TEMENOS

Annual Report 2001

Corporate Profile

TEMENOS is a global leader in providing financial institutions with integrated banking systems that increase productivity, profitability, and allow them to respond to changing market conditions. The company's solution, TEMENOS GLOBUS, is utilised in a variety of segments including retail and wholesale banking as well as for treasury and accounting functions. TEMENOS has 33 offices in 20 countries and over 270 installed client bases. The company had revenues of US$140.9 million for the year ended December 31, 2001. In June 2001, TEMENOS became a public company, quoted on the SWX Swiss Exchange.

Trading details

Listing: Main segment of SWX Swiss Exchange
Symbol: TEMN
Swiss security number: 124 5391
ISIN: CH 00124 53913
Common Code: 13169144

Key Figures (December 31)

All financial units in thousands of US dollars except earnings per share

	2001	2000
Employees	1259	811
Revenues	140,868	95,250
Operating Profit	15,607	15,586
Margin	11%	16%
Net profit	5,942	11,209
Margin	4%	12%
Total assets	171,387	65,459
Shareholders' equity (deficit)	97,597	(42,360)

Basic earnings per share	USD 0.13	USD 0.20
Diluted earnings per share	USD 0.12	USD 0.19
Return on equity	6.1%	NA

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Financial Highlights

(in millions of US dollars)

	2001 *31 December (12 months)*	2000 *31 December (12 months)*	1999 *31 December (6 months)*	1998/99 *30 June (12 months)*	1997/98 *30 June (12 months)*
Revenues	140.9	95.3	28.8	43.6	20.9
Operating costs and expenses	124.7	79.2	24.9	38.5	21.5
Operating profit before amortisation of goodwill	16.2	16.1	3.9	5.1	(0.7)
Profit before taxation	9.9	13.8	3.5	5.0	(0.8)
Net profit attributable to the Group	5.9	11.2	2.8	4.2	(1.3)
Basic earnings per share (in US$)	0.13	0.20	0.09*	0.06	(0.05)
Diluted earnings per share (in US$)	0.12	0.19	0.09*	0.06	(0.05)
Current assets	132.7	47.4	24.1	20.4	9.5
Non-current assets	38.7	18.0	10.1	5.1	6.3
Total assets	171.4	65.4	34.2	25.5	15.8
Current liabilities	(24.6)	(24.7)	(13.5)	(9.8)	(6.7)
Deferred revenues	(16.6)	(20.0)	(13.7)	(11.7)	(5.1)
Non-current liabilities	(30.1)	(62.4)	-	(0.1)	(0.2)
Total liabilities	(71.3)	(107.1)	(27.2)	(21.6)	(12.0)
Minority interest	(2.5)	(0.7)	(0.2)	-	-
Shareholders' equity (deficit)	97.6	(42.4)	6.8	3.9	3.8

(*)Issued and outstanding shares weighted on the basis of six months to facilitate comparison.

Chairman's Statement

TEMENOS has established a tradition of performing beyond expectations. In this sense, the year 2001 was a disappointing year: we simply met expectations. The performance was, nevertheless, impressive, considering the adverse market conditions which prevailed in that year. Our annual revenues grew from US$ 95.3 million in 2000 to US$ 140.9 million in 2001 - an impressive rate of growth of 48%. Our operating profit was maintained at US$ 15.6 million, despite the cost pressures which were inevitably generated by our rapid growth. Our staff grew from 811 on 31 December 2000 to 1,259 on 31 December 2001 - a rate of growth of 55%. In the year under review, we added two new offices to our already extensive network of offices (Frankfurt and Madrid) while a new office is being opened in Moscow. Our after tax profits in the year 2001 were lower than those of 2000 but this was totally expected and it was the result of being called upon to absorb the heavy finance costs which our corporate restructuring entailed. Of the total net financing costs reported in 2001 (US$ 7,387 thousand), finance charges of US$ 7,328 thousand relate to the first half of the year, i.e. they represent pre-IPO costs.

In the sphere of expanding the capabilities of TEMENOS GLOBUS, our achievements were no less noteworthy: our acquisition of Alphametrics Limited and its banking treasury system was completed in April. Later in the year, we completed our acquisition of IRIS, now TEMENOS COREBANKING, a retail banking system developed by a consortium of Spanish banks with the support and encouragement of IBM. In the course of the year, we initiated the process of two further acquisitions: a regulatory reporting system focused on the financial services industry, which has been developed by Quetzal Informatique SA - a company based in France - and OneWealth, a wealth management software system, also geared towards satisfying the needs of the financial services industry and those of its clients. In the latter case, we acquired a 20% equity interest in the business with the option to acquire full ownership over a period of approximately four years. Both these agreements were concluded in the early part of the year 2002.

