



## Orc Software AB – Year-end financial report January 1 – December 31, 2006

### October-December 2006

- Revenue SEK 111 (79) million
- Operating income SEK 21 (13) million
- Operating income SEK 24 (14) million after adjustments for items affecting comparability and foreign exchange effects
- Operating margin 19.1 (17.0) percent
- Operating margin 22.2 (18.1) percent after adjustments for items affecting comparability and foreign exchange effects
- Income after taxes SEK 17 (8) million
- Earnings per share SEK 1.13 (0.54)

### Full year 2006

- Revenue SEK 418 (278) million
- Operating income SEK 67 (28) million
- Operating income SEK 84 (27) million after adjustments for items affecting comparability and foreign exchange effects
- Operating margin 16.1 (9.9) percent
- Operating margin 20.9 (10.4) percent after adjustments for items affecting comparability and foreign exchange effects
- Income after taxes SEK 51 (20) million
- Earnings per share SEK 3.30 (1.40)

### Significant events

- Strong sales during the quarter and the year in total
  - the annual value of existing client contracts increased by 11 percent from SEK 311 million to SEK 346 million during the quarter and by 30 percent proforma during the year in total
- The Board of Directors proposes a dividend for 2006 of SEK 2.00 per share

Orc Software (SSE: ORC) is a leading global provider of technology for advanced trading, market making and brokerage. Founded in 1987, Orc provides solutions and services to its 600+ worldwide customer sites from its 14 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) electronic trading standard, is a fully owned Orc connectivity solution and is also used as a stand-alone solution by major members of the global financial industry. Orc Software has offices in Chicago, New York, Toronto, London, Stockholm, Frankfurt, Milan, Vienna, Zurich, St. Petersburg, Moscow, Hong Kong and Sydney. In 2006, the company's revenue was SEK 418 million (USD 57 million).

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

## Future outlook

The annual value of existing client contracts<sup>1</sup> increased pro forma by 30 percent and amounted to SEK 346 million at the end of 2006. This implies continued good growth opportunities for OrcSoftware. 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 of Directors' objective is an annual revenue growth of at least 15 percent and an annual operating margin of at least 15 percent.

## Markets

Trading volumes continued to develop favorably during 2006 and the demand for advanced trading technology grew. Market participants require technology solutions that enable them to benefit from liquidity and volatility opportunities among the exchanges. Market conditions are also influenced to a large degree by the regulatory changes of the EU directive MiFID (Markets in Financial Instruments Directive) and the American Regulation National Market System (RegNMS). Demand for Direct Market Access (DMA) favours Orc Software's position for market access and FIX connectivity.

In Europe, demand for Orc Software's solutions continued to be favorable in all markets during the year, including growth in demand for derivative trading solutions. Within the regulatory area, MiFID is driving the creation of new marketplaces and services. The interpretation of MiFID by local financial supervisory authorities will commence in the first half-year 2007. Orc Software is benefiting from financial players demanding system solutions for effective trading within existing and new marketplaces. An increasing interest in options trading across Eastern Europe will contribute to new business opportunities for Orc Software.

In the North American market, the high pace of change continued in 2006 and cross exchange trading increased. Floor trading is transitioning into electronic trading and a first Electronic Crossing Network (ECN) will be launched in Canada in 2007. The further development of RegNMS places greater demands on best execution – to offer the lowest price in a stock market. During 2006, the exchanges diversified into new asset classes. OrcSoftware developed a number of market connections for FX trading during the year. Orc Software also grew by selling infrastructure solutions to investment banks and commercial banks, including order routing for international trading.

In Asia and Australia, Orc Software is benefiting from the growing interest of financial players in multi-market access from a single trading screen. Increased demand in market-making for derivatives is also contributing to driving Orc Software's business operations. Orc Software strengthened its position in 2006 on several markets in Asia, including the growing financial markets in Taiwan and Korea.

## Significant events

### Integration of Cameron Systems

Cameron Systems' products were assembled under the CameronFIX trademark and integrated into Orc Software's market solutions during the fourth quarter 2006. Business operations are managed from joint offices in London, Sydney and Hong Kong as of the fourth quarter. During the first quarter 2007, the Orc and Cameron operations will also merge in New York.

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<sup>1</sup> Defined as the annualized value of existing client contracts, excluding transaction-based 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. Cameron Systems is included in this calculation as of December 31, 2005.

## **MarketOn**

Development of the MarketOn front-end solution in collaboration with OMX commenced in the autumn of 2005. As of December 31, 2006 Intellectual Property Rights for certain software components for MarketOn have been sold to OMX for SEK 2.1 million. Orc Software integrates MarketOn with the Orc platform for expanded Brokerage and DMA solutions.

## **Product development**

Version 6.1 of Orc Trader and Orc Liquidator was launched in the fourth quarter. The new version contains an open API for the flexible integration of volatility models, improved analysis tools, greater direct access to global markets, etc.

Orc Software developed several market connections during 2006, including those for IntercontinentalExchange (commodities), EBS (FX), FXall (FX), Hotspot FXi (FX), ICAP (fixed income) and Russian Trading Systems (equities). During the fourth quarter the number of market connections increased from 116 to 117.

