

Chief Executive Officer's Report

2006 was a pivotal year for Orc during which we reached a number of key milestones ensuring our continued market leading position for shaping and providing trading technology. Orc Software is a strong organisation today that achieved great results during the 2006 year with the potential to perform at even higher levels in the future. Our growth and profitability during 2006 indicate that together with ongoing market opportunity we can achieve greater results.

During the 2006 fiscal year Orc increased revenues by 50 percent to SEK 418 million. This was achieved through increased market penetration in the US, Asia and Australia regions. Orc increased sales to existing customers as well as new customers globally. The acquisition of Cameron Systems has also contributed to additional revenues.

It is a very positive result that operating income doubled to SEK 67 million, with margins also improving to 16.1 percent from the 9.9 percent 2005 levels. Similarly, Income after Taxes climbed 155 percent to SEK 51 million for the 12 months ended 31 December 2006. As a result, EPS improved significantly to SEK 3.30 from SEK 1.40 for 2005.

As a market leading provider of trading technology, it is important that Orc takes responsibility for the business critical role our solutions play. Our strengths lie in our solid understanding of our customer's requirements and the environment they work in. This combined with our well developed customer support infrastructure makes it possible to deliver the best solutions, regardless whether they are a large financial institution or a small trading firm. Our competitive edge stems from our ability to build and deploy trading solutions that exceed customer expectations whilst anticipating their constantly changing trading environment.

People facilitating future growth

During 2006, in combination with Orc's strong engineering foundation, we increased strategic focus in sales and marketing and product management. The management team was further strengthened with sales and marketing expertise; the additional team put together by internal promotion as well as through hiring external individuals who bring new skills for driving our business further. The result of these investments will grow a greater sales and marketing organisation and result in a more competitive Orc.

During 2006, we merged a number of sales offices in order to achieve consolidation and leverage combined resources. The new organisation is based on four regions with each region more efficiently utilising and benefiting from shared market intelligence and expertise, along with a combined broader understanding of the financial industry.

Marketing strategy for the future

Orc is today represented in all the major financial markets globally. We market solutions that are tailored to meet global, and at the same time local customer requirements. Whilst we focused primarily in past years on engineering and product development, we are now broadening this to ensure we successfully market our offering globally.

We are improving our marketing to ensure Orc gains visibility for increased awareness and acceptance of our competitive solutions and services globally. At the local level we are now creating greater visibility by, for example, investing more in exhibiting at premier financial industry events and conferences.

During 2007, we will see the introduction of a new solutions-based sales and marketing approach; a move away from Orc's traditional productised approach. The future for Orc is solutions-based selling to defined market segments. We will be known for building solutions that are high performance, interoperable, and backed by first class local support that responds to customer requirements as they grow.

Successful acquisition for expanded market offering

The integration of Cameron Systems was successfully finalised during 2006. The acquisition expanded Orc's market offering and enhanced its position as a leading technology provider for the worldwide financial industry. The flagship CameronFIX solution was integrated with the Orc platform and is now shipped to customers either as a stand-alone or integrated application. The successful acquisition process surrounding the integration of Cameron Systems has equipped Orc with valuable experience that can be applied again in the future.

Market trends working in Orc's favour

Of the emerging market trends, those currently most beneficial to Orc are the increase in trading volumes and the emergence of a larger number of market venues. The transition to electronic trading has accelerated and the traditional trading floor is being marginalised.

The introduction of regulations such as MiFID (EU) and Reg NMS (USA) is rapidly changing the nature of trading and providing new business opportunities for Orc. MiFID is driving the creation of new liquidity pools resulting in greater demand for multi-market connectivity from firms looking to meet best execution compliance requirements.

Orc's latest development for Best Execution Routing is receiving broad interest and market acceptance from existing and new customers looking for best of breed order routing capabilities.

In parallel with this, we are also witnessing growing demand from investors looking to trade to venues without direct membership. This trend is creating greater demand for direct market access (DMA). At the same time we are seeing continued growth for automated trading globally. With the rapid uptake and expansion of the FIX protocol, Orc is in a particularly advantageous position with its unmatched number of market connections and the reputable CameronFIX solution.

Focus on growth creates trust

The results for 2006, the development of our organisation with an improved approach to sales and marketing, together with Orc's strong market position, creates excellent conditions for improved profitability. Based on the clarity of our vision and capacity to capitalise on market trends and growth markets, the outlook for 2007 is very favourable. Orc is well and truly on track with a sound business model to meet our commitment to revenue growth for the future. Orc Software's medium term financial targets include an annual revenue growth of at least 15 percent, with an operating margin of 15 percent or higher.

I would like to thank our valuable customers, our board and our shareholders for their support. In addition I would like to acknowledge our employees competencies, and the dedication and creativity they have shown. It is this unity of vision and purpose that forms the backbone of our business and drives us to reach higher and continue to shape the way we trade today, tomorrow and in the future.



Thomas Bill
Chief Executive Officer