In parallel to the acquisitions referred to above, in the course of the year 2001 and, particularly, in the second half of that year, we invested heavily in developing new modules and in integrating into TEMENOS GLOBUS the software acquired through acquisitions. Our staff, who are directly involved in software development, increased from 125 in July 2000 to 165 in December 2000, to 300 in July 2001, to 342 in December 2001. This heavy investment inevitably resulted in a substantially larger amount of development costs being capitalised in the current accounting period, compared to the amount which was capitalised in earlier accounting periods.

In the year 2001, we successfully completed our corporate restructuring, which was the prelude to the initial public offering (IPO) of our shares on the SWX (main) Swiss Exchange, on 26 June 2001. This was, indeed, an achievement in a year when very few companies managed to reach the trading floor of any internationally recognised stock exchange and the stock of software companies was avoided by investors, almost at any cost. The investing climate which prevailed in the year 2001 was, undoubtedly, negative and our achievement must be measured against this background. The public listing of our shares helped us to raise the capital we needed to fuel our growth and to enable us to implement our ambitious - but solid - plans for the future. However, as all those who have been involved in an IPO would know, the public listing had a defocusing effect on the business. This was unavoidable and expected but, nonetheless, it represented a significant cost.

As we were coming out of the IPO process and starting to focus on the business again, we suffered another blow, resulting from the events which occurred in New York on the 11th of September. Not only our offices in New York (on the 52nd and 84th floors of the World Trade Centre building) were destroyed but the financial industry, reacting to these events and to the world recession which was already under way, effectively froze all new projects and embarked on large-scale dismissals of their staff. For a period of 2-3 months, few banks were in the mood of discussing new major projects and, effectively, no bank was prepared to undertake firm commitments in this respect. Some banks put system development projects "on hold" and, in certain cases, such projects were cancelled altogether. This adverse business climate did take its toll and the TEMENOS Group could not remain unaffected. It is, indeed, for these reasons that I feel that our performance in the year ended 31 December 2001 was truly impressive.

In some respects we were lucky. All our staff in the World Trade Centre managed to walk down the emergency staircase and we did not suffer the tragic loss of life other businesses did. The fact that we were successful in raising the capital we needed just before the zenith of the crisis enables us to view the future with optimism while other enterprises, desperately short of cash, are struggling to survive. Already, there are signs that the worst is over. Banks are quickly coming to realise that it is of vital importance for them to become more efficient and more competitive. This goal can only be achieved through upgrading their information management systems. As a consequence, we are already experiencing a revived interest in our products and we are absolutely convinced that this interest will grow over the next few months. The nature and size of these investments is such that a "gestation" period of, say, six months is fairly common. It follows that this revived interest cannot be immediately transformed into revenue streams. This is not a source of concern for us because we are well equipped to ride the inevitably difficult first quarter of the year 2002.

2001 was indeed a very difficult year, the worst in TEMENOS' history. Our achievements in the year under review were, nonetheless, significant: we grew revenues by a substantial margin, took the company public, opened new offices, hired 500 new staff worldwide, survived the New York disaster, we were voted number one by an independent industry publication for the fourth year in a row, invested heavily into the product and outperformed our competitors. We believe that the crisis experienced in the last quarter of the year 2001 has helped us to become more lean and efficient and to focus more aggressively on business development opportunities.

TEMENOS is a truly global operation and we have what is probably the most versatile (but robust) software, capable of serving the banking industry on a worldwide basis. We know of no national frontiers - in terms of culture, people and product capabilities. We have the products and the infrastructure that are needed and we have a solid financial position which will enable us to explore fully the opportunities which lie ahead of us. We are truly optimistic when we look into the future. As in the past, we will outperform our expectations for the benefit of our investors, our staff and our clients.

The spirit of TEMENOS is stronger than ever. In re-building our operations in New York, the loyalty and commitment of our staff and, in particular, the exceptional resolve of our American staff is an inspiration to all of us. The world stage may be volatile but TEMENOS is strong and focused. We generate positive results because we have a constructive mindset. We care about our clients, our staff and our investors.

