarter were unchanged in comparison to the third quarter.

Cost of premises increased by 59 percent to SEK 14.9 (9.4) million for 2002 as a consequence of the new offices in St Petersburg, Hong Kong, Zurich, Toronto, Montreal, Vienna and Tokyo. The costs in relation to the previous quarter increased by 8 percent primarily due to the expansion of the office in Stockholm.

As a result of the expanding business, telecommunication expenses for 2002 increased by 23 percent in comparison to the equivalent period for the previous year. Compared to the previous quarter telecommunication expenses increased by 31 percent. The relatively large change is mainly due to expenses for the development of market connections varying from quarter to quarter.

The consulting fees related to product development continued to decrease compared to last year. This is due to the increase in internal development resources primarily in Russia, which lowered the demand for external development resources.

Other external expenses for 2002 increased by 61 percent to SEK 29 (18) million and by 11 percent compared to the previous quarter, primarily due to the expanding business but also as a consequence of the increased focus on sales and distribution. Travel expenses for 2002 increased and amounted to SEK 9 million.

Depreciation and amortization for 2002 increased by 55 percent to SEK 10.7 (6.9) million and by 5 percent compared to the previous quarter. This is due to the increased number of offices and employees as well as amortization of intangible assets. In comparison to the previous quarter, depreciations also increased as a result of investments in hardware and the infrastructure of the office in Stockholm and, to a certain extent, the discarding of obsolete assets in conjunction with the move of the Stockholm office.

<sup>4</sup> Due to Orc Software's working methods, whereby there is a considerable overlap between sales- and support work and sales- and development work, Orc Software reports its results according to the principles for an income statement presented by type of cost.

The purchase cost of goods sold increased in comparison to 2001 primarily due to an increase in hardware sales. A slight decrease in hardware sales for the fourth quarter compared to the previous quarter resulted in a slight decrease of these costs for the period.

## **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, 58 (42) people worked with product development in Frankfurt, Hong Kong, London, Moscow, New York, St Petersburg, Stockholm and Toronto. Other product development expenses include computer equipment and premises for product developers, as well as external consultants.

The expanded resources for product development made it possible to complete several different projects in 2002:

- New development environments for in-house development were created this year. The products utilize previously established and well-tested Orc technology but provides completely new possibilities for clients to integrate their own specific solutions with Orc Software's advanced technology. This project is particularly important to Orc Software's sales in the US market, where flexibility, speed, scalability and integration possibilities are crucial components for success. Adaptations of the new products with clients in other markets have also been successful.
- A more comprehensive version of the Orc System, Orc 3.0, was completed in 2002. The new version includes significant improvements to the user interface, increased support for currency simulation in risk management, functions for automatic trading for portfolio hedging as well as a new module for basket trading. Furthermore, Orc 3.0 supports new market connections as well as a number of improvements for market-specific functionality.
- Orc Software's new product for equity related trading, Orc Razor, was also delivered in conjunction with Orc 3.0. Orc Razor is specially designed to meet the specific needs of today's modern brokerage business. Orc Razor enables users to manage multiple markets, instrument types and currencies from one workstation. Orc Razor is a central product in the Reuters alliance.
- The application software for automatic trading, Orc TradeBot, was further developed during the year and several clients are now using this technology.
- A total of nine new market connections were completed during the year. Furthermore, several existing market connections underwent maintenance, updates and performance optimization.
- In St Petersburg work intensified on the development of tools for the product family that Orc Software will develop during the next few years. Orc Software plans to launch the first products based on this technology in 2003.

As of January 1, 2002 Orc Software capitalizes the part of the Group's expenses that are related to the development of new market connections. Expenses related to the development of new tools for Orc Software's upcoming product family taking place in St Petersburg have been capitalized since 2001. During the fourth quarter of 2002 Orc Software invested SEK 1 million in external development of a new program application that was also capitalized. The total capitalized development expenses for 2002 amounted to SEK 13.4 (1.7) million.

Orc Software's standard depreciation period for capitalized development expenses is three years from completion.

