

# Business overview

## Europe

Revenue for Europe in 2006 was up 35 percent on 2005 indicating increased market penetration for Orc Software's solutions in the region.

Orc Software is partner to the major and most advanced trading firms and banks across Europe. In regions such as Germany, UK, Nordic and Italy, our customers rely on us to provide solutions that are reliable, innovative and come supported with excellent services. This makes their IT operations easier to run whilst meeting their business objectives for providing solutions that scale easily with their growing requirements.

With the increase in mergers and acquisitions within the European banking sector, Orc's strong position with financial institutions makes it potentially the preferred solution provider for the new unified organisation and its expanded requirements. Their needs for optimising and automating order flow are very high, producing greater requirements for order routing and FIX connectivity. Orc's robust market connectivity is continuing to gain reputation within the financial industry.

2006 was an important year for MiFID preparation, with customers needing information and solutions regarding compliance regulations. MiFID promotes transparency and competition which is resulting in greater brokerage volumes across all asset classes and greater demand for sophisticated routing and order execution. Orc has developed MiFID solutions required by financial institutions to achieve best execution to multiple liquidity pools. We expect significant sales in this area going into 2007 and will be highly visible at MiFID conferences and trade shows across Europe.

Proprietary trading is driving market connectivity requirements across Europe as traders increasingly switch markets to capture rapid liquidity and volatility changes. Orc's connectivity solutions are highly regarded for providing stable, fast and well supported connections and this will provide many sales opportunities going into 2007.

"Orc Software is a leading technology provider delivering trading enhancements to our worldwide customers such as Van der Moolen. We are pleased to be working with Van der Moolen to provide proprietary trading enhancements that will accelerate its business."

Anders Henriksson, President Benelux,  
Central and Eastern Europe, Orc Software

The need for algorithmic trading capabilities and new interest in Eurex market making is driving interest for Orc's Liquidator solution. Emerging trading requirements from new territories, including Spain and France, are also driving this growth. Hungary, Poland, Slovenia and Czech Republic are now active in the warrants and market making business and Orc is there to capture their requirements going into 2007 with our unique market offering.

## North America

Revenue for North America in 2006 was up 189 percent on 2005 indicating a significant increase in market penetration for Orc Software's solutions in the region.

North America is the largest market in the world for financial services technology and holds great promise for Orc as we continue to gain momentum with deeper market penetration. 2006 was a pivotal year for Orc in the region with a number of key sales and successful implementations at tier one investment banks and large hedge funds. This success has helped further build Orc's credibility and buyer trust in the region.

During 2006 the North American market experienced unprecedented rapid change. Cross exchange trading is growing rapidly. Regulation National Market System (RegNMS) is raising the bar for all participants by forcing best execution, and opening the door for more competition between exchanges which is resulting in the further fragmentation of liquidity. Exchanges are diversifying into new asset classes, such as International Securities Exchange into equities, and New York Stock Exchange into fixed income. Floor markets are closing as they go electronic, and the first ECN Pure Trading is launching in Canada in 2007.

There is enormous focus on speed and minimising latency to take advantage of trading opportunities. In 2007 established exchanges will experience new competition from other exchanges and dark liquidity pools. Internal matching of orders will continue to grow. The major challenge the entire market faces is the exponential growth of market data, caused by the move to quotations in decimals and a larger number of contract types being traded. As a result Orc's solutions for multiple market connectivity, best execution, high performance and high throughput trading are in great demand.

We sharpened our focus for North America in 2006 with a targeted sales and marketing strategy that will lead us into 2007 and position our solutions for asset classes where we are proven and where we have key customers. Product development and management now concentrates on these customer segments. A major contributor to our success in North America is focused development such as the US Options Montage for one screen, real-time consolidated quotes for all equity options exchanges.

CameronFIX sales were strong in North America during 2006. Market awareness and reputation is high. In 2007 we expect considerable growth for CameronFIX both as a standalone solution, and also as an integrated FIX gateway on the Orc platform.

Increased focus in 2006 also extended to our North American sales and account management. This resulted in new senior hires during Q4. Our technical services and support team also grew during the year in response to continued growth and greater customer penetration going forward. We are confident our increased sales, account management and marketing resources will deliver strong results for Orc in 2007 and beyond.

#### Asia & Australia

Revenue for Asia and Australia in 2006 was up 80 percent on 2005 indicating increased market penetration for Orc Software's solutions in the region.

One of the most significant market trends we are capitalising on in Asia and Australia is the high demand for delivering remote, single screen, multi-market access. Orc's ability to provide this has resulted in many new customers during 2006 in centres including Hong Kong, Singapore, Korea, Taiwan, Malaysia, Japan, New Zealand and Hawaii. These new customers predominantly want access to the markets in Japan and Singapore. Revenues from our existing clients have also increased as their number of market connections expands and they add additional trader screens.

New connectivity to the Korean Cash market in late 2006 opened the door for the first Orc connections, with more expected for 2007.

Listed warrants and their traded volumes have increased significantly during the course of 2006 with firms looking for this additional functionality. We won the business of several new key customers in Asia based on our warrant market making functionality. The emerging Korean warrant market is one opportunity we are looking at in 2007, following the first set of warrants listed in late 2005. Over the course of 2006 it has grown to be the second largest equity linked warrant market in Asia behind Hong Kong.

Orc's strengths in market making derivatives products and our market connectivity will see continued sales throughout the region. Proof of this can be seen with our growth in the Taiwanese market where repeat installations reflect our market leading position.

"Barclays Capital is expanding its prime services business by teaming up with Orc Software... ExNet is providing Barclays Capital with an important advantage by helping to expand the distribution of Barclays Capital's global electronic access products worldwide whilst giving our customers greater access and flexibility through Orc's trading systems and network."

Angus Yang, Director, Head of Equity Prime Services  
Asia Pacific, Barclays Capital

CameronFIX is considered the leading connectivity solution in the region by major members of the global financial industry and the growing demand for FIX is driving further sales both as a stand alone and integrated Orc solution.

One of Orc's strongest market differentiators is its technical support. In Asia our team provides customers with a competitive advantage via their knowledge and experience with the major regional markets.