

# Directors' Report

The Board of Directors and Chief Executive Officer of Orc Software AB (publ), corporate identity number 556313-4583 and registered office in Stockholm, Sweden, hereby submit the accounts for the financial year 2006 for the Parent company and the Group.

## ABOUT ORC SOFTWARE

Orc Software is a global leader providing trading technology solutions to the worldwide financial industry, with competitive regional services, support and industry expertise in every major financial centre. Orc's 244 employees across 14 locations across Europe, North America, Asia and Australia support more than 600 customer sites, many of these representing some of the largest financial services companies.

## OUTLOOK

The annual value of existing client contracts<sup>1</sup> increased by 30 percent pro forma to SEK 346 million at year-end 2006. Accordingly, Orc Software is maintaining healthy growth. Adjusted for foreign exchange effects, the increase was 41 percent. Excluding the acquisition of Cameron Systems, the annual value of existing client contracts increased by 26 percent. The Board's objective is for minimum annual revenue growth of 15 percent, with a minimum operating margin of 15 percent.

## MARKET

Growth in trading volumes continued globally during 2006, creating greater demand for Orc's advanced trading technology. The financial community requires technology solutions that allow them to benefit from liquidity and volatility exchange variations. Market conditions have been greatly affected by the introduction of new regulations such as the EU-wide MiFID directive, and the US Regulation National Market System (RegNMS). The demand for Direct Market Access (DMA) greatly favors Orc Software's offering for market access and FIX connectivity.

The demand for Orc's derivatives trading solutions in the European markets remained strong throughout 2006. MiFID

is driving the creation of new marketplaces and services, and Orc is benefiting from resulting demand for solutions required for delivering best execution to traditional and new marketplaces. In Eastern Europe, greater interest in options trading is creating new business opportunities.

In the North American market, inter-exchange trading expanded as the markets continued to develop during 2006. Open outcry trading continued to migrate to electronic platforms, and the go-live of the first Electronic Communication Network (ECN) in Canada was planned for 2007. RegNMS requirements are creating demand for solutions to achieve best execution. Stock exchanges in the US increasingly extended their operations during 2006 to include additional asset classes. Orc Software developed a number of additional market connections in the year, and a number of sales for broader investment bank solutions were achieved including smart order routing for international trading.

In Asia and Australia, Orc Software benefited as a result of growing interest from the financial industry for trading multiple markets from a single screen. The increase in demand for derivatives market-making is also contributing to Orc's growth. During 2006 Orc advanced its position in the major Asian markets, including the emerging markets in Taiwan and Korea.

## SIGNIFICANT EVENTS

### Integration of Cameron Systems

Cameron Systems' solutions, services and operations were integrated with Orc during 2006. The global integration resulted in CameronFIX engineering, services and sales infrastructure, and staff being fully operational within the Orc organisation by the fourth quarter 2006. The flagship CameronFIX solution, as an integrated Orc market offering, is shipped as a stand-alone or integrated Orc platform application. The combined teams have operated in the Orc London, Sydney and Hong Kong offices since the fourth quarter. In the first quarter 2007, Orc and Cameron operations will be combined and integrated at Orc's New York office.

<sup>1</sup> Defined as the annualized value of existing client contracts, excluding transaction-based revenues, using average exchange rates during the final month of the period, disregarding currency hedging. New contracts are included as of the date invoicing is expected to begin and cancelled contracts are included until payment discontinues. Cameron Systems is included from December 31, 2005 onwards.

### MarketOn

The development of the MarketOn front-end solution began in fall 2005, in collaboration with OMX. As of December 31, 2006, the rights to some software components were sold to OMX for SEK 2.1 million. Orc Software is integrating MarketOn with the Orc platform to further develop its brokerage and DMA solution.

### New CEO

During September the Board of Directors announced Thomas Bill as the new Chief Executive Officer, effective October 1. Thomas Bill was previously CEO with Protect Data.

### Product development

Orc Trader and Orc Liquidator version 6.1 were launched in the fourth quarter 2006. The new version adds functionality including open API for the flexible integration of volatility models, enhanced analysis tools and DMA performance on global markets.

In 2006, Orc Software developed new connections to additional markets including the IntercontinentalExchange (commodities), EBS (FX), FXall (FX), Hotspot FXi (FX), ICAP (bonds) and Russian Trading Systems (equities).