Development expenses, including capitalized expenses, increased for 2002 by approximately SEK 14 million and amounted to approximately 22 (21) percent of revenue. In real terms, development expenses increased mainly due to a considerable increase in internal development resources. These expenses are expected to represent a significant part of operating expenses in the future.

### **Net financial income**

Net financial income improved to SEK 8.5 (7.1) million as a result of an increase in liquid funds – consequently due to a positive cash flow from ongoing operations. The Group's liquid funds increased during the year from SEK 224 to 274 million, of which SEK 240 (173) million consisted of short-term investments.

Income after financial items increased by 32 percent to SEK 123 (93) million.

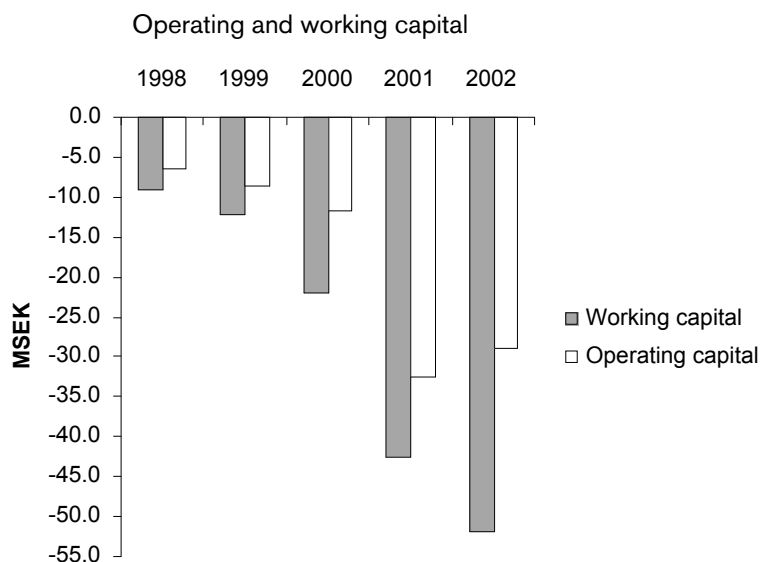
### **Taxes**

The tax rate for 2002 amounted to 29 (30) percent. Tax expenses are calculated based on the expected tax for the parent company and each subsidiary.

Earnings after tax increased by 34 percent to SEK 87 (65) million.

### **Operating capital and working capital**

Orc Software's operating capital amounted to SEK -29 (-32) million at the end of 2002. 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 9 million to -52 (-43) million. The principal reason behind the negative working capital commitment is the large item of accrued expenses and prepaid income that for the most part consists of license fees, which are invoiced quarterly in advance.



### Asset turnover ratio

Total assets for 2002 increased by 25 percent to SEK 365 (293) million. The asset turnover ratio amounted to 1.3 (1.2).

### Equity/assets ratio and return on capital employed

The equity/assets ratio amounted at year-end to 67 (65) percent. For 2002, return on capital employed increased to 57 (55) percent, and return on equity increased to 40 (38) percent.

### Cash flow and investments

The Group's cash flow, before changes in working capital and investments, amounted at year-end to SEK 106 (78) million.

The changes in working capital amounted to SEK -9 (-21) million.

The Group's investments for the year amounted to SEK 32 (14) million, primarily consisting of capitalized development expenses for development work amounting to SEK 13 million, computer and office equipment for SEK 13 million as well as investments in financial fixed assets equaling SEK 6 million, which mainly consists of investments in E2E Infotech and rental deposits.

The Group's cash flow after investments decreased to SEK 84 (85) million.

The dividend for 2001 amounted to SEK 33 (21) million. The Group did not have any interest-bearing liabilities during the year. Liquid assets and short-term investments amounted to SEK 274 (224) million as of December 31, 2002.

The ratio between cash flow, before financial items and tax, and the operating income, before depreciation and amortization, amounted at year-end to 0.9 (1.1).

