



## Strong operating income

Orc Software is reporting operating income for the third quarter of SEK 32.5m (22.4 in the same quarter in 2006), an increase by SEK 10.1m or 45.1 percent.

Operating income for the period January–September rose by SEK 43.4m, an increase of 94.3 percent, compared to the same period in 2006.

### July–September 2007

- Net revenue SEK 135.4m (103.6)
- Revenue growth of 30.7% compared to Q3 2006
- Operating income SEK 32.5m (22.4)
- Operating margin 24.0% (21.6)
- Income after taxes SEK 36.7m (15.4)
- Earnings per share SEK 2.35 (0.99)

### January–September 2007

- Net revenue SEK 384.1m (306.7)
- Revenue growth of 25.2% compared to the same period in 2006
- Operating income SEK 89.4m (46.0)
- Operating margin 23.3% (15.0)
- Income after taxes SEK 78.3m (33.5)
- Earnings per share SEK 5.07 (2.17)

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- Annual value of existing client contracts was SEK 456.0m at the end of Q3 2007 (324.3 at the end of Q3 2006), an increase of 131.7m or 40.6 percent

- Capital gain of SEK 15.5m from the divestment of shares in Infront AS recognized in net financial income

## CEO Thomas Bill comments:

We continued delivering healthy revenue growth in the third quarter. Operating income also increased – plus 45 percent over the last year – despite the drop in the US dollar.

The order book trend was also favorable. We are experiencing steady interest in our solutions for derivatives trading, advanced automated trading, and connectivity. The sales trend is also satisfactory in geographical terms with growth in all regions.

The performance in North America as well as in Asia and Australia is particularly good.

Based on the current order book, we can confirm that we will exceed the Board of Directors' target of annual revenue growth and operating margin of 15 percent by a margin this year.

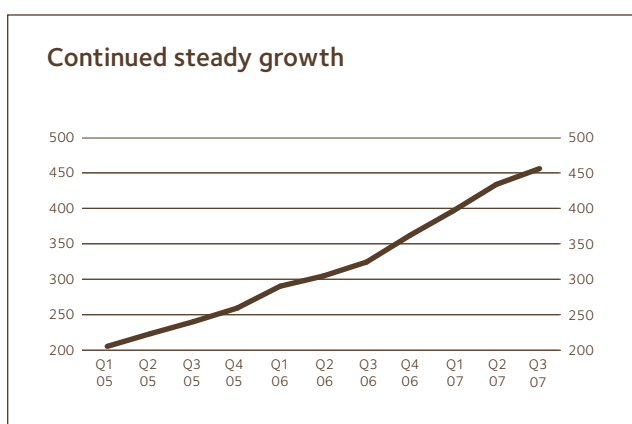
## Market Trend

Demand for Orc Software solutions was sustained within all regions in the third quarter of 2007. The strategic focus on connectivity solutions, derivatives trading, and advanced automated trading has paid-off.

Growing demand among market players for simultaneous multi-market access is a favorable trend for Orc's connectivity solutions business. Orc has the capacity to meet these needs rapidly and cost-effectively. Demand remains good in the advanced automated trading business from market players who trade in equities, forwards, options, and structured products.

Orc is expanding the local organizations with an office in Amsterdam in parallel with sales growth, and in line with the company principle of maintaining proximity to clients in key markets.

### Annual value of existing client contracts



The annual value of existing client contracts<sup>1</sup> (order book) increased by SEK 131.7m from SEK 324.3m to SEK 456.0m, or 40.6%, compared to Q3 2006. The value was adversely affected by the depreciation of the US dollar against the Swedish krona. Restated at a fixed exchange rate, the increase was 45.4%.

The Q3 increase was SEK 22.3m or 5.1%. Restated at the dollar exchange rate in effect at the beginning of the quarter, the increase would have been SEK 9.4m higher.

### North America

Orc delivered sustained performance in Q3 in the North American market. The company is benefiting from increased fierce competition among marketplaces and the continued migration from traditional floor trading to electronic trading.