### EVENTS AFTER THE END OF THE PERIOD

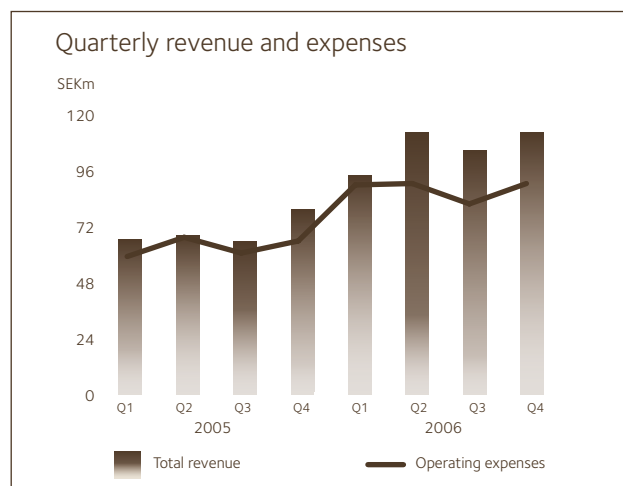
#### Orc Software appoints Anders Berg as CFO

Anders Berg was appointed Orc Software's CFO, effective March 12, 2007. He joins Orc Software from Investor AB, where for the past five years, he has been CFO. Mr. Berg will join the group management.

#### Acquisition of the remainder of Orc Education

As of January 1, 2007, Orc Software acquired the remaining 49 percent of the shares of Orc Software subsidiary Orc Education from Swedish Trading Institute AB. Orc Education arranges derivatives trading training packages.

### OPERATING REVENUE



Consolidated revenues increased by 50 percent in 2006 to SEK 418 (278) million. Excluding Cameron Systems, revenues grew by 29 percent, mainly due to increased systems revenues.

Sales on all geographical segments grew in 2006, with Americas posting the biggest percentage gains. Excluding Cameron Systems, all geographical segments achieved positive sales growth.

#### Sales by geographical market

SEK million	2006	2005	Change, %
Nordic region	110	83	33
Europe exc. Nordic region	162	119	36
Asia and Australia	54	30	80
Americas	78	27	189
Other (foreign exchange differences)	14	19	-26
<b>Total</b>	<b>418</b>	<b>278</b>	<b>50</b>

Systems revenues grew by 57 percent to SEK 365 (233) million, representing 87 (84) percent of revenues. Initial revenues, mainly from Cameron Systems' sales, amounted to some 9 percent of systems revenues in 2006. Excluding Cameron Systems, systems revenues grew by 31 percent.

Other operating revenue was SEK 53 (45) million, an 18 percent increase, due mainly to revenues from OMX of over SEK 10 million, and higher consulting revenues. Positive foreign exchange differences were SEK 14 (19) million.

### OPERATING EXPENSES

Operating expenses rose by 40 percent in 2006 to SEK 351 (250) million.

Personnel costs grew by 54 percent to SEK 205 (133) million in 2006, the increase mainly being a result of the acquisition of Cameron Systems, higher sales commission as a result of a strong year in sales terms, the reported severance pay and take-over of operations from OMX. Personnel costs also include a bonus of SEK 11.6 (1.9) million for the company's employees, including its management. The average number of employees increased by 22 percent during the year.

Cost of premises increased by 11 percent SEK 20 (18) million in 2006, largely a consequence of the acquisition of Cameron Systems.

Other external expenses<sup>2</sup> increased 43 percent to SEK 80 (56) million in 2006. The acquired company Cameron Systems represented half of this increase. The remaining cost increase was mainly a result of increased marketing activities and negative foreign exchange differences.

Depreciation, amortization and write-downs increased by 50 percent to SEK 24 (16) million in 2006. The increase is a consequence of a greater number of intangible fixed assets attributable to the acquisition of Cameron Systems and a write-down attributable to the rights to some software components of MarketOn that were sold to OMX for SEK 2.1 million.

### EARNINGS

In 2006, operating income increased by SEK 39 million to SEK 67 (28) million, equivalent to an operating margin of 16.1 (9.9) percent. The increase was mainly attributable to higher systems revenues and the acquisition of Cameron Systems. Excluding this acquisition, operating income increased by SEK 25 million.

Adjusted for items affecting comparability and foreign exchange effects, operating income was SEK 84 (27) million, equivalent to an operating margin of 20.9 (10.4) percent.

### DEVELOPMENT EXPENDITURE

Orc Software continues to invest substantial resources in product development for new and existing applications. The majority of development expenditure represented salaries. At year-end, 122 (107) people worked on product development in Hong Kong, London, Moscow, New York, St. Petersburg, Stockholm, Sydney and Toronto. Other product development expenditure includes computer equipment and premises for product developers, as well as external consultants.