## **Events after the end of the period**

### **Acquisition of the remaining shares in Orc Education**

As of January 1, 2007 Orc Software has acquired the remaining 49 percent of the shares in OrcSoftware's subsidiary Orc Education from Swedish Trading Institute AB. OrcEducation organizes courses in derivatives trading.

## **Earnings**

### **Full year 2006**

Operating income increased by SEK 39 million during 2006 and amounted to SEK 67 (SEK 28 million during 2005) million, representing an operating margin of 16.1 (9.9) percent. The increase was primarily related to increased systems revenue and the acquisition of Cameron Systems. Excluding the acquisition of Cameron Systems, operating income increased by SEK 25 million.

After adjustments for items affecting comparability and foreign exchange effects, operating income amounted to SEK 84 (27) million, representing an operating margin of 20.9 (10.4) percent.

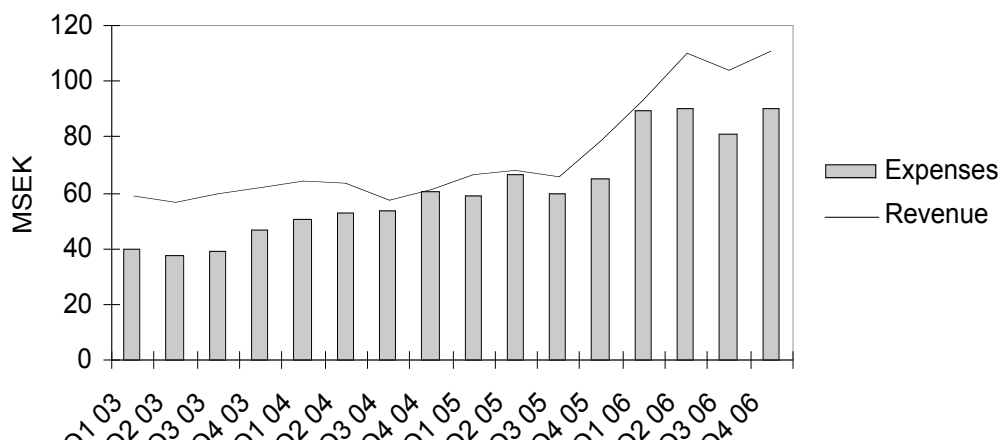
### **October-December 2006**

Operating income increased by 62 percent during October-December and amounted to SEK 21 (13) million, representing an operating margin of 19.1 (17.0) percent. Excluding the acquisition of Cameron Systems, operating income increased by SEK 8 million. Compared to the previous quarter, operating income decreased by 5 percent.

After adjustments for items affecting comparability and foreign exchange effects, operating income for the quarter amounted to SEK 24 (14) million, representing an operating margin of 22.2 (18.1) percent.

## Revenue

Quarterly revenue and expenses



### Full year 2006

Group revenue increased during 2006 by 50 percent to SEK 418 (278) million. Excluding Cameron Systems, revenue increased by 29 percent. The increase is primarily attributable to increased systems revenue.

Sales to all geographical segments increased during 2006. The largest percentage increase was shown in the Americas. Also excluding Cameron Systems, all geographical segments showed a positive development in sales.

### Revenue per geographic market

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

Systems revenue increased by 57 percent to SEK 365 (233) million and amounted to 87 (84) percent of total revenue. Initial revenue, mainly from Cameron Systems, amounted to about 9 percent of systems revenue for 2006. Excluding Cameron Systems, systems revenue increased by 31 percent.

Other operating revenue amounted to SEK 53 (45) million, representing an increase by 18 percent. The increase was related to revenue from OMX amounting to approximately SEK 10 million and higher revenue from professional services. Positive foreign exchange differences amounted to SEK 14 (19) million.

### October-December 2006

Group revenue increased during the fourth quarter 2006 by 41 percent to SEK 111 (79) million. Excluding Cameron Systems, revenue increased by 28 percent. Compared with the previous quarter, revenue increased by 7 percent.

Systems revenue increased by 50 percent to SEK 96 (64) million. Excluding Cameron Systems, systems revenue increased by 33 percent. In relation to the previous quarter, systems revenue increased by 3 percent. Excluding Cameron Systems, systems revenue increased by 7 percent. As previously communicated, Cameron Systems has started a transition to a license model similar to Orc Software's, which in the short term has a reducing effect on Cameron Systems' revenue.

Other operating revenue increased by 7 percent and amounted to SEK 15 (14) million. Compared with the previous quarter, Other operating revenue increased by 47 percent, partly attributable to an increase in positive foreign exchange differences that amounted to SEK 4.0 million and the sale of Intellectual Property Rights for certain software components for MarketOn to OMX for SEK 2.1 million. These revenues otherwise consisted of revenue from professional services and sales of hardware.

## Operating expenses

Operating expenses increased during 2006 by 40 percent to SEK 351 (250) million. In comparison to the previous quarter, operating expenses increased by 11 percent. There were no items affecting comparability during the fourth quarter.

Personnel costs increased during 2006 by 54 percent to SEK 205 (133) million. This increase is primarily a consequence of the acquisition of Cameron Systems, higher sales commissions resulting from a strong sales year, previously communicated severance pay, and the taking-over of operations from OMX. Personnel costs also include a bonus for the company's employees, including the management, equal to SEK 11.6 (1.9) million. The average number of employees increased by 22 percent during the year. During the fourth quarter personnel costs increased by 2 percent, compared to the third quarter. The increase is primarily due to higher vacation pay provision liabilities.