George Koukis Chairman & CEO

Board of Directors

The Directors of the Company, their background and their responsibilities within the Group are set out below:

George Koukis (56) *Chairman and Chief Executive Officer* [3]

Mr. G. Koukis received his degree in commerce from the University of Technology in Sydney, Australia and he is a registered CPA. Mr. Koukis has been active in the software industry for more than 20 years, having begun at Qantas, where he was heavily involved with the computerisation of the company's management accounting department. He then spent six years with Management Science America (MSA) in Australia, where he held various management positions, including that of the managing director. Mr. Koukis serves as a non-executive director of Global Technology Limited, a publicly listed company in South Africa, which is one of the principal shareholders of TEMENOS Group AG and a distributor (either directly or through affiliated entities) of GLOBUS in sub-Saharan Africa, Australia and New Zealand.

Kim Goodall (46) *Vice Chairman and Marketing Director* [4]

Mr. K. Goodall began his career as a financial management trainee with Qantas. After leaving Qantas, Mr. Goodall joined Management Science America (MSA) where he worked in the support and marketing areas in the Sydney, Singapore and Hong Kong offices. In 1992, Mr. Goodall founded PK Technology, a Malaysian information technology company, which is the distributor of GLOBUS in the Philippines, Brunei and Malaysia and a “sub-contractor” in the provision of software implementation support services to TEMENOS GROUP clients. Mr. Goodall is a small shareholder of PK Technology and he serves as a non-executive director of the company. Mr. Goodall is also a director of an affiliated entity of Global Technology Limited, which serves as the GLOBUS distributor in Australia and New Zealand. Mr. Goodall is a member of the Australian Computer Society, a member of the Chartered Institute of Marketing and a Justice of the Peace.

Andreas Andreades (36) *Deputy Chief Executive Officer* [5]

Mr. A. Andreades started his career with KPMG in London in 1988. After spending five years in the accounting profession, he joined PepsiCo, where he held a number of strategic, sales and general management positions. Mr. Andreades holds an engineering degree from the University of Cambridge and is a U.K. chartered accountant. He joined TEMENOS in 1999, initially in the position of Chief Financial Officer, prior to assuming the responsibilities of the Deputy Chief Executive Officer of the Group.

Ray Leonard (56) *Non-executive Director* [3]

Mr. R. Leonard is the chief executive officer and a major shareholder of Global Technology Limited, one of the principal shareholders of TEMENOS Group AG and a distributor (either directly or through an affiliated entity) of GLOBUS in sub-Saharan Africa, Australia and New Zealand. From 1970 to 1989, Mr. Leonard worked at First National Bank Limited of South Africa, ultimately serving as general manager, Finance and Administration. Prior to that time, he served as financial manager at Bakers Limited and Renou Plastics (Pty) Ltd. He is a Chartered Management Accountant and a Fellow of the Institute of Chartered Secretaries and Administrators.

Chris Pavlou (56) *Non-executive Director* [1, 2, 3]

Mr. C. Pavlou has served as the Treasurer of Barclays Bank in London and New York, of the Hong Kong & Shanghai Banking Corporation in Hong Kong and of HSBC Midland in Tokyo. He is the Asia Pacific Regional Delegate of the International Forex Association. He retired from HSBC in 1998 and currently delivers speeches and writes articles on treasury and foreign exchange operations. He also serves as Chairman of Popular Investments Corporation and as a non-executive director of the Popular Banking Group.

Lewis Polk Rutherfurd (57) *Non-executive Director* [1, 2, 4]

Mr. L. Rutherfurd holds a bachelor's degree in East Asia Studies from Princeton University and an MBA with distinction from Harvard Business School. Mr. Rutherfurd is a co-founder and managing director of Inter-Asia Management, Inter-Asia Venture Management II Partnership and Inter-Asia Capital III. He is a former Governor and Vice President of the American Chamber of Commerce in Hong Kong. He is a co-founder and past chairman of the HK Venture Capital Association. One of the investment funds Mr. Rutherfurd is associated with has a small equity interest in TEMENOS Group AG.

Angelos Plakopitas (62) *Non-executive Director* [2, 5]

Mr. A. Plakopitas holds an economics degree from the Athens Economic University and an MBA from the Graduate School of Business Administration of the New York University. Mr. Plakopitas is the founder and managing director of Global Finance AE, which (through affiliated entities) holds a substantial equity interest in TEMENOS Group AG. He was the general manager of the largest Greek wood producer for 10 years and he has 14 years of experience in financial institutions both in Greece and the US, mainly with Citibank.