Developments in the financial markets in Chicago and Canada also contributed to the performance during the quarter.

Derivatives trading volume has risen in the Chicago markets, and a new exchange opened in the Canadian market for the first time in ten years – Pure Trading in Toronto – in direct competition to the Toronto Stock Exchange. Along with the growing rate of electronic trading, this is driving demand for Orc solutions, especially Orc Liquidator.

Orc has met with continued demand in North America for trading in energy and other commodities. The transition from floor trading to electronic trading is another factor behind the favorable trend.

The company acquired several new customers in the region during the quarter, including Matlock Capital and Audentes Inc.

The order book grew during the quarter by SEK 4.8m or 5.2 percent to SEK 96.5m. The increase in the order book over the last twelve-month period was SEK 38.8m, or 67.4 percent.

### Europe

Orc is reporting stable sales growth in Europe during Q3 responding to greater demand for automated trading, connectivity, and derivatives trading solutions. Orc Liquidator posted a good quarter, most notably in the United Kingdom. Sales of advanced automated trading solutions are beginning to accelerate in the rest of Europe as well. Financial market players exhibited continued interest in the growing marketplaces in Eastern Europe, which is driving sales for Orc's connectivity solutions.

Orc is reinforcing its European market organization with new operations and further investments to address increased market demand and to insure growth. An office in Amsterdam was opened during the quarter.

New customers include Erik Penser Fondkommission and Oyens & van Eeghen.

The order book increased during the quarter by SEK 13.2m, or 5.0%, to SEK 277.2m. The increase in the order book over the last twelve month period was SEK 59.7m, or 27.5%.

### Asia and Australia

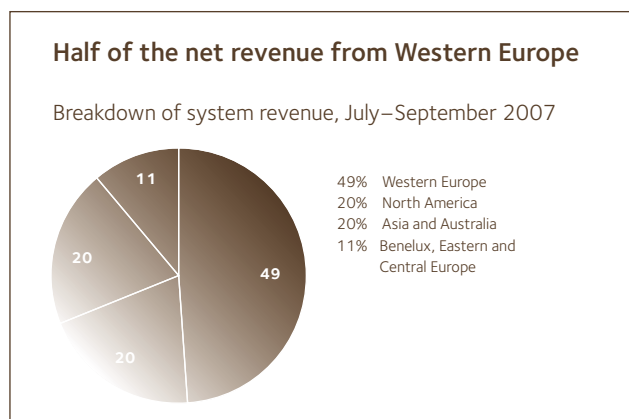
High market activity in the financial markets of Asia and Australia drove third-quarter sales for Orc. Main revenue growth for the quarter originated with existing clients who increased their investments in Orc solutions. The trend is continuing with demand for multi-market access in the region and advanced automated trading solutions.

Noteworthy Q3 business in the region included several sales of Orc Liquidator. As well, a global investment bank continued its uptake of Orc connectivity solutions.

The order book grew during the quarter by SEK 4.4m, or 5.6%, to SEK 82.3m. The increase in the order book over the last twelve month period was SEK 33.2m, or 67.2%.

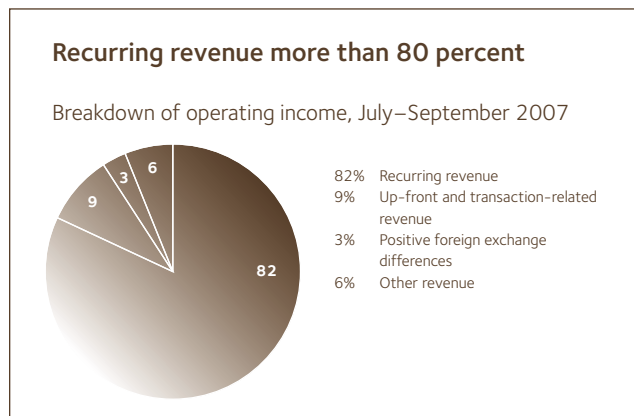
## Revenue

Net revenue in Q3 2007 was SEK 135.4m (103.6), an increase by 30.7 percent compared to Q3 2006.