Cost of premises increased by 11 percent to SEK 20 (18) million during 2006, primarily a consequence of the acquisition of Cameron Systems. In relation to the previous quarter, cost of premises increased by 32 percent. This increase is attributable to the planned expansion of the existing offices, as communicated in the previous quarter.

Other external expenses <sup>2</sup> increased by 43 percent to SEK 80 (56) million during 2006. About half of the increase is attributable to the acquired Cameron Systems. Other cost rises are primarily a consequence of increased sales activities and negative foreign exchange differences. Compared with the previous quarter, Other external expenses increased by SEK 11 million. The increase is mainly attributable to increased sales activities, a larger use of external consultants, and the fourth quarter containing higher negative foreign exchange differences. The negative foreign exchange differences amounted to SEK 6.6 million in the quarter.

Depreciation, amortization and write-downs increased by 50 percent during 2006 and amounted to SEK 24 (16) million. This increase is attributable to higher Other intangible fixed assets, which in turn is related to the acquisition of Cameron Systems, and a write-down attributable to the Intellectual Property Rights for certain software components for MarketOn sold to OMX for SEK 2.1 million. Compared to the previous quarter, depreciation, amortization and write-downs increased by 17 percent, mainly due to the write-down for MarketOn. At the beginning of the same quarter an earlier development project was fully amortized.

## Development expenditure

Orc Software continues to invest considerable resources in product development of new and existing applications. The main development expenditures cover of salaries. At the end of the year, 122 (107) persons worked with product development in Hong Kong, London, Moscow, New York,

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

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 in 2006 amounted to SEK 6.4 (-) million, and primarily refer to MarketOn which has been capitalized since September 1, 2006. The amortization of accumulated capitalized development expenditure amounted to SEK 5.5 (7,8) million, and the write-down of capitalized development expenditure amounted to SEK 2.1 (-) million.

Total development expenditure in 2006 increased by 32 percent and amounted to approximately 21 (25) percent of total revenue<sup>3</sup>. This increase is attributable to the acquisition of Cameron Systems as well as an increase in internal development resources. It is anticipated that development expenditure will also represent a significant part of operating expenditure in the future.

## Cash flow and investments

Orc Software's cash flow before changes in working capital and investments was SEK 81 (45) million in 2006.

The change in working capital had an effect on cash flow to the amount of SEK 12 (6.5) million for 2006 and was primarily attributable to increased Other operating liabilities, a consequence of increased sales. Operating capital amounted to SEK 184 (-35) million at the end of December, 2006. The acquisition of Cameron Systems affected operating capital through a decline in liquid funds and an increase in shareholders' equity as a consequence of a new share issue and transfer of repurchased shares.

The Group's investments during 2006 amounted to SEK 192 (-8) million and were primarily related to the acquisition of Cameron Systems.

Orc Software did not have any interest-bearing liabilities at the end of the period. Liquid funds amounted to SEK 75 (227) million as of December 31, 2006.

## 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 and Euros, although invoicing is also done in Australian and Canadian dollars, Danish and Norwegian kronor, Japanese yen and British pounds. The Group has significant exposure in US dollars and Euros, for which revenue exceeds expenses, as well as in British pounds where expenses exceed revenue since the invoicing for UK clients is primarily denominated in US dollars.

The Group's exposed net inflow amounted to approximately SEK 103 in 2006, allocated as set out in the table below.

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

<b>Inflow 2006</b>	SEK million
EUR	71
USD	71
DKK	2
<b>Total</b>	<b>144</b>
<b>Outflow 2006</b>	
GBP	-23
HKD	-15
CHF	-1
CAD	-1
AUD	-1
<b>Total</b>	<b>-41</b>

Foreign exchange hedging affected operating income by SEK 2.6 (-5,6) million.<sup>4</sup>

In accordance with the company'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, 2006, future flows equivalent to SEK 40 (42) million had been hedged, consisting of USD 3.0 (3.0) million and EUR 2.0 (2.0) million. The currencies are hedged against the Swedish krona at an average forward rate of 7.23 (7.81) USD/SEK and 9.00 (9.38) EUR/SEK, respectively, with a total average remaining duration of 3 (4) months.

ii) Balance sheet exposure

Orc Software is exposed to fluctuations in the AUD/SEK exchange rate as a consequence of the intangible assets that arose upon the acquisition of Cameron Systems, which in accordance with current accounting principles are accounted for in AUD. The company has chosen not to hedge this exposure.

### 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 the Swedish issuers used by Orc Software must be ranked "K1" as per Standard & Poor's ratings and that the non-Swedish issuers must be ranked "A-1" and "P-1" as per Standard & Poor's and Moody's ratings.

The company's short-term investments, which at year-end amounted to a nominal value of SEK 0.8 (165) million, consisted of Swedish commercial papers with "K1" credit ratings and bank time deposits.

### Credit risks

In general, OrcSoftware's clients, who include investment banks, banks and brokerage houses, represent a strong capital segment, which consequently implies a low risk for bad debt losses. The company's bad debt 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. During 2006 bad debt losses amounted to 0.8 percent of the operating expenses.