Paul Selway-Swift (58) *Non-executive Director* [1, 2, 4]

Mr. P. Selway-Swift began his banking career in 1962 when he joined the HSBC Group. In 1988, he was appointed HSBC's Group General Manager for Hong Kong and China and became executive director of HSBC Hong Kong and China in 1992. In 1996, Mr. Selway-Swift moved to London to become Deputy Chairman of HSBC Investment Bank with responsibility for investment and private banking. Concurrently, he served as Chairman of Samuel Montagu of HSBC Capital Markets India and Deputy Chairman of Guyerzeller Bank, Zurich. He retired from the HSBC Group in 1998. He is currently a director of several public companies including Alba Plc, Singer & Friedlander Group Plc, SVB Holdings Plc, Li and Fung Ltd and BIL International Ltd.

1 *Member of Audit Committee*
2 *Member of Compensation Committee*
3 *Due for re-election in 2002*
4 *Due for re-election in 2003*
5 *Due for re-election in 2004*

CHIEF FINANCIAL OFFICER

David Arnott (33) *Chief Financial Officer*

Mr. D. Arnott holds a BSc degree from the University of Southampton and is a U.K. chartered accountant. Mr. Arnott has been serving as the Chief Financial Officer of the TEMENOS GROUP since April 2001. Prior to joining the Group he had worked as Chief Financial Officer of Société Européene de Communication in Luxembourg. From 1996 to 1999, Mr. Arnott held a number of senior finance positions at Anglo-American plc, a mining and precious metals trading company.

Directors' Report

on corporate governance, results, financial position and future developments

The directors present their annual report and the audited financial statements for the year ended 31 December 2001. This report should be read in conjunction with the Chairman's Statement.

DIRECTORS

The composition of the Board of Directors of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, and of TEMENOS Holdings NV, which serves as the sub-holding company of the Group and the owner of the intellectual property rights over the software owned by the Group, is identical. The composition of the Board is set out on pages 6 and 7. The Board of Directors comprises the chairman and chief executive officer, the vice-chairman and marketing director, the deputy chief executive officer and five non-executive directors. Three of the non-executive directors are associated with companies which hold shares in TEMENOS Group AG. One of the remaining two independent directors holds 11,400 shares in TEMENOS Group AG. All directors may take independent professional advice at the Company's expense, if they deem such a course of action necessary or appropriate for discharging their duties adequately.

The Board meets periodically during the year. It is responsible for the overall strategy and direction of the Group and for approving acquisitions and disposals, management performance, major capital and development expenditure and significant financing matters. The Board monitors exposure to key business risks and reviews the strategic direction of the Company's operating subsidiaries, their annual budgets, their progress against those budgets and their development programmes. The Board also considers employee issues and key appointments. The non-executive directors are independent of management.

The Audit Committee and Remuneration Committee operate within defined terms of reference. The Audit Committee and the Remuneration Committee comprise non-executive directors. The Audit Committee is required to meet at least twice in every year to consider the Company's public reports, to review the work of the external auditors and to review and consider the Group's internal controls, compliance with corporate governance rules and any other matter that may be brought to its attention by the external auditors.

The Compensation Committee reviews, at least once a year, the compensation payable to the 10 highest remunerated officers of the Group and seeks to confirm that such compensation is in line with market norms.

RELATIONS WITH SHAREHOLDERS

The Company encourages a two-way communication with both institutional and private investors and endeavours to respond promptly to queries received. All shareholders have at least twenty days' notice of the Annual General Meeting. The directors and the auditors are introduced and are available for questions at the Annual General Meeting.

FINANCIAL REPORTING

A review of the performance of the Group is set out in the Chairman's Statement. The directors' responsibilities for the financial statements are described in a subsequent section of this report.

INTERNAL CONTROL

The directors are responsible for the Group's system of internal control, which contains procedures designed to safeguard assets against unauthorised use or disposition; to maintain proper accounting records and to safeguard the reliability of financial information used within the Group or for publication outside it. Such a system can provide only reasonable but not absolute assurance against material misstatement, losses or fraud. The Group has plans to employ an internal auditor, who would report directly to the Chairman and Chief Executive Officer of the Group and, ultimately, to the Board of Directors. These plans were not implemented in 2001, as a result of the cost containment exercise which was undertaken in the fourth quarter of that year. However, the intention is to re-activate these plans in the course of 2002.

An ongoing process for identifying, evaluating and managing the risks confronting the Group is at the design and implementation stage. Until such time as this process is fully implemented, the principal onus for ensuring that these risks are identified, properly evaluated and adequately managed falls on the Chief Financial Officer of the Group.

As might be expected in a group of this size, a key control procedure is the day-to-day supervision of the business by the executive directors. In discharging this duty, the executive directors travel extensively and they regularly visit all the operating entities of the Group.

All senior appointments to the Group's subsidiary entities are approved by the Board of Directors of the Company.