Capitalized development expenditure was SEK 6.4 (-) million in 2006. This expenditure is mainly attributable to MarketOn, capitalized since September 1, 2006. The amortization of accumulated capitalized development expenditure was SEK 5.5 (7.8) million. The write-down on capitalized development expenditure was SEK 2.1 (-) million.

Total development expenditure increased by 32 percent in 2006 and amounted to approximately 21 (25) percent of total revenue<sup>3</sup>. The increased development expenditure is due to the acquisition of Cameron Systems and the expansion of internal development resources.

Development expenditure is expected to remain a significant part of operating expenses.

### CASH FLOW AND INVESTMENTS

Consolidated cash flow before changes in working capital and investments was SEK 81 (45) million in 2006.

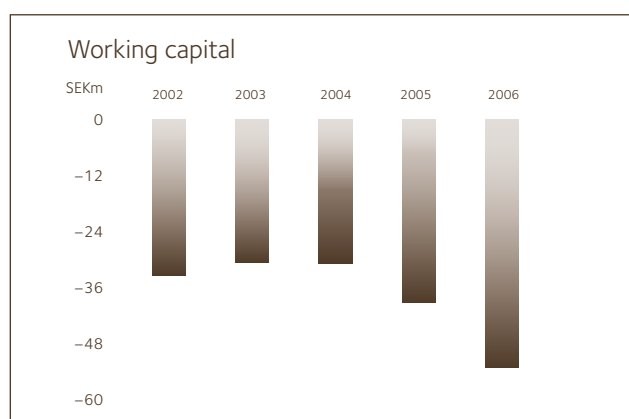
The change in working capital affected cash flow by SEK 12 (6.5) million in the year and mainly comprised increased operating liabilities, a result of increased sales. Operating capital amounted to SEK 184 (-35) million as of December 31, 2006. The acquisition of Cameron Systems affected operating capital through the reduction of liquid funds and increased shareholders' equity, which rose due to a new issue and the transfer of treasury shares.

<sup>2</sup> Other external expenses consist mainly of other external consulting (not related to product development), travel, marketing, and negative foreign exchange differences.

<sup>3</sup> Total revenue is adjusted for positive foreign exchange differences.

Consolidated investments amounted to SEK 192 (-8) million in 2006, which in main part relates to the acquisition of Cameron Systems.

At year end, Orc Software had no interest-bearing liabilities. Liquid funds amounted to SEK 75 (227) million as of December 31, 2006.



### SENSITIVITY ANALYSIS

The following sensitivity analysis reviews the annualized effect of a change in a number of factors on Orc Software's operating income.

Factor	Change	Effect on operating income, full year 2006, SEKm
License price	+/- 5%	+/- 18
Payroll cost	+/- 5%	-/+ 9
Development expenses	+/- 5%	-/+ 4
USD/SEK	+/- 5%	+/- 4 <sup>4</sup>
GBP/SEK	+/- 5%	-/+ 1 <sup>4</sup>
EUR/SEK	+/- 5%	+/- 4 <sup>4</sup>

<sup>4</sup> Disregarding existing currency hedging.

### TAXATION

In January - December 2006 period, the tax rate was 25 (38) percent. The lower tax rate in 2006 is partly due to deductible deficits in one subsidiary being accounted as a tax asset after a re-evaluation of the prospects of utilising deductible deficits, and partly a tax asset in the Parent company attributable to temporary differences that was not previously considered. The higher tax rate in 2005 was a consequence of an un-accounted tax asset attributable to a loss carry-forward in a subsidiary.

### HUMAN RESOURCES

As of December 31, 2006, Orc Software had 244 (207) employees. The average number of employees in 2006 was 227 (186). At year-end, the number of female employees was 48 (38) and the number of male employees equaled 196 (169). The average age of employees was 32 (32).

### DIVIDEND

The Board of Directors is proposing a dividend of SEK 2 per share for 2006, corresponding to a total of SEK 30 (50) million, which is 60 (244) percent of net income.

The proposed record day for dividends is April 30, 2007. If the Annual General Meeting approves this proposal, the scheduled payment date for dividends through VPC AB is May 4, 2007.

### CEO'S EMPLOYMENT TERMS

Since October 12, 2006, Orc Software's CEO Thomas Bill has received a fixed monthly salary of SEK 294 670. The maximum performance-related portion of salary is 56 percent of annual fixed salary. In addition, the CEO has premium-based pension benefits amounting to 15 percent of fixed salary.