### Sensitivity analysis

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

<sup>4</sup> The valuation is based on the exchange rates at the end of the accounting period: USD/SEK 6.87 and EUR/SEK 9.05.

<b>Factor</b>	<b>Change</b>	<b>Effect on Operating income for full year 2006, SEK million</b>
License price	+/- 5%	+/- 18
Salary costs	+/- 5%	-/+ 9
Development expenses	+/- 5%	-/+ 4
USD/SEK	+/- 5%	+/- 4 <sup>5</sup>
GBP/SEK	+/- 5%	-/+ 1 <sup>5</sup>
EUR/SEK	+/- 5%	+/- 4 <sup>5</sup>

## Taxation

The tax rate for January-December 2006 amounted to 25 (38) percent. The lower tax rate in 2006 is due in part to the fiscal deficit in a subsidiary having been accounted for as tax receivable further to a renewed assessment of the possibility to utilize the fiscal deficit, and in part to tax receivable in the Parent company attributable to temporary differences that have not previously been taken into consideration. The higher tax rate for 2005 was a consequence of non-recorded tax receivable pertaining to a loss deduction in a subsidiary.

## Employees

At the end of December 2006 Orc Software had 244 (207) employees. The total number of employees increased during the fourth quarter by 5. The average number of employees during 2006 was 227 (186). The number of female employees at year-end equaled 48 (38) and the number of male employees equaled 196 (169). The average age of the employees is 32 (32).

<b>Employees per geographical segment</b>			<b>Employees by function</b>		
	<b>31 Dec 2006</b>	<b>31 Dec 2005</b>		<b>31 Dec 2006</b>	<b>31 Dec 2005</b>
Sweden	78	72	Product development	122	107
Russia	38	47	Support and account management	55	45
Rest of Europe	42	36	Sales	34	29
North America	32	17	Company-wide functions	33	26
Asia & Australia	54	35			
<b>Total</b>	<b>244</b>	<b>207</b>	<b>Total</b>	<b>244</b>	<b>207</b>

## Dividend

The Board of Directors recommends the Annual General Meeting a dividend for 2006 equaling SEK 2 per share, totalling SEK 30 (50) million, comparable to 60 (244) percent of Net income. The proposed record day for dividends is April 30, 2006. If the Annual General Meeting votes in favor of the proposal, the expected payment date for the dividends is May 4, 2007. The dividends are paid through VPC AB.

## Conditions for the new CEO

Since October 12, 2006 Orc Software's CEO Thomas Bill has a fixed monthly salary of SEK 294670. The variable salary amounts to no more than 56 percent of the annual fixed salary. The CEO also receives a premium based pension benefit, which amounts to 15 percent of fixed salary.

<sup>5</sup> Without taking into account existing foreign exchange hedges.

## **Nominating committee**

The nominating committee consists of Magnus Eidemo (Skandia Liv), Ulf Strömsten (Catella), Magnus Böcker (OMX) and chairman Björn Lind (SEB Funds). The committee is responsible for issuing a proposal regarding the members of Orc Software's Board of Directors and Directors' compensation, chairman of the Annual General Meeting, choice of auditors, and audit fees.

## **Share repurchase**

Orc Software did not hold any own shares at the end of 2006. During the year, 513 500 own shares were utilized for the acquisition of Cameron Systems. The Annual General Meeting of Shareholders held in 2006 authorized the Board of Directors to acquire or transfer shares in the company during the period up to the next Annual General Meeting, one or several occasions.

## **Options program**

An options program for Orc Software employees was launched during the fourth quarter 2006 and a new issue of 400 000 warrants was registered in December 2006. The options program consists of two parts, one for employees in Sweden and one for employees outside Sweden. Employees in Sweden are offered to acquire warrants at market price. Employees outside Sweden receive options free of charge, that can be used for share subscription if they are employed at the time of the share subscription. At the end of 2006, employees in Sweden had subscribed for 93700 warrants and 221 800 options had been allocated to employees outside Sweden. The warrant price for employees in Sweden was set at SEK 10.02. The strike price is SEK 124 for the warrants and the duration is three years, running until December 31, 2009. The issue is estimated to imply a maximum dilution of 2.6 percent of the shares and votes in the company. The share capital may increase by a maximum of SEK 40 000. The principal costs for the program consist of salary costs, including social security charges, for employees outside Sweden and are estimated to approximately SEK 2.3 million over a two-year period.

## **Transactions with affiliated companies**

As of October 1, 2005 Orc Software has taken over operations including 12 employees from OMX for the development of a new front-end-solution, MarketOn. The employees have received market-equivalent compensation during 2006 and OMX assumed the expenses for developing the new product during an initial period until August 31 2006. Orc Software has during 2006 received compensation amounting to 8.3 million for these expenses. From September 1 2006, Orc Software has assumed the costs.

As of December 31 2006, Orc Software sold Intellectual Property Rights for certain software components for MarketOn to OMX for SEK 2.1 million.

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

## **The Parent company**

The Parent company's revenue increased by 30 percent to SEK 336 (259) million. Income after financial items amounted to SEK 46 (20) million. Liquid funds amounted at the end of the period to SEK 50 (187) million. There were no short-term investments at the end of the period (SEK 164 million as of December 31, 2005). In addition, the Parent company has an unutilized overdraft facility equal to SEK 20 million.