Financial results are monitored by the entire Board on a quarterly basis and comparisons made against budget plans. Executive directors monitor financial results on the basis of a formal monthly financial reporting system and on an ad hoc basis, whenever circumstances demand.

Towards the end of each financial year, detailed budgets for each area of the business are prepared for the following year and then reviewed by the Board. Responsibilities for financial performance against plans and for capital expenditure are delegated, with limits, to line management. A very significant part of the Group's financial and management information is processed by and stored on computer systems. Accordingly, the Group has established controls and procedures over the security of data held on computer systems. In this context, it is worth noting that when, in September 2001, the Group had the misfortune to see its offices at the World Trade Center in New York being destroyed, the resulting loss of financial and management information was totally insignificant.

The Board confirms that measures continue to be taken to reinforce internal controls and risk management procedures and to deal with areas of improvement which come to management's and the Board's attention. This is a goal which is pursued on an on-going basis while ensuring that an equilibrium is maintained between the minimisation of risk and of the costs associated with this process.

COMPLIANCE STATEMENT

The members of the Board, both individually and collectively, confirm that they are not aware of any events or circumstances which could be viewed as constituting material departures from the rules of good corporate governance and which have, or should have, prompted corrective action on the part of the Board or management.

REPORT BY THE BOARD TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION

The Company's policy, endorsed by the Remuneration Committee, is to provide appropriate remuneration, including share options, to attract and retain executives of the highest calibre. The Remuneration Committee reviews the performance of the executive directors and recommends their annual remuneration, bonus awards and awards of share options to the Board for final determination. Basic salary and the granting of executive share options for the executive directors are determined by the Remuneration Committee after taking account of prevailing market conditions and recognition of individual effort, talent and expertise.

The TEMENOS GROUP is currently reviewing the compensation, including bonuses, of its employees, worldwide, by reference to the prevailing market norms, at each of the locations it operates. The results of this study shall form the basis of evaluating the arrangements currently in place and, if necessary, adjusting these arrangements so as to harmonise them with prevailing market conditions. Irrespective of the need to periodically undertake such an exercise, management has no reasons to believe that major adjustments will prove to be necessary at the end of this process.

The remuneration of the non-executive directors is recommended by the executive directors and takes account of time spent on committee matters, final determinations being made by the Board as a whole. The Remuneration Committee consults the Chairman about its proposals and, if necessary, has access to professional advice.

In the year under review, all the executive directors of the Group have consented to maintain their remuneration at the levels which applied in the preceding year.

Further details of directors' remuneration and share options are set out in notes 13 and 24 to the financial statements.

ACTIVITIES

The activities of the Group comprise the development and licensing of software, which is designed to serve the needs of financial institutions, as well as the provision of implementation and maintenance support services to the licensees of the software.

REVIEW OF DEVELOPMENTS

A review of developments is given in the Chairman's Statement.

POST BALANCE SHEET EVENTS

In January 2002, the Group acquired a 20% equity interest in INFOservice SRL, a company based near Venice, with the option to acquire all its shares over a period of 3-4 years. This option must be exercised by the end of 2002. INFOservice SRL has developed and markets a wealth management software system which could be integrated with GLOBUS with relative ease. The Group has also acquired all the shares of QUETZAL Informatique SA, a French company, which has developed a sophisticated regulatory reporting system designed to facilitate compliance with the regulatory reporting requirements imposed on financial institutions around the world. The integration of this product into GLOBUS is already under way. These investments have been effected by a combination of shares and cash, the aggregate value of which does not exceed US$ 5 million.

The Group is in the process of opening a new office in Moscow and plans to open an office in Tokyo. The addition of these offices to the already extensive network of offices operated by the Group around the world will further reinforce its ability to serve its clients on a truly global basis.

RESULTS AND DIVIDENDS

The results for the year are shown in the consolidated statement of earnings which forms part of the consolidated financial statements of the Group. A review of the results for the year is given in the Chairman's Statement.

As stated in the Prospectus of the initial public offering of its shares, TEMENOS Group AG intends to retain its earnings and future earnings to finance the development and growth of the business and it does not currently anticipate declaring or paying any cash dividends on its shares.

DEVELOPMENT EXPENDITURE

Save the software development expenditure, which is associated with specifically identified software development projects, the Group expenses such expenditure as it is incurred. The software development expenditure that is undertaken for specific clients is, likewise, expensed as incurred.