### SHARE REPURCHASE

As of year-end 2006, Orc Software held no treasury shares; 513 500 Orc Software shares were used for the acquisition of Cameron Systems in the year. The Annual General Meeting 2006 authorised the board to acquire or divest the company's shares on one or more occasions in the period until the next Annual General Meeting.

## STOCK OPTION PLAN

A stock option plan for Orc Software employees was created in the fourth quarter 2006, and a new issue of 400 000 stock options was made in December 2006. The stock option plan is divided into two areas, one for employees in Sweden and one for those outside Sweden. Employees in Sweden are being offered the opportunity to acquire options at market price. Employees outside Sweden receive stock options free of charge, whose utilisation is dependent on their employment continuing until shares are subscribed. At year-end 2006, Swedish employees had subscribed for 93 700 options and 221 800 options had been reserved for apportionment to employees outside Sweden. The option premium for Swedish employees' warrants was SEK 10.02 per stock option. The exercise price of stock options is SEK 124, with a term of three years until December 31, 2009 inclusive. The issue is expected to imply maximum dilution of 2.6 percent of the shares and vote of the company. The new issue means that the share capital may increase by a maximum of SEK 40 000. The primary cost of the plan comprises payroll costs, including social costs for employees outside Sweden, and is estimated at some SEK 2.3 million over a term of just over two years.

## TRANSACTIONS WITH AFFILIATED COMPANIES

As of October 1, 2005, Orc Software took over activities including 12 employees from OMX, which is developing a new front end solution, MarketOn. These employees received remuneration on market terms in 2006, with OMX meeting the costs for developing the new solution for an initial period until August 31, 2006 inclusive. In 2006, Orc Software received reimbursement of SEK 8.3 million for these expenses. Orc Software carried these expenses from September 1, 2006, onwards.

As of December 31, 2006, Orc Software sold the rights for some MarketOn software components to OMX for SEK 2.1 million.

In the year, Cameron Systems sold FIX and FAST technology to OMX Market Technology in Australia for USD 200 000.

## THE PARENT COMPANY

The Parent company revenues increased by 30 percent to SEK 336 (259) million. Income after financial items amounted to SEK 46 (20) million. Liquid funds were SEK 50 (187)

million at year-end. At year-end, there were no short-term investments (SEK 164 million as of December 31, 2005). Additionally, the Parent company has an unutilised overdraft facility of SEK 20 million.

## APPROPRIATION OF EARNINGS

Orc Software AB (publ)

The following funds are at the disposal of the Annual General Meeting:

	SEK
Non-restricted reserves	93 720 928*
Net unrealized gains reserve	-140 015
Net income for the year	30 426 732
<b>Total</b>	<b>124 007 645</b>

\* Of which SEK 31 220 152 is attributable to share premium reserve during 2006.

The Board of Directors and chief executive officer propose that these funds are allocated as follows:

	SEK
Dividends to shareholders of SEK 2 per share, totaling	30 404 564
Carried forward	93 603 081
<b>Total</b>	<b>124 007 645</b>

The Board proposes an annual dividend of SEK 2 per share, which means that total dividends for 2006 amount to SEK 30 404 564.

In accordance with the Swedish Companies Act (2005:551), chapter 18, 4§, the Board provides the following clarifying statement on the dividend proposal:

The proposed dividend to shareholders will reduce the company's equity/assets ratio, from 58 percent to 55 percent, and the Group's equity/assets ratio to 51 percent. This equity to assets ratio, based on the knowledge that the company and the Group continue to operate profitably, is judged safe. It is the Board's conviction that the equity/assets ratio for the company and the Group can be maintained on an adequate level.

The Board estimates that the proposed dividend will not hinder the company, or other companies within the Group, from fulfilling their short-term or long-term obligations, and neither to complete required investments. The proposed dividend can thus be justified in accordance with the Companies Act, chapter 17, 3§, section 2-3 (the cautionary rule).

## SIGNATURES

Stockholm, Sweden, March 29, 2007



THOMAS BILL  
Chief Executive Officer



MAGNUS BÖCKER  
Chairman



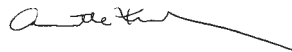
KATARINA BONDE



PATRIK ENBLAD



MARKUS GERDIEN



ANNETTE KUHLÉN



ÅKE DOVÄRN

Our audit has been submitted March 29, 2007.

Ernst & Young AB



BJÖRN FERNSTRÖM  
Authorized Public Accountant