## Accounting principles

This Year-end report is prepared in accordance with IAS 34, Interim Financial Reporting, which is in accordance with the requirements stipulated by the Swedish Financial Accounting Standards Council recommendation RR31, Interim Financial Reporting for Groups. The same accounting principles have been used as in the last annual report.

The options program to employees of Orc Software is reported in accordance with IFRS 2 – Share-Based Payment.

The options that have been allocated to employees outside Sweden are considered as a benefit, which implies that the company reports the benefit's fair value in the income statement as a cost spread over the earned period. The counter-amount is reported as an increase in equity. The number of allocated options has been reduced by the estimated staff turnover. In accordance with URA 46, estimated costs for social charges have been calculated in the same way.

No benefit arises for employees in Sweden who acquired warrants at market value, and no related costs therefore burden the income statement. The premium for these warrants will increase the Group's liquid funds and equity at the time of payment on January 31, 2007.

## Acquisition of Cameron Systems

On February 1, Orc Software acquired 100 percent of the shares in Cameron Systems. The initial purchase price was set to SEK 169 million of which SEK 77 million was in Orc shares. An additional purchase price, based on Cameron Systems' revenue and income, was paid in September in the amount of SEK 76 million, including direct expenditures related to the acquisition.

Cameron Systems contributed with revenue of SEK 60 million and an operating income of SEK 22 million for the period February 1 to December 31, 2006. For the period January 1 to January 31, 2006 revenue amounted to SEK 2.3 million, with an operating income of SEK -0.3 million.

### Specification of acquired net assets

SEK thousands	
Acquisition value	
Cash payment	-167 918
Direct expenditures attributable to the acquisition	-7 446
352 282 newly issued Orc shares	-31 255
513 500 repurchased Orc shares	-46 215
<b>Total acquisition value</b>	<b>-252 834</b>

### Acquired assets and liabilities

SEK thousands	Fair value	Acquired book value
Intangible assets <sup>6</sup>	93 000	-
Tangible assets	735	735
Financial fixed assets	47	47
Receivables	13 359	13 359
Liquid funds	6 159	6 159
<b>Total assets</b>	<b>113 300</b>	<b>20 300</b>
Deferred tax liability	-26 040	-
Other liabilities	-11 758	-11 758
<b>Total liabilities</b>	<b>-37 798</b>	<b>-11 758</b>
<b>Total acquired net assets</b>	<b>75 502</b>	<b>8 542</b>

### Specification of acquired goodwill

Total acquisition value	252 834
Fair value of acquired net assets	-75 502
<b>Goodwill<sup>7</sup></b>	<b>177 332</b>

The acquisition of Cameron Systems has affected the Group's cash flow to the amount of SEK-1 69 million, consisting of the cash part of the purchase price as well as the direct expenditures related to the acquisition reduced by the acquired liquid funds.

The final acquisition analysis has been adjusted in the amount of SEK 2.8 million for other liabilities, which also affect goodwill pertaining to Cameron Systems.

<sup>6</sup> Concerns technology, brand name and client relations. Straight line amortization is applied on these intangible assets. From the total amount of SEK 93 million, 11 percent is related to trademarks with an amortization period of 5 years, 28 percent is related to customer relations with an amortization period of 10 years and 61 percent is related to technology with an amortization period of 15 years.

<sup>7</sup> Goodwill consists of anticipated future synergy effects through the expansion of the product range. In addition to synergy effects, personnel and future profitability also represent components of goodwill.

## Income statement

SEK thousands	2006	2005	Oct-Dec 2006	Oct-Dec 2005
<b>Operating revenue</b>				
Systems revenue	364 945	233 337	96 438	64 241
Other operating revenue	52 973	44 775	14 779	14 345
<b>Total revenue</b>	<b>417 918</b>	<b>278 112</b>	<b>111 217</b>	<b>78 586</b>
<b>Operating expenses</b>				
Purchase cost of goods sold	-19 768	-15 583	-4 981	-3 377
External expenses				
Cost of premises	-20 493	-17 703	-6 090	-4 863
Telecom expenses	-6 934	-9 275	-854	-1 974
Consulting fees	-1 248	-2 573	-203	-356
Other external expenses	-79 640	-55 843	-24 653	-15 198
Personnel costs	-205 383	-133 311	-51 716	-35 617
Work performed by the company for its own use and capitalized	6 394	-	5 397	-
Depreciation, amortization and write-downs	-23 567	-16 166	-6867	-3 806
<b>Total expenses</b>	<b>-350 639</b>	<b>-250 454</b>	<b>-89 967</b>	<b>-65 191</b>
<b>Operating income</b>	<b>67 279</b>	<b>27 658</b>	<b>21 250</b>	<b>13 395</b>
<b>Financial items</b>				
Income from participation in associated companies	-278	92	-77	-119
Financial income	1 548	9 265	-1 077	1 222
Financial expenses	-367	-3 947	-69	-131
<b>Net financial income</b>	<b>903</b>	<b>5 410</b>	<b>-1 223</b>	<b>972</b>
<b>Income after financial items</b>	<b>68 182</b>	<b>33 068</b>	<b>20 027</b>	<b>14 367</b>
Tax on net income for the period	-17 318	-12 577	-2 644	-6 159
<b>Net income for the period</b>	<b>50 864</b>	<b>20 491</b>	<b>17 383</b>	<b>8 208</b>
Net income for the period attributable to the minority interest	891	410	240	435
Net income for the period attributable to the Parent company's shareholders	49 973	20 081	17 143	7 773
Earnings per share <sup>8</sup> , SEK	3.30	1.40	1.13	0.54
Number of outstanding shares at the end of the period reduced by Orc Software's repurchase of own shares, thousands	15 202	14 337	15 202	14 337
Average number of outstanding shares reduced by Orc Software's repurchase of own shares, thousands	15 126	14 337	15 202	14 337