As a result of the acquisitions effected in the course of 2001 but also because of recruiting software development staff in order to expedite the process of integrating jBASE, the TEMENOS proprietary database platform, and the treasury front office system, acquired through the acquisition of Alphametrics Limited, with GLOBUS, a significant number of developers was added in 2001 to the software development force of the Group. Thus, the number of developers grew from 125 in July 2000, to 165 in December 2000, to 300 in July 2001, to 342 in December 2001.

This heavy investment in development work has resulted in the amount of development costs, which were capitalised in the second half of 2001, substantially increasing compared to the amount capitalised in previous periods. The amount of development costs capitalised in each financial period is reflected in the table below (in US$ thousand):

	Amount Capitalised	Amount Amortised	Net Increase (decrease)
Up to 30 June 1997	6 105	2 078	4 027
Year to 30 June 1998	1 319	2 034	(715)
Year to 30 June 1999	378	1 803	(1 425)
Year to 30 June 2000	775	1 195	(420)
Six months to 31 December 2000 *	1 042	530	512
Year to 31 December 2001	4 102	1 047	3 055
Amount extinguished	(893)	(893)	-
Total	12 828	7 794	5 034

(*) The accounting year-end of the Group was changed from 30 June to 31 December.

DIRECTORS AND THEIR INTERESTS

The current directors of the Company are shown on page 6. All the directors held office throughout the year, except for Mr. Paul Selway-Swift, who was appointed in June 2001.

The interests of the directors in the share capital of the Company are shown below, under "Substantial Shareholdings". The entire equity of subsidiary undertakings is held by the Group, except for 49% of the shares of TEMENOS Eastern Europe Limited, which is held by INFORMER AE, the distributor of GLOBUS for Greece and Cyprus.

SHARE CAPITAL

Details of the movements in share capital are set out in note 13.

SUBSTANTIAL SHAREHOLDINGS

So far as the Company is aware, the only holdings of 5% or more in the issued share capital of the Company are those of the Chairman and Chief Executive Officer (35.9%) and of the Vice-Chairman and Marketing Director (15.2%). In addition, Global Technology Limited and its affiliate Global Technology Investment Holdings (Pty) Limited, hold 15.3% of the share capital of the Group. Global Technology Limited is a publicly listed company in South Africa and serves as the distributor of TEMENOS in sub-Saharan Africa, Australia and New Zealand. Mr. Ray Leonard, who serves on the Board of TEMENOS Group AG, is a director and major shareholder of the Global Technology Group. Finally, Global Capital Investors Limited Partnership and Global Capital Investors II Limited Partnership, together with certain entities related to them, collectively hold 6% of the share capital of the Group. Mr. Angelos Plakopitas, who serves on the Board of TEMENOS Group AG, is a director and has a substantial equity interest in this group. The number of the shares, which were offered to and were subscribed for by the public in June 2001, represented 21.2% of the then issued and outstanding share capital of TEMENOS Group AG, after the issuance of those shares. In addition, Mr. Paul Selway-Swift owned 11,400 shares as at 31 December 2001.

POLICY ON PAYMENT OF CREDITORS

It is the Group's policy and normal practice to make payments to all suppliers in accordance with the credit terms agreed upon, provided that the supplier performs in accordance with the terms and conditions of the related agreement.

CONTRIBUTIONS AND SPONSORSHIPS

In the course of 2001, the TEMENOS GROUP committed itself to financially support the sporting events which are referred to in note 28 to the financial statements.

A contribution to the victims of the terrorist attack on the World Trade Centre in New York of US$ 50 thousand was made shortly after the event.

Neither the Company nor any of its subsidiaries made any donation for political purposes, in 2001 or 2000.

EMPLOYMENT OF DISABLED PERSONS

The Group follows a policy of not discriminating against disabled persons and of giving full and fair consideration to applications for employment made by such persons, having regard to their aptitudes and abilities.

EMPLOYEE INVOLVEMENT

The Group is fully aware of the importance of good communication with its employees. The Group follows a policy of encouraging training and regular meetings between management and staff in order to provide a common awareness of the financial and economic circumstances affecting the Group's performance. Most of the employees of the Group participate in the growth of the business through the ownership of share options.

ANNUAL GENERAL MEETING

The Annual General Meeting of TEMENOS Group AG will be held at a location and time which will be announced in the financial press, in line with common practice, as well as through the TEMENOS website at <www.temenos.com>.

AUDITORS

BDO International have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are under an obligation to compile financial statements for each accounting year, which present fairly the consolidated and unconsolidated financial position of TEMENOS Group AG and its subsidiaries, as at the end of the accounting year, and the results of their operations, their cash flows and changes in shareholders' equity for the year then ended.