<sup>1</sup> Defined as the annualized value of existing client contracts excluding transaction-related revenues, using the average exchange rates during the last month of the period, without taking into account foreign exchange hedges. New contracts are included as of the date invoicing is expected to begin and cancelled contracts are included until payment is discontinued.

Asia and Australia generated the greatest growth in absolute and relative terms at SEK 12.0m, 87.1 percent, followed by North America with SEK 9.1m or 52.5 percent.



Net revenue in Q3 2007 was composed of SEK 111.5m (86.7) in recurring revenue, SEK 12.4m (10.1) in upfront and transaction-related revenue, SEK 4.1m (1.9) in positive foreign exchange differences and SEK 7.4m (4.9) in other revenue. System sales accounted for SEK 106.8m (83.4) of recurring revenue.

Net revenue during the period of January–September 2007 totaled SEK 384.1 (306.7), an increase by 25.2 percent compared to the same period in the preceding year (see details of all regions under “Segment Reporting”).

## Operating expenses

Operating expenses increased in Q3 2007 by SEK 21.7m, or 26.7 percent, compared to Q3 2006, and totaled SEK 102.9m (81.2).

External expenses made up the bulk of the increase compared to Q3 2006. The increase is primarily attributable to major negative foreign exchange differences (see details under “Foreign Exchange Effects”), and expenses related to sales and marketing activities.

As of September 30 2007, Orc had 300 (239) employees. The number of employees increased by 39 people during Q3 2007, while the average number of employees during the quarter was 280 (233).

Of the total number of employees at the end of the period, 42 people were employees of the subsidiary E2E, which was divested as of October 1, 2007.

Operating expenses rose during the period of January–September 2007 by SEK 34.0m, or 13.0 percent, compared to the same period in 2006, to total SEK 294.7m (260.7).

## Earnings

Operating income for Q3 2007 was SEK 32.5m (22.4) corresponding to an increase of 45.1 percent over the same period in the preceding year.

The operating margin rose in Q3 2007 by 2.4 basis points to 24.0 percent.

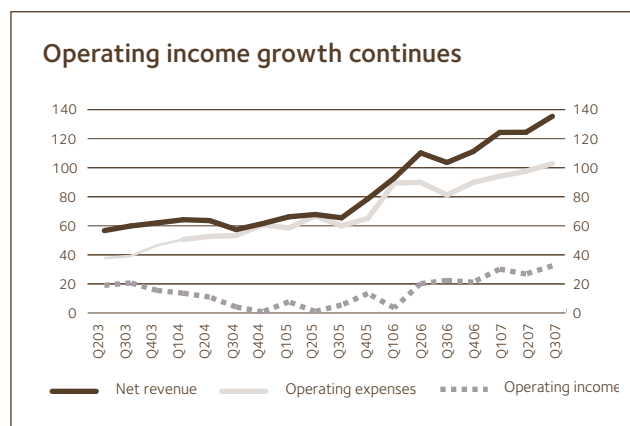
Operating income for the period of January–September increased by SEK 43.4m, or 94.3 percent, compared to the corresponding period in 2006 and amounted to SEK 89.4m (46.0).

It should be noted that the strong performance in operating income was delivered even as the US dollar depreciated against the Swedish krona (see details under “Foreign Exchange Effects”), Orc stepped up the sales and marketing activities, and increased the number of employees.

Net financial income for Q3 2007 changed by SEK 12.4m compared to Q3 2006 and by SEK 11.8m for the respective periods January–September.

Net financial income for 2007 includes a capital gain of SEK 15.5m from the divestment of shares in Infront AS. Because the capital gain is tax-exempt, the effective tax rate for the quarter and the period is lower than before.

Net income for the period increased in Q3 2007 by SEK 21.3m compared to Q3 2006. For the period of January–September 2007, net income increased by SEK 44.9m compared to the same period in 2006.