<sup>8</sup> Orc Software has options issued to employees that is estimated to imply a maximum dilution of 2.6 percent. As of December 31, 2006 the options did not imply any dilution effect as the average share price did not exceed the exercise price. Orc Software does not have any outstanding conversion loans.

## Balance sheet

SEK thousands	31 Dec, 2006	31 Dec, 2005
<b>ASSETS</b>		
<b>Fixed assets</b>		
Intangible assets		
Capitalized development expenditure	4 729	5 964
Goodwill <sup>9</sup>	171 962	476
Other intangible fixed assets <sup>10</sup>	80 840	680
Tangible assets		
Equipment	23 670	16 364
Shares in associated companies	-	87
Available-for-sale investments	3 082	3 082
Other long-term financial fixed assets	2 338	1 670
Deferred tax receivable	10 572	2 027
<b>Total fixed assets</b>	<b>297 193</b>	<b>30 350</b>
<b>Current assets</b>		
Current receivables		
Accounts receivable	83 597	48 062
Prepaid tax	4 135	2 312
Other receivables	6 249	6 790
Prepaid expenses and accrued income	9 249	7 617
Short-term investments	765	164 852
Cash and bank balances	73 899	61 999
<b>Total current assets</b>	<b>177 894</b>	<b>291 632</b>
<b>TOTAL ASSETS</b>	<b>475 087</b>	<b>321 982</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Share capital	1 520	1 485
Other contributed capital	126 404	60 115
Reserves	-9 126	378
Retained earnings	137 108	128 115
Equity attributable to the minority interest	2 945	2 099
<b>Total shareholders' equity</b>	<b>258 851</b>	<b>192 192</b>
<b>Long-term liabilities</b>		
Deferred tax liability	51 219	26 260
<b>Total long-term liabilities</b>	<b>51 219</b>	<b>26 260</b>
<b>Current liabilities</b>		
Accounts payable	11 602	9 487
Tax liabilities	12 802	1 812
Other liabilities	6 747	4 273
Accrued expenses and prepaid income	133 866	87 958
Shares in associated companies	-	-
<b>Total current liabilities</b>	<b>165 017</b>	<b>103 530</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>475 087</b>	<b>321 982</b>
Pledged assets	None	None
Contingent liabilities	None	None

<sup>9</sup> This item pertains to Cameron Systems, Orc ExNet and E2E infotech. Goodwill in Cameron Systems is stated in Australian dollars and goodwill in E2E infotech is stated in British pounds. Both are adjusted according to the closing day rate. The Group's goodwill is specified on the next page.

<sup>10</sup> This item pertains to Cameron Systems.

## Specification of the Group's goodwill

Goodwill arose in conjunction with the acquisition of Cameron Systems, E2E infotech and the establishment of Orc ExNet.

SEK thousands	
Opening gross amount January 1, 2006	476
Opening accumulated write-downs January 1, 2006	-
Goodwill added during the year	177 332
Write-downs during the year	-
Translation differences	-5 846
<b>Closing gross value and accumulated write-downs December 31, 2006</b>	<b>171 962</b>

## Specification of the Group's equity

SEK thousands	2006	2005	Oct-Dec 2006	Oct-Dec 2005
Opening balance	192 192	199 192	242 563	191 726
The effect of the implementation of IAS 39, January 1, 2005	-	-2 184	-	-
Dividend	-50 016	-22 729 <sup>11</sup>	-	-
Transfer of repurchased shares	46 215	-	-	-
Fair value of Available-for-sale investments	-	-140	-	-
New share issue	31 255	-	-	-
Market valuation hedge instruments	-144	144	-	144
Translation differences related to intangible assets	-9 408	-58	-1 034	-58
Change in subsidiaries	-412	-6 755	-339	-9 599
Change in minority	-45	1 452	-36	1 452
Change in associated companies	-	205	-	205
Options program	28	-	28	-
Translation difference etc.	-1 678	2 574	286	114
Net income for the period attributable to Parent company's shareholders	49 973	20 081	17 143	7 773
Net income for the period attributable to the minority interest	891	410	240	435
<b>Closing balance</b>	<b>258 851</b>	<b>192 192</b>	<b>258 851</b>	<b>192 192</b>
Shareholders' equity attributable to the Parent company's shareholders	255 906	190 093	255 906	190 093
Shareholders' equity attributable to the minority interest	2 945	2 099	2 945	2 099

The sum of revenue and expenses for 2006 calculated as the sum of revenue and expenses, which are accounted for on the income statement and directly against shareholders' equity, amounted to SEK 40 (23) million as of December 31, 2006. Of this amount, SEK 39 (23) million is related to the Parent company's shareholders and SEK 0.9 (0.4) million is related to the minority interest.