## Financial risk management

### Foreign exchange risks

#### i) Transaction Exposure

The majority of Orc Software's invoicing to clients in the Nordic countries takes place in Swedish kronor. Clients outside the Nordic countries are invoiced primarily in US dollars, although invoicing is also done in Euro, Swiss francs, Danish kronor as well as Australian dollars. The Group has a significant exposure in US dollars, where revenue significantly exceeds expenses, as well as in British pounds where expenses exceed revenue due to invoicing to clients in the UK being primarily denominated in US dollars.

The Group's exposed net inflow amounted in 2002 to approximately SEK 116 million, allocated as set out in the table below.

Inflow 2002	SEK millions
USD	85
AUD	11
CHF	9
DKK	8
EUR	3
<b>Total</b>	<b>116</b>
<b>Outflow 2002</b>	
GBP	16
HKD	5
CAD	3
JPY	2
<b>Total</b>	<b>26</b>

The effect of exchange rate fluctuations, calculated as a change of the relevant average exchange rates between 2001 and 2002, amounted to approximately SEK -4 million, and was primarily due to the weakened USD, which at year-end equaled 8.83 Swedish kronor. Foreign exchange hedging affected earnings on an operating level by SEK 3 (-2.5) million.

In accordance with the Group's policy, significant net exposure in each respective currency is hedged for the coming 3-12 months, with a certain possibility of deviation in special cases. As of December 31, 2002, future flows equivalent to SEK 162 (171) million had been hedged<sup>5</sup>, consisting of USD 11 (16) million hedged against the Swedish krona at an average forward rate of 10.43 (10.51) and 5 (0) million Euro hedged against the Swedish krona at an average forward rate of 9.37. The total average remaining duration is approximately 10 (7) and 9 months respectively. These foreign exchange hedges represent approximately 15 (18) months of future net flows.

At financial year-end, non-realized foreign exchange gains amounted to SEK 11.8 (1.9) million, valued at the SEK/USD exchange rate of 8.83 (10.67) and the SEK/EUR rate of 9.19.

<sup>5</sup> OM Treasury AB is the counterpart on SEK 79 million of this amount.

## 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*

As to liquidity risk and credit risk, 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 243 (175) million, consisted of Swedish commercial papers with "K1" credit ratings and time-bound bank investments held by the bank.

### *Credit risks*

In general, Orc Software's clients, who among others consist of investment banks, banks and brokerage houses, represent a capital-strong segment with a consequent low risk for credit losses. The Group's credit losses are negligible due to the fact that clients, on a quarterly or even longer basis, pay in advance and that Orc Software works actively to inform its clients of the importance of paying on time.

No credit losses occurred in 2002.

### *Sensitivity analysis*

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

Factor	Change	Effect on Operating
		Income for Full Year, SEK millions
License price	+/- 5%	+/- 12.4
Salary costs	+/- 5%	-/+ 4.1
Development expenses	+/- 5%	-/+ 2.8
SEK/USD	+/- 5%	+/- 4.2 <sup>6</sup>
SEK/GBP	+/- 5%	-/+ 0.8 <sup>6</sup>
SEK/EUR	+/- 5%	+/- 0.1 <sup>6</sup>

## **Employees**

At the end of 2002 Orc Software employed 138 (107) people, an increase of 29 percent. The average number of employees was 124 (94). Although several other offices also had an increase in the number of employees, the increase is primarily due to new employment at the offices in Stockholm and St Petersburg. The number of employees increased within each unit, but product development accounted for the largest increase. The number of female employees at year-end equaled 23 (19) and the number of male employees equaled 115 (88). The average age of the employees is 30 (30) years.

<sup>6</sup> Without taking into consideration existing hedging contracts.