## Foreign Exchange Effects

Exchange rate movements affect Orc in several ways.

Goodwill and other intangible assets attributable to the acquisition of Cameron Systems is denominated in Australian dollar, and these assets are revaluated as of each closing day, with the change recognized in equity. The resulting foreign exchange effect for Q3 2007 was a gain of SEK 4.8m and for the period January–September 2007, a gain of SEK 5.8m.

Assets and liabilities denominated in foreign currency are also revaluated as of each closing day. Any positive change in the value of assets and liabilities connected to operations, such as accounts receivable, is recognized in Other revenue, while any negative change in the value is recognized in External expenses. The effect of these items in Q3 was a loss of SEK 2.9m. Changes in the value of other balance sheet items denominated in foreign currency, such as short-term investments, are recognized in Net financial income.

Orc Software applies limited foreign exchange hedging of incoming cash flows as well. These contracts are revaluated upon each closing day and also have an effect when they are settled. Any positive change in value is recognized in Other revenue, and any negative change is recognized in External expenses. The net effect during the quarter was marginal. There was a foreign exchange hedging contract for USD 1.0m (3.0) at the end of the period with one month remaining to maturity and an exchange rate of 6.78, corresponding to SEK 6.8m (21.5).

Operating revenue and expenses are also affected by movements in exchange rates, which have direct impact on the revenue or cost item. Net revenue is roughly distributed as follows: 35 percent in USD, 35 percent in EUR, 15 percent in SEK and 15 percent in other currencies. The approximate distribution of operating expenses is 20 percent in USD, 10 percent in EUR, 40 percent in SEK, and 30 percent in other currencies.

## Cash Flow, Investments, and Financial Position

Cash flow in January–September 2007 was SEK 28.9m (-172.0).

Cash flow for the period consisted mainly of positive flows generated through increased operating income including the divestment of shares in Infront AS, and negative flows generated by dividends to shareholders and increased accounts receivable due to higher sales.

The negative cash flow during the same period in 2006 was attributable mainly to payment for the acquisition of Cameron Systems.

Cash flow in Q3 was SEK 35.4m (-66.6).

The equity/assets ratio was 55.0 percent (53.8) as of September 30, 2007.

## Parent Company

As 80 percent of consolidated net revenue is attributable to the parent company and all major balance sheet items are held by the parent, remarks on the consolidated balance sheet and income statement are also applicable in all essential respects to the parent company.

There were no significant transactions with affiliated companies during the period.

## Events After Balance Sheet Day

It was announced on October 5 that Orc had finalized the divestment of its 51 percent of the shares in E2E Infotech. E2E is included in Orc's consolidated financial statements through September 30 2007. The divestment of the E2E shares resulted in a capital gain of approximately SEK 4.5m, which will affect net income in Q4 2007.

## Accounting Principles

This interim report was prepared in compliance with IAS 34, Interim Financial Reporting, which is consistent with the requirements set in Swedish Financial Accounting Standards Council Recommendation RR31, Financial Reporting for Groups. The same accounting principles were applied in the most recent annual report.

A brief description of how the accounting principles were applied for certain key items in Orc's financial statements follows.

### Revenues

Orc's revenues are generated mainly by sales of software licenses, which are billed quarterly in advance. Revenues are allocated to the billing quarter but at the exchange rates in effect as of the billing date. New clients are not billed until Orc has received a signed contract and the client has performed an acceptance test and approved the software.

### Goodwill

The useful life of goodwill is undetermined and the value of goodwill must accordingly be tested at least once a year. Orc assesses the value of goodwill based on estimated future cash flows in the company's cash generating units for the next 15 years.

### Capitalization of Development Expenditures

Orc applies a restrictive policy to capitalization of expenditures for development. The company capitalizes only expenditures attributable to projects that can be clearly separated and which refer either to new products or comprehensive improvements of existing products.