For many years, the TEMENOS GROUP, in compiling its financial statements, has been consistently applying the International Accounting Standards promulgated by the International Accounting Standards Board. A reconciliation of consolidated net income and shareholders' equity to accounting principles generally accepted in the United States of America (US GAAP) is also provided in note 20 to the financial statements.

In compiling these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the applicable accounting standards have been followed.

The directors are responsible for ensuring that proper accounting records are kept, which disclose with reasonable accuracy, at any time, the financial position of the Company and the Group and the results of their operations.

The directors are also responsible for safeguarding the assets of the Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors
and signed on behalf of the Board

A. Andreades
Deputy Chief Executive Officer

10 March 2002

Technology to Make Banks Work

TEMENOS technology delivers banking solutions. Chairman and Chief Executive Officer George Koukis, Deputy CEO Andreas Andreades, and Chief Financial Officer David Arnott chart TEMENOS' past, present and future at a press conference in Zurich and during a conference call with analysts on 12 March 2002.

George Koukis

Andreas Andreades

David Arnott

Your company performed well in 2001 despite very difficult market conditions – what has been the key to your success?

George Koukis

Right from the beginning, TEMENOS was set up with a long-term plan, a vision for the future, and the determination to make that vision work. With GLOBUS, we focus on one single product with many applications – because its structure is modular we can achieve great flexibility of function, so that new or additional modules can be developed to extend its capability, then integrated into the existing system without the need for costly modifications. This gives GLOBUS a real edge when clients demand something new from their software applications.

We also believe that investment for the future is all-important in the computer software industry. Last year, for example, we invested $35m on eight important projects that will make a significant difference to our business and drive shareholder value in the coming years. As a company, we are careful not to waste money – we have our feet firmly on the ground in that respect. We are convinced that in the long-term, only companies with real vision will survive, and that our vision and commitment to investment will prove we are survivors.

TEMENOS' business is clearly very hi-tech. How important is the role played by your staff?

Andreas Andreades Certainly our business is hi-tech but equally, our winning strategy would be nothing without the right people in place to make it come to life. That is why we have spent a lot of time and money, especially in recent months, on attracting the consultants we need, then training them thoroughly until we are confident they are the best in the field.

Now that so many of our new consultants are fully-trained and out meeting customers we can demonstrate the value of this crucial investment in people. In this way, TEMENOS has laid the foundations for strong growth, in supporting newly signed-up clients as we install GLOBUS for them and on the service and maintenance side of our business.

In which areas of banking has GLOBUS been most successful?

David Arnott Built around a modular concept, GLOBUS has been developed for use in many areas of the finance industry including retail and corporate banking, wealth management, and private banking, which last year earned 28% of overall revenue. In all of these cases, GLOBUS' real strength is the adaptability of the structure it creates, and the opportunity it offers as an integrated system for straight-through data processing across diverse banking disciplines.

George Koukis GLOBUS' potential to offer clients flexibility means that our experts can constantly review and develop the range of functions our product can provide, which results in regular software upgrades and new product developments. A new GLOBUS asset management module was launched in January 2002, and this will be followed shortly by modules featuring treasury, futures and options, syndicated lending, web enablement and e-banking, and SWIFT compliance functions.

What factors lie behind the company's growth?

David Arnott We were very pleased with last year's 48% total revenue growth, an increase of 35% for licensing. These new licensing contracts will also filter into our figures for 2002 and beyond, as the new systems signed to clients during 2001 will bring recurring maintenance revenues for the following five years. Although European sales remain the major contributor to revenues, accounting for 69% last year, we feel we are on target to extend global sales to achieve a more balanced split of 40% from Europe, 40% from North America, 10% from Japan and 10% from the rest of the world.

Andreas Andreades Because GLOBUS is a modular system, we are able to build long-term relationships with clients and get to know their businesses in depth. This means that we can develop new product offerings to meet their requirements, and help them to respond to the changing demands of their customers. Last year, for example, 38% of our total sales were to existing rather than new clients, and we expect this trend to continue as our clients look towards upgrading and increasing their usage of GLOBUS.

What importance do you assign to research and development?

Andreas Andreades Without doubt, research and development is extremely important in such a fast-moving industry. Recently we have been concentrating our R&D spending on building database independence, focusing on operating systems including Oracle, IBM's z series (S390) and i series (AS400), and TEMENOS' jBASE. Now the bulk of our platform and database work has been done, that development phase is behind us and we can move forward to concentrate afresh on converting what has become a strong pipeline into sales. Partly because we are able to transfer more and more work to our site in India where costs are lower, future R&D spending is reducing in terms of cost.

What is TEMENOS' business philosophy?