Employees by office			Employees by function		
	2002	2001		2002	2001
Stockholm	62	46	Product development	58	42
St Petersburg	19	11	Support	36	47 <sup>7</sup>
Moscow	16	15	Sales	21	7
London	10	13	Finance and Administration	18	14
Milan	8	6	Group management	5	4
Sydney	6	5	<b>Total</b>	<b>138</b>	<b>107</b>
Frankfurt	4	3			
Copenhagen	-	3			
New York	4	3			
Hong Kong	3	1			
Toronto	3	-			
Tokyo	1	-			
Vienna	1	-			
Zurich	1	1			
<b>Total</b>	<b>138</b>	<b>107</b>			

## Incentive scheme

Orc Software's employees including the Group Management have the possibility to receive a bonus if the Group's revenue growth and consolidated operating income significantly exceeds the stated internal targets. No bonuses were received for 2002 since the Group's revenue and earnings did not reach the internal targets. The Board of Directors' remuneration committee, including representatives from both management and the Board, determines the incentive program.

## Options program

Carnegie has issued two option programs for the employees of Orc Software. One program issued in 2000, covers the purchase of 519 000 options by 55 employees. The exercise price equals SEK 60 per option with maturity on March 31, 2003. The second program issued in 2001 covers the purchase of 270 000 call options by 39 employees with an exercise price of SEK 210 per option, maturing on March 1, 2004. The options were purchased at a price calculated by Carnegie. All the options will be cash settled and the option program will not result in any dilution and will not affect Orc Software's earnings.

A new option program for Orc Software's employees will be launched during the first quarter of 2003. Call options will be issued on market terms by a third party. Similar to the two previous option programs, all options will be cash-settled and the option program will not result in any dilution and will not affect Orc Software's earnings. Further information will be given when the details of the option program are known.

## Shareholders

The number of shareholders in Orc Software on December 31, 2002 equaled 2 468 (1 144).

<sup>7</sup> The figure reflects the number of employees for both Sales and Support, which was a joint department in 2001.

Orc Software's ten largest known shareholders	No. of shares	% of shares
OM	4 488 075	30.2
Cancale Förvaltnings*	1 933 200	13.0
SEB funds	790 240	5.3
Fidelity funds	698 775	4.7
Carlson funds	489 300	3.3
Tredje AP-fonden	389 300	2.6
Nordea Bank Finland	387 900	2.6
Andra AP-fonden	366 709	2.5
Nordea Sverigefonden	263 200	1.8
Robur funds	251 100	1.7
Other shareholders	4 792 201	32.2
<b>Total</b>	<b>14 850 000</b>	<b>100.0</b>

Source: VPC AB, direct and nominee shareholders December 30, 2002.

\* Cancale Förvaltnings AB is jointly owned in equal shares by Ulrika Hagdahl and Nils Nilsson. In addition Ulrika Hagdahl and Nils Nilsson also privately own 46 000 respective 40 000 shares.

## Proposed dividend and repurchase of shares

The Board of Directors has resolved to recommend a dividend of SEK 3.00 (2.20) per share for 2002, representing a total of SEK 45 (33) million and 51 (50) percent of net income. The proposed record day for dividends is Monday, April 28, 2003. If the Annual General Meeting votes in favor of the proposal, the expected payment date for the dividends is Friday, May 2, 2003. The dividends are paid through VPC AB.

Orc Software's Board of Directors has decided to propose, at the Annual General Meeting 2003, that the Board be authorized to make decisions regarding the acquisition and transfer of Orc Software's own shares. Essentially the proposal implies that the Board be authorized, during the period up until the next Annual General Meeting, on one or several occasions, to acquire or transfer stock in the company. Acquisitions shall take place through Stockholmsbörsen at the current listed price at the time the shares are acquired. Transfer of the company's own shares may take place outside of Stockholmsbörsen in order to finance acquisitions or expansion. The purpose of the acquisitions is to provide the Board with the possibility of creating additional value for the company's shareholders by optimizing the capital structure of the Group during the period up until the next Annual General Meeting.

The company's non-restricted equity, after the proposed dividend, limits the repurchase amount to approximately SEK 52 million, which at present price level of SEK 54.50 equals just over 6 percent of the company's total shares.

## The Parent Company

The parent company's revenue increased 17 percent to SEK 191 (163) million. Income after financial items increased to SEK 114 (89) million. Liquid funds amounted at the end of the period to SEK 258 (215) million, of which SEK 240 (173) million consisted of short-term investments.