<sup>11</sup> Of which SEK 1 224 thousand refers to dividends from Orc ExNet.

## Cash flow statement

SEK thousands	2006	2005
<b>Operating activities</b>		
Operating income	67 279	27 658
Adjustment for items not included in cash flow		
Depreciation, amortization and write-downs	23 567	16 166
Other adjustments for items not included in cash flow	1 453	-3 527
Financial items	1 487	5 357
Income tax paid	-12 492	-1 068
<b>Cash flow from operating activities before changes in working capital</b>	<b>81 294</b>	<b>44 586</b>
<b>Changes in working capital</b>		
Changes in accounts receivable	-23 339	-4 149
Changes in other operating assets	-1 189	-1 225
Changes in accounts payable	-956	2 535
Changes in other operating liabilities	37 943	9 301
<b>Total change in working capital</b>	<b>12 459</b>	<b>6 462</b>
<b>Cash flow from operating activities</b>	<b>93 753</b>	<b>51 048</b>
<b>Investment activities</b>		
Investments in intangible fixed assets	-6 394	-
Investments in tangible fixed assets	-15 034	-6 211
Investments in businesses <sup>12</sup>	-169 205	-6 853
Sale of businesses	-501	-
Changes in financial fixed assets	-937	20 982
<b>Cash flow from investment activities</b>	<b>-192 071</b>	<b>7 918</b>
<b>Financing activities</b>		
Dividend	-50 016	-22 729
<b>Cash flow from financing activities</b>	<b>-50 016</b>	<b>-22 729</b>
Change in liquid funds	-148 334	36 237
Opening liquid funds	226 851	186 166
Translation difference/exchange differences in liquid funds	-3 853	4 448
Closing liquid funds	74 664	226 851

<sup>12</sup> The part of the acquisition value assignable to Cameron Systems that consists of Orc shares does not affect the cash flow for the Group.

## Geographical segments

Orc Software's risks and opportunities are mainly influenced by the company being operational within different geographical areas based on the location of customers. Thus, the primary segment division consists of the geographical areas. Orc Software's products and services are of similar character, aimed at similar client groups, distributed in a similar manner and have a similar production process. In this way the business consists of only one operating structure and information regarding the classification of the operating structure is therefore not provided.

The local operations mainly consist of sales and support efforts and in certain cases development. Functions such as Group management, legal, human resources, accounting and administration, marketing, development, etc. are located centrally and are considered joint Group resources. This means that a great part of the Group's expenses cannot be attributed to a specific geographical area in a reliable way and they therefore remain unallocated.

### Revenue

SEK thousands	2006	2005	Oct-Dec 2006	Oct-Dec 2005
Europe	271 554	202 463	73 202	57 350
Americas	78 544	27 009	21 162	8 926
Asia/Australia	54 229	29 817	12 889	8 776
Other	13 591	18 823	3 963	3 534
<b>Total</b>	<b>417 918</b>	<b>278 112</b>	<b>111 217</b>	<b>78 586</b>

### Operating income <sup>13</sup>

SEK thousands	2006	2005	Oct-Dec 2006	Oct-Dec 2005
Europe	163 951	126 619	44 222	39 490
Americas	37 222	7 312	7 217	2 572
Asia/Australia	22 133	7 857	2 590	1 253
Other	-156 027	-114 130	-32 779	-29 919
<b>Total</b>	<b>67 279</b>	<b>27 658</b>	<b>21 250</b>	<b>13 395</b>

### Key ratios

	2006	2005	Oct-dec 2006	Oct-dec 2005
Operating margin, %	16.1	9.9	19.1	17.0
Return on equity, %	22	10	26	16
Return on capital employed, %	31	19	31	30
Asset turnover ratio	1.9	1.4	1.7	1.6
Equity/assets ratio, %	54	60	54	60
Average number of employees	227	186	241	200
Number of employees at the end of the period (of which women)	244 (48)	207 (38)	244 (48)	207(38)
Earnings per share, SEK	3.30	1.40	1.13	0.54
Equity per share, SEK	16.83	13.26	16.83	13.26
Share price at the end of the period, SEK	116.50	88.50	116.50	88.50

<sup>13</sup> Income for the geographical segments is reported before joint Group costs.