George Koukis We aim for excellence. Client banks rely every day on our systems to keep their businesses running, and we are committed to being 100% reliable. Of course we want to expand the GLOBUS product offering, but not at the expense of dependability. Although most of our growth historically has been organic, we pursue a policy of acquisition in areas where we have insufficient capacity to develop a new function fast enough. Our purchases of the Italian software developer INFOservice SRL and Paris-based Quetzal, for example, boost GLOBUS' capability in areas such as institutional financial relationship management, wealth management advice, and regulatory reporting. But we are very selective – we are only interested in products which can easily and effectively be integrated into the GLOBUS model, and will preserve the integrity of the GLOBUS product; and this integration must be at the right pace.

David Arnott On the sales side, we clearly don't have the capacity to cover every market ourselves so we have forged strong links with distribution partners globally to close the gap in far-flung markets: last year 18% of our sales were achieved in this way. Similarly, our partnership with IBM has great potential to achieve significant levels of new business, as well as offering real advantages in product development.

Why do banks buy your product?

Andreas Andreades GLOBUS is a sophisticated information technology tool designed to help financial institutions run their business smoothly, quickly and cost-effectively. Price is important, of course, but probably more important is reliability – a bank needs to be sure that its computer system will deliver what it promises. By building on the central core activities of GLOBUS, we have developed systems that enable banks to expand their own product offerings and activities, as well as improve efficiency.

Banks and other financial services institutions are still searching for computer systems to improve their businesses – many of them are still running with technology that was written more than 25 years ago, when the world was very different. GLOBUS can replace older systems with up-to-date capabilities and volume capacity, helping banks compete effectively in today's financial marketplace. In addition, the new functions TEMENOS technology can offer are helping banks improve not only the quality of services they provide for their customers, but also the range of products they can offer. This is very important as banking customers become more and more sophisticated in their demands, and we believe banks will increasingly look to specialist technology suppliers like TEMENOS for solutions.

What does the future hold for TEMENOS?

Andreas Andreades We are confident that our business will continue to do well over the coming years. License signings are a key performance indicator for us: this year we have done well in this respect despite unsettled and uncertain market conditions in the aftermath of September 11th, and we are on target for new business signings during the first half of 2002. Investment, both in people and in technology, remains a crucial driver of future success and in this we are also ahead of the field.

We are also concentrating on boosting service and maintenance as a contributor to overall revenue. Service provision has historically been an add-on to our core business, but now it is a profit centre in its own right, and one which we intend to bolster.

George Koukis Banks are traditionally pioneers of software technology, and that makes good business for TEMENOS. We can offer them a better way forward: tapping our resources instead of diverting their own to create quality workable systems which solve real problems fast and cost-effectively.

Product Summary

TEMENOS is a market-leading provider of banking software systems for financial institutions. Based in Geneva, Switzerland, the company operates 33 offices in Europe, North America, Asia, and the Middle East, with more than 1,200 employees.

At the heart of TEMENOS' business is the GLOBUS product, an integrated, real-time modular computer system designed to manage front-, middle-, and back-office banking activities. TEMENOS' clients include commercial, private, investment, and retail high-street banks, asset managers, brokers and other financial services concerns.

Recent developments at TEMENOS have seen the company broaden its base with the development of database and platform independence, whilst essentially retaining a one-product business model built around GLOBUS.

As a highly sophisticated modular system, GLOBUS offers a wide range of functions that can be implemented as a standard banking solution or tailor-made to fit specific requirements of individual clients. It is suitable both to replace out-dated systems in entirety, and for integrating into existing systems to provide clients with new, additional functions.

Once installed, additional product modules can be added to upgrade or enhance its capability – an essential feature in the fast-changing world of banking and finance. In addition, TEMENOS provides clients with a high level of maintenance services for the duration of the software contract, to ensure the continued smooth running and relevance of the system. Such long-term client relationships are a key feature of TEMENOS' business model, facilitating sales to existing clients in addition to the new software license signings that are a significant driver of TEMENOS' business revenues.

GLOBUS has been developed to support specialised banking functions incorporating account, transaction and contract processing in five main areas: treasury and investment; private banking and asset management; corporate and commercial banking; retail banking; and e-banking. TEMENOS is also exploring opportunities to extend system capabilities in other areas of financial services.

TEMENOS GROUP AG

Financial Statements

31 December 2001

And independent Auditors' Reports thereon

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AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders of TEMENOS Group AG in General Meeting

As Group auditors, we have audited the consolidated financial statements, comprising the consolidated balance sheet, as of 31 December 2001, and the consolidated statements