## **The work of the Board of Directors**

Orc Software's Board of Directors consists of eight members. In 2002 Orc Software's board held 8 (10) minuted meetings. The Board held no meetings in 2002 without recording minutes. The meetings addressed the regular business issues, such as the state of the business, financial reporting and investments. In addition, the annual report, interim reports and the budget were reviewed, and general issues such as strategy and external analysis were addressed. Furthermore, the Board of Directors, Group management and auditors attended a course in stock market information and insider trading regulations held by Stockholmsbörsen.

The company's auditor attends board meetings at which the annual report is reviewed, and provides his observations following the audit of Orc Software's internal controls and financial statements. The Group's Chief Executive Officer presents strategy-related matters and the Group's Chief Financial Officer addresses economic and financial issues.

### **Salary and remuneration committee**

The Board of Directors has appointed a remuneration committee with representatives from both the Board of Directors, Group management and the head of Human Resources. The remuneration committee prepares and discusses proposals regarding incentive programs, benefits, and salaries, including sales commission and bonuses for the company's employees and Group management. The Board of Directors makes the final decisions.

### **Nominating committee**

The nominating committee is responsible for issuing a proposal for the members of Orc Software's Board of Directors, Director's compensation, appointment of auditor and auditor compensation. Members of the committee are Magnus Böcker (OM AB), Ulrika Hagdahl (Cancale Förvaltnings AB), Mats Gustafsson (SEB) and Tomas Nicolin (Tredje AP-fonden).

## **Accounting principles**

This interim report has been prepared in accordance with the Swedish Accounting Standards Council's recommendation on interim reporting (RR 20). The same accounting principles have been used as in the last annual accounts, with the following additions:

In 2002 new recommendations on consolidated accounting (RR 1:00), intangible fixed assets (RR 15), provisions (RR 16), write-downs (RR 17), loan expenses (RR 21) and associated companies (RR 23) came into force.

Of the new recommendations, only RR 15 involves any considerable changes to previously applied accounting principles. The effects of RR 15 are reflected in this report.

As of January 1, 2003, Orc Software will implement the following new recommendations, issued by the Swedish Accounting Standards Council: Format of financial reports (RR 22), Reporting by segment (RR 25), Events after the accounting year-end (RR 26) and Financial instruments (RR 27). The recommendations will add to the disclosure requirements for Orc Software's financial reports.

The Swedish Accounting Standards Council will issue additional recommendations in 2003, however, these recommendations concern areas outside of Orc Software's business scope and therefore do not impact the format of Orc Software's financial reports.

## Income statement

SEK thousands	2002	2001	Oct-Dec 2002	Oct-Dec 2001
<b>Operating revenue</b>				
Systems revenue	246 688	196 037	61 123	53 620
Work performed by the company for its own use and capitalized	13 412	1 700	4 007	658
Other operating revenue	15 234	11 980	5 765	4 854
<b>Total revenue</b>	<b>275 334</b>	<b>209 717</b>	<b>70 895</b>	<b>59 132</b>
<b>Operating expenses</b>				
Purchase cost of goods sold	-8 169	-5 729	-3 004	-1 683
External expenses				
Cost of premises	-14 914	-9 366	-4 386	-3 006
Telecommunication expenses	-8 147	-6 620	-2 495	-1 939
Consulting fees	-6 995	-7 162	-2 285	-1 001
Other external expenses	-29 294	-17 746	-8 514	-4 694
Personnel costs	-82 443	-69 936	-20 454	-19 995
Depreciation and amortization	-10 747	-6 900	-2 995	-2 129
<b>Total expenses</b>	<b>-160 709</b>	<b>-123 459</b>	<b>-44 133</b>	<b>-34 447</b>
<b>Operating income</b>	<b>114 625</b>	<b>86 258</b>	<b>26 762</b>	<b>24 685</b>
<b>Financial items</b>				
Profit/loss from participation in associated companies	-564	-133	-398	-133
Financial income	9 123	7 273	2 508	2 561
Financial expenses	-59	-58	-37	-18
<b>Net financial income</b>	<b>8 500</b>	<b>7 082</b>	<b>2 073</b>	<b>2 410</b>
<b>Income after financial items</b>	<b>123 125</b>	<b>93 340</b>	<b>28 835</b>	<b>27 095</b>
Tax on net income for the period	-36 047	-28 400	-13 594	-10 571
Minority's part of the income for the period	141	123	-53	123
<b>Net income for the period</b>	<b>87 219</b>	<b>65 063</b>	<b>15 188</b>	<b>16 647</b>
Earnings per share <sup>8</sup> , SEK	5.87	4.38	1.02	1.12
Number of shares, end of period, thousands	14 850	14 850	14 850	14 850
Average number of shares, thousands	14 850	14 850	14 850	14 850