### Intangible Assets

Intangible assets other than goodwill or capitalized expenditures for development are amortized over 5–15 years, depending on the nature and estimated useful life of the asset. Orc performs regular controls to verify that the amortization periods of assets coincide with their estimated useful lives.

## Risks and Uncertainties

Orc is exposed to certain risks in the course of doing business that may impact earnings to a greater or lesser extent. A brief description of the most significant risks and their management follows.

The company operates in a high-growth industry and the market changes very rapidly. The company's ability to forecast market needs and adjust technical solutions thereafter is a critical success factor. For that reason, Orc has a separate department dedicated to analyzing market trends to ensure that the company's products remain at the forefront and always meet client requirements and needs.

Due to the nature of the business, Orc is dependent on the capacity to recruit and retain skilled employees. The company is committed to being an attractive employer that offers a good working environment and competitive employment conditions.

The business is utterly dependent on an efficient IT infrastructure, especially for the development department and the capacity to supply software to clients. Computer security is a high priority area that is managed through a variety of methods, including multiple servers with redundant data in various locations around the world, backups of various types, and fast response times for service providers.

Orc has some net exposure against the US dollar and the euro due to high client billing in those currencies, but the bulk of the company's costs are in Swedish kronor. However, the business model based on subscription software licensing with long contract terms and cancellation periods ensures relatively ample time to adjust costs should a sharp downturn occur in Orc's billing currencies.

The company has very few bad debts, in part because the clients are large, solid, and stable companies and in part because the company carefully examines the creditworthiness of new clients and takes an active approach to debt collection. The business model, by which clients gain access to the software with code keys, allows access to be easily denied to non-paying clients.

## Consolidated Income Statement

SEK thousands	Jan-Sep 2007	Jan-Sep 2006	Jul-Sep 2007	Jul-Sep 2006
Systems revenue	336 970	268 507	119 147	93 537
Other revenue	47 123	38 194	16 262	10 035
<b>Net revenue</b>	<b>384 093</b>	<b>306 701</b>	<b>135 409</b>	<b>103 572</b>
Purchase cost of goods sold	-18 694	-14 787	-7 231	-4 775
External expenses	-97 256	-76 515	-35 698	-20 643
Personnel costs	-174 928	-153 667	-59 309	-50 925
Work performed by the company for its own use and capitalized	12 118	997	3 750	997
Depreciation, amortization, and write-downs	-15 900	-16 700	-4 431	-5 872
<b>Operating expenses</b>	<b>-294 660</b>	<b>-260 672</b>	<b>-102 919</b>	<b>-81 218</b>
<b>Operating income</b>	<b>89 433</b>	<b>46 029</b>	<b>32 490</b>	<b>22 354</b>
Net financial income	13 937	2 126	12 583	227
<b>Income after financial costs</b>	<b>103 370</b>	<b>48 155</b>	<b>45 073</b>	<b>22 581</b>
Tax	-25 027	-14 674	-8 381	-7 157
<b>Net income for the period</b>	<b>78 343</b>	<b>33 481</b>	<b>36 692</b>	<b>15 424</b>
Net income for the period attributable to the minority interest	1 303	651	978	411
Net income for the period attributable to the Parent company's shareholders	77 040	32 830	35 714	15 013
Earnings per share before dilution	5.07	2.17	2.35	0.99
Earnings per share after dilution	5.05	2.17	2.34	0.99

## Consolidated Balance Sheet

SEK thousands	30 Sep 2007	30 Sep 2006	31 Dec 2006
<b>Assets</b>			
Goodwill	174 605	175 492	171 962
Other intangible fixed assets	95 529	85 215	85 569
Other fixed assets	35 066	29 713	39 662
Current receivables	166 291	107 178	103 230
Short-term investments	1 446	1 351	765
Cash and cash equivalents	102 729	51 807	73 899
<b>Total assets</b>	<b>575 666</b>	<b>450 756</b>	<b>475 087</b>
<b>Shareholder's equity and liabilities</b>			
Shareholder's equity	316 828	242 563	258 851
Long-term liabilities	50 456	49 189	51 219
Current liabilities	208 382	159 004	165 017
<b>Total shareholder's equity and liabilities</b>	<b>575 666</b>	<b>450 756</b>	<b>475 087</b>

A detailed presentation of the consolidated income statement and balance sheet for recent quarters is available on [www.orcsoftware.com](http://www.orcsoftware.com).