## Quarterly figures

### Income statement

SEK thousands	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
<b>Operating revenue</b>								
Systems revenue	96 438	93 537	97 292	77 678	64 241	56 096	56 605	56 395
Other operating revenue	14 779	10 035	12 924	15 235	14 345	9 385	11 222	9 823
<b>Total revenue</b>	<b>111 217</b>	<b>103 572</b>	<b>110 216</b>	<b>92 913</b>	<b>78 586</b>	<b>65 481</b>	<b>67 827</b>	<b>66 218</b>
<b>Operating expenses</b>								
Other expenses	-31 384	-24 421	-36 735	-29 149	-25 768	-26 117	-26 526	-22 565
Personnel costs	-51 716	-50 925	-47 529	-55 213	-35 617	-29 917	-36 079	-31 698
Depreciation, amortization and write- downs	-6 867	-5 872	-5 784	-5 044	-3 806	-3 941	-4 191	-4 228
<b>Total expenses</b>	<b>-89 967</b>	<b>-81 218</b>	<b>-90 048</b>	<b>-89 406</b>	<b>-65 191</b>	<b>-59 975</b>	<b>-66 796</b>	<b>-58 491</b>
<b>Operating income</b>	<b>21 250</b>	<b>22 354</b>	<b>20 168</b>	<b>3 507</b>	<b>13 395</b>	<b>5 506</b>	<b>1 031</b>	<b>7 727</b>
<b>Net financial items</b>	<b>-1 223</b>	<b>227</b>	<b>1 070</b>	<b>829</b>	<b>972</b>	<b>2 413</b>	<b>930</b>	<b>1 095</b>
Tax on net income for the period	-2 644	-7 157	-6 187	-1 330	-6 159	-2 916	-538	-2 964
<b>Net income for the period</b>	<b>17 383</b>	<b>15 424</b>	<b>15 051</b>	<b>3 006</b>	<b>8 208</b>	<b>5 003</b>	<b>1 423</b>	<b>5 858</b>
Net income for the period attributable to the minority interest	240	411	255	-15	435	234	-330	71
Net income for the period attributable to the Parent company's shareholders	17 143	15 013	14 796	3 021	7 773	4 769	1 753	5 787

### Balance sheet

SEK thousands	31 Dec 2006	30 Sept 2006	30 Jun 2006	31 Mar 2006	31 Dec 2005	30 Sept 2005	30 Jun 2005	31 Mar 2005
<b>Fixed assets</b>								
Intangible assets	257 531	260 707	184 898	194 153	7 120	9 134	11 165	13 155
Tangible assets	23 670	18 432	19 143	19 987	16 364	16 287	17 244	17 890
Financial assets	15 992	11 281	8 920	8 625	6 866	7 831	31 173	28 414
<b>Total fixed assets</b>	<b>297 193</b>	<b>290 420</b>	<b>212 961</b>	<b>222 765</b>	<b>30 350</b>	<b>33 252</b>	<b>59 582</b>	<b>59 459</b>
<b>Current assets</b>								
Accounts receivable	83 597	83 143	67 481	71 177	48 062	43 830	43 271	41 741
Other receivables	19 633	24 035	20 865	20 308	16 719	30 416	21 207	31 267
Cash and bank balances and short-term investments	74 664	53 158	117 726	143 675	226 851	205 919	189 004	185 536
<b>Total current assets</b>	<b>177 894</b>	<b>160 336</b>	<b>206 072</b>	<b>235 160</b>	<b>291 632</b>	<b>280 165</b>	<b>253 482</b>	<b>258 544</b>
<b>TOTAL ASSETS</b>	<b>475 087</b>	<b>450 756</b>	<b>419 033</b>	<b>457 925</b>	<b>321 982</b>	<b>313 417</b>	<b>313 064</b>	<b>318 003</b>
Shareholders' equity	258 851	242 563	222 845	265 758	192 192	191 726	187 702	203 559
Deferred tax liability	51 219	49 189	49 512	50 865	26 260	25 718	25 881	25 335
Current non interest- bearing liabilities	165 017	159 004	146 676	141 302	103 530	95 973	99 481	89 109
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>475 087</b>	<b>450 756</b>	<b>419 033</b>	<b>457 925</b>	<b>321 982</b>	<b>313 417</b>	<b>313 064</b>	<b>318 003</b>

## Forthcoming financial events

April 19, 2007	Interim report for the first quarter
April 25, 2007	Annual General Meeting
July 13, 2007	Interim report for the second quarter
October 18, 2007	Interim report for the third quarter

The annual report will be available at Orc Software's Swedish office two weeks prior to the Annual General Meeting at the latest and will be distributed to shareholders.

## Contact details for the nominating committee:

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

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

## Analyst and press meeting, and telephone conference

An analyst and press conference will be held on January 25, 2007 at 1 p.m. (CET) (in Swedish), and a telephone conference will be held at 4 p.m. (CET) (in English). Further information is available at [www.orcsoftware.com](http://www.orcsoftware.com), Company, Investor Relations, Calendar.

The Board of Directors and the CEO approved on January 24, 2007 this interim report, covering the period January-December 2006, for publication on January 25, 2007.

The Board

## For further information please contact:

Thomas Bill, CEO, tel: + 46 8 407 38 35

Lars Johansson, EVP, tel: +46 8 407 38 24 (until January 31)

## **Report on Review of Interim Financial Information**

*We have reviewed the interim report for the period January 1 to December 31, 2006, for Orc Software AB (publ). The Board is responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review.*

### **Scope of Review**

*We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden RS and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.*

### **Conclusion**

*Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at December 31, 2006, and of its financial performance and its cash flows for the twelve month period then ended in accordance with IAS 34.*

*Stockholm January 25, 2007*

*Ernst & Young AB*

*Björn Fernström  
Authorized public accountant*

Definitions can be found at [www.orcsoftware.com](http://www.orcsoftware.com), Company, Investor Relations, Interim Reports.

Orc Software AB (publ)  
Info@orcsoftware.com  
www.orcsoftware.com

Org.no. 556313-4583  
Birger Jarlsgatan 32A Box 7742  
SE-103 95 Stockholm Sweden

T +46 8 407 38 00  
F +46 8 407 38 01