<sup>8</sup> Orc Software does not have any convertible loans or warrants.

## Balance sheet

SEK thousands	Dec 31, 2002	Dec 31, 2001
<b>ASSETS</b>		
<b>Fixed assets</b>		
Intangible assets		
Capitalized development expenditure	13 832	1 700
Goodwill	382	478
Other intangible fixed assets <sup>9</sup>	2 906	3 648
Tangible assets		
Equipment	19 750	16 478
Financial assets		
Shares in associated companies	1 827	902
Other long-term receivables	4 115	-
<b>Total fixed assets</b>	<b>42 812</b>	<b>23 206</b>
<b>Current assets</b>		
Current receivables		
Accounts receivable	36 206	38 938
Other receivables	7 500	3 776
Prepaid expenses and accrued income	4 776	2 864
Short-term investments	240 299	172 984
Cash and bank balances	33 523	51 305
<b>Total current assets</b>	<b>322 304</b>	<b>269 867</b>
<b>TOTAL ASSETS</b>	<b>365 116</b>	<b>293 073</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Restricted equity		
Share capital	1 485	1 485
Restricted reserves	138 818	119 615
Non-restricted equity		
Non-restricted reserves	17 621	5 644
Net income for the period	87 219	65 063
<b>Total equity</b>	<b>245 143</b>	<b>191 807</b>
<b>Minority interest</b>	<b>484</b>	<b>625</b>
<b>Provisions</b>		
Deferred tax liability	19 573	12 415
<b>Total provisions</b>	<b>19 573</b>	<b>12 415</b>
<b>Current liabilities</b>		
Accounts payable	7 445	3 051
Tax liabilities	19 106	14 232
Other liabilities	5 066	7 109
Accrued expenses and prepaid income	68 299	63 834
<b>Total current liabilities</b>	<b>99 916</b>	<b>88 226</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>365 116</b>	<b>293 073</b>
Pledged assets	None	None
Contingent liabilities	None	None

<sup>9</sup> This item pertains to Orc ExNet.

## Specification of the Group's goodwill

The goodwill arose in conjunction with the establishment of Orc ExNet and is being amortized over a period of 60 months.

	SEK thousands
Acquisition value less accumulated amortization at the beginning of the period	478
Goodwill arisen during the period	-
Amortization for the period	-96
Acquisition value less accumulated amortization at the end of the period	382

## Specification of equity

<b>2002</b>	<b>Share Capital</b>	<b>Restricted Reserves</b>	<b>Non-restricted Equity</b>	<b>Total</b>
Opening balance January 1, 2002	1 485	119 615	70 707	191 807
Dividend for 2001	-	-	-32 670	-32 670
Translation difference	-	-263	-950	-1 213
Transfer to statutory reserve in accordance with distribution of earnings	-	20	-20	-
Movement between restricted and unrestricted equity	-	19 446	-19 446	-
Net income for the period	-	-	87 219	87 219
Closing balance December 31, 2002	1 485	138 818	104 840	245 143

<b>2001</b>	<b>Share Capital</b>	<b>Restricted Reserves</b>	<b>Non-restricted Equity</b>	<b>Total</b>
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 period	-	-	65 063	65 063
Closing balance December 31, 2001	1 485	119 615	70 707	191 807