## Consolidated Specification of Changes in Equity

SEK thousands	Jan-Sep 2007	Jan-Sep 2006	Jul-Sep 2007	Jul-Sep 2006
Opening balance	258 851	192 192	273 901	222 845
Dividend	-30 404	-50 016	-	-
Transfer of repurchased shares	-	46 215	-	-
New share issue	-	31 255	-	-
Market valuation hedge instruments	-	-144	-	1 758
Translation differences related to intangible assets	5 838	-8 374	4 769	2 027
Change in subsidiaries	-63	-73	-	-
Translation differences related to the minority interests	-118	-9	-182	63
Change due to employee options	1 402	-	160	-
Translation differences, etc.	2 979	-1 964	1 488	446
Net income for the period attributable to the Parent company's shareholders	77 040	32 830	35 714	15 013
Net income for the period attributable to the minority interest	1 303	651	978	411
<b>Closing balance</b>	<b>316 828</b>	<b>242 563</b>	<b>316 828</b>	<b>242 563</b>
Shareholder's equity attributable to the Parent company's shareholders	312 761	239 822	312 761	239 822
Shareholder's equity attributable to the minority interest	4 067	2 741	4 067	2 741

## Consolidated Cash Flow Statement

SEK thousands	Jan-Sep 2007	Jan-Sep 2006
Cash flow from operating activities before changes in working capital	93 179	58 144
Changes in working capital	-28 748	-1 905
<b>Cash flow from operating activities</b>	<b>64 431</b>	<b>56 239</b>
Investments in businesses	-49	-170 192
Cash flow from investment activities	-5 077	-8 066
Cash flow from financing activities	-30 404	-50 016
<b>Cash flow for the period</b>	<b>28 901</b>	<b>-172 035</b>
Liquid funds at the beginning of the period	74 664	226 851
Exchange differences in liquid funds	610	-1 658
<b>Liquid funds at the end of the period</b>	<b>104 175</b>	<b>53 158</b>

## Segment Reporting

### January-September 2007

SEK thousands	Western Europe	Benelux, Eastern and Central Europe	North America	Asia and Australia	Joint Group	Total
Net revenue	198 765	40 472	72 284	57 963	14 609	384 093
Operating expenses	-83 298	-18 668	-39 097	-28 949	-124 648	-294 660
<b>Operating income</b>	<b>115 467</b>	<b>21 804</b>	<b>33 187</b>	<b>29 014</b>	<b>-110 039</b>	<b>89 433</b>

### January-September 2006

SEK thousands	Western Europe	Benelux, Eastern and Central Europe	North America	Asia and Australia	Joint Group	Total
Net revenue	170 783	27 568	57 382	41 340	9 628	306 701
Operating expenses	-65 047	-12 742	-27 377	-23 610	-131 896	-260 672
<b>Operating income</b>	<b>105 736</b>	<b>14 826</b>	<b>30 005</b>	<b>17 730</b>	<b>-122 268</b>	<b>46 029</b>

## Consolidated Key Ratios

	Jan-Sep 2007	Jan-Sep 2006	Jul-Sep 2007	Jul-Sep 2006
Net revenue, SEK thousands	384 093	306 701	135 409	103 572
Operating income, SEK thousands	89 433	46 029	32 490	22 354
Net income for the period, SEK thousands	78 343	33 481	36 692	15 424
Revenue growth	25.2%	53.7%	30.7%	58.2%
Operating margin	23.3%	15.0%	24.0%	21.6%
Number of outstanding shares, thousands	15 202	15 202	15 202	15 202
Number of shares, thousands	-	-	-	-
Earnings per share before dilution, SEK	5.07	2.17	2.35	0.99
Earnings per share after dilution, SEK	5.05	2.17	2.34	0.99
Equity per share, SEK	20.57	15.78	20.57	15.78
Return on capital employed	48.0%	29.8%	59.7%	35.9%
Return on equity	36.1%	20.4%	47.8%	23.9%
Equity/Asset ratio	55.0%	53.8%	55.0%	53.8%
Average number of employees	262	223	280	233
Number of employees at the end of the period	300	239	300	239