<b>Oct-Dec 2002</b>	<b>Share Capital</b>	<b>Restricted Reserves</b>	<b>Non-restricted Equity</b>	<b>Total</b>
Opening balance October 1, 2002	1 485	119 635	109 159	230 279
Translation difference	-	-263	-61	-324
Movement between restricted and unrestricted equity	-	19 446	-19 446	-
Net income for the period	-	-	15 188	15 188
Closing balance December 31, 2002	1 485	138 818	104 840	245 143

<b>Oct-Dec 2001</b>	<b>Share Capital</b>	<b>Restricted Reserves</b>	<b>Non-restricted Equity</b>	<b>Total</b>
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 December 31, 2001	1 485	119 615	70 707	191 807

## Cash flow statement

SEK thousands	2002	2001
<b>Operating activities</b>		
Operating income	114 625	86 258
Adjustment for items not included in cash flow	1 037	1 358
Depreciation and amortization	10 747	6 900
Financial items	8 850	6 784
Income tax paid	-28 890	-22 884
<b>Cash flow from operating activities before changes in working capital</b>	<b>106 369</b>	<b>78 416</b>
<b>Changes in working capital</b>		
Changes in operating assets	-3 297	-15 786
Changes in operating liabilities	12 394	36 477
<b>Total change in working capital</b>	<b>9 097</b>	<b>20 691</b>
<b>Cash flow from operating activities</b>	<b>115 466</b>	<b>99 107</b>
<b>Investment activities</b>		
Investments in intangible fixed assets	-13 413	-1 664
Investments in tangible fixed assets	-12 835	-9 363
Investments in financial fixed assets	-5 605	-3 594
Sale of tangible fixed assets	-	520
<b>Cash flow from investment activities</b>	<b>-31 853</b>	<b>-14 101</b>
<b>Financing activities</b>		
Dividends	-32 670	-20 790
<b>Cash flow from financing activities</b>	<b>-32 670</b>	<b>-20 790</b>
Change in liquid funds	50 943	64 216
Opening liquid funds	224 289	159 116
Translation difference/Exchange differences in liquid funds	-1 410	957
Closing liquid funds	273 822	224 289

## Key ratios

	2002	2001	Oct-Dec 2002	Oct-Dec 2001
Operating margin, %	41.6	41.1	37.7	41.7
Return on equity, %	40	38	26	36
Return on capital employed, %	57	55	48	59
Asset turnover ratio	1.3	1.2	1.2	1.3
Equity/assets ratio, %	67	65	67	65
Average number of employees	124	94	138	104
Earnings per share, SEK	5.87	4.38	1.02	1.12
Equity per share, SEK	16.51	12.92	16.51	12.92
Share price at end of the period, SEK	67.50	147	67.50	147
Number of shares at end of period, thousands	14 850	14 850	14 850	14 850

## Quarterly figures

### Income statement

SEK thousands	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002
<b>Operating revenue</b>								
Systems revenue	42 161	49 156	51 100	53 620	60 167	63 849	61 549	61 123
Work performed by the company for own use and capitalized	-	404	639	658	3 422	2 783	3 200	4 007
Other operating revenue	2 993	577	3 556	4 854	1 638	2 455	5 376	5 765
<b>Total revenue</b>	<b>45 154</b>	<b>50 137</b>	<b>55 295</b>	<b>59 132</b>	<b>65 227</b>	<b>69 087</b>	<b>70 125</b>	<b>70 895</b>
<b>Operating expenses</b>								
External expenses	-11 211	-10 863	-12 225	-12 323	-12 057	-14 810	-19 969	-20 684
Personnel costs	-15 373	-16 895	-17 674	-19 995	-21 521	-19 715	-20 753	-20 454
Depreciation and amortization	-1 400	-1 572	-1 799	-2 129	-2 361	-2 492	-2 849	-2 995
<b>Total expenses</b>	<b>-27 984</b>	<b>-29 330</b>	<b>-31 698</b>	<b>-34 447</b>	<b>-35 939</b>	<b>-37 017</b>	<b>-43 571</b>	<b>-44 133</b>
<b>Operating income</b>	<b>17 170</b>	<b>20 807</b>	<b>23 596</b>	<b>24 685</b>	<b>29 288</b>	<b>32 070</b>	<b>26 554</b>	<b>26 762</b>
<b>Net financial items</b>	<b>1 283</b>	<b>1 457</b>	<b>1 931</b>	<b>2 410</b>	<b>1 766</b>	<b>2 020</b>	<b>2 589</b>	<b>2 073</b>
Tax on income for the period	-4 673	-6 497	-6 659	-10 571	-8 576	-8 578	-5 298	-13 594
Minority's part of the income for the period	-	-	-	123	99	100	-5	-53
<b>Net income for the period</b>	<b>13 780</b>	<b>15 767</b>	<b>18 869</b>	<b>16 647</b>	<b>22 577</b>	<b>25 612</b>	<b>23 840</b>	<b>15 188</b>

### Balance sheet

SEK thousands	Mar 2001	June 2001	Sept 2001	Dec 2001	Mar 2002	June 2002	Sept 2002	Dec 2002
<b>Fixed assets</b>	<b>17 201</b>	<b>18 071</b>	<b>21 612</b>	<b>23 206</b>	<b>26 468</b>	<b>30 166</b>	<b>33 113</b>	<b>42 812</b>
<b>Current assets</b>								
Accounts receivable	51 181	28 268	27 107	38 938	34 973	33 946	41 904	36 206
Other receivables	6 747	7 150	6 879	6 640	10 627	11 065	10 540	12 276
Cash and bank balances and short-term investments	150 224	182 183	206 941	224 289	251 758	241 757	254 848	273 822
<b>Total current assets</b>	<b>208 152</b>	<b>217 601</b>	<b>240 927</b>	<b>269 867</b>	<b>297 358</b>	<b>286 768</b>	<b>307 292</b>	<b>322 304</b>
<b>TOTAL ASSETS</b>	<b>225 353</b>	<b>235 672</b>	<b>262 539</b>	<b>293 073</b>	<b>323 826</b>	<b>316 934</b>	<b>340 405</b>	<b>365 116</b>
Equity	140 284	156 231	175 355	191 807	213 674	206 252	230 279	245 143
Minority interest	-	-	-	625	526	426	431	484
Provisions for deferred tax liability	6 922	6 922	6 922	12 415	12 415	12 415	12 415	19 573
Current non interest-bearing liabilities	78 147	72 519	80 262	88 226	97 211	97 841	97 280	99 916
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>225 353</b>	<b>235 672</b>	<b>262 539</b>	<b>293 073</b>	<b>323 826</b>	<b>316 934</b>	<b>340 405</b>	<b>365 116</b>

## **Forthcoming financial events 2003**

March	Annual Report
April 15	Interim Report for the first quarter
April 23	Annual General Meeting
July 11	Interim Report for the second quarter
October 14	Interim Report for the third quarter

The full annual report will be available at Orc Software's Swedish office in the beginning of March 2003. It will also be distributed to the shareholders.

## **Annual general meeting**

The Annual General Meeting will be held on Wednesday April 23, 2003 at 3 p.m. at Orc Software, Birger Jarlsgatan 32A, 5 floors, Stockholm, Sweden. Contact information to the nominating committee:

E-mail: [nominering@orcsoftware.com](mailto:nominering@orcsoftware.com)

Address: Nomineringskommittén, Orc Software, Box 7742, SE-103 95 Stockholm, Sweden

Stockholm, January 23, 2003

The Board of Directors

### **For further information please contact:**

Nils Nilsson, CEO. Tel: +46 8 407 38 00

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Susanne Holmlund, Investor Relations. Tel: +46 8 407 38 50

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

## **Definitions**

### **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 minus non-interest bearing debt, including deferred tax liability in untaxed reserves.

### **Shareholders' equity**

Shareholders' equity at the end of the period.

### **Operating capital**

Total assets minus non-interest bearing debt, including deferred tax liability in untaxed reserves, as well as cash and bank balances and short-term 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 any disposals.

### **Average number of employees**

Average number of employees for the period, based on headcounts 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.