## Parent Company Income Statement

SEK thousands	Jan-Sep 2007	Jan-Sep 2006	Jul-Sep 2007	Jul-Sep 2006
Systems revenue	284 528	213 214	103 708	77 252
Other revenue	30 765	24 619	13 944	5 706
Work performed by the company for its own use and capitalized	12 118	997	3 750	997
<b>Net revenue</b>	<b>327 411</b>	<b>238 830</b>	<b>121 402</b>	<b>83 955</b>
Purchase cost of goods sold	-16 067	-9 787	-6 731	-3 768
External expenses	-181 132	-127 913	-65 831	-41 189
Personnel costs	-65 386	-56 981	-17 636	-13 361
Depreciation, amortization, and write-downs	-6 279	-8 599	-1 121	-2 980
<b>Operating expenses</b>	<b>-268 864</b>	<b>-203 280</b>	<b>-91 319</b>	<b>-61 298</b>
<b>Operating income</b>	<b>58 547</b>	<b>35 550</b>	<b>30 083</b>	<b>22 657</b>
Net financial income	23 363	596	19 855	445
<b>Income after financial costs</b>	<b>81 910</b>	<b>36 146</b>	<b>49 938</b>	<b>23 102</b>
Tax	-17 089	-9 756	-8 738	-7 193
<b>Net income for the period</b>	<b>64 821</b>	<b>26 390</b>	<b>41 200</b>	<b>15 909</b>

## Parent Company Balance Sheet

SEK thousands	30 Sep 2007	30 Sep 2006	31 Dec 2006
<b>Assets</b>			
Other intangible fixed assets	16 563	1 961	4 729
Other fixed assets	285 558	290 090	292 275
Current receivables	115 214	62 424	77 156
Short-term investments	1 003	824	-
Cash and cash equivalents	73 511	18 025	50 425
<b>Total assets</b>	<b>491 849</b>	<b>373 324</b>	<b>424 585</b>
<b>Shareholder's equity and liabilities</b>			
Shareholder's equity	197 381	158 928	162 965
Untaxed reserves	99 768	93 035	99 768
Provisions	84	64	323
Current liabilities	194 616	121 297	161 529
<b>Total shareholder's equity and liabilities</b>	<b>491 849</b>	<b>373 324</b>	<b>424 585</b>

**Forthcoming financial events**

January 24, 2008 Year-end report 2007

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

**FINANCIAL INFORMATION**

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A conference for market analysts and the press will be held on October 18 2007 at 9:00 a.m. CET (in Swedish). A phone conference in English will be held at 3:00 p.m. CET. For more information, please visit [www.orcsoftware.com](http://www.orcsoftware.com), Company, Investor Relations, Calendar 2007.

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Orc Software (SSE: ORC) is a leading global provider of technology for advanced derivatives trading and connectivity. Celebrating 20 years in 2007, Orc provides solutions and services to its worldwide customers from its offices across Europe, North America and Asia Pacific. Orc Software's customers include leading investment banks, trading and market-making firms, exchanges, brokerage houses, institutional investors, hedge funds and software vendors.

CameronFIX, the number one Financial Information Exchange protocol (FIX) platform, is an Orc Software connectivity solution. CameronFIX is used as a FIX platform by major members of the global financial industry.

Orc Software has offices in Amsterdam, Chicago, Frankfurt, Hong Kong, London, Milan, Moscow, New York, Stockholm, St. Petersburg, Sydney, Toronto, Vienna and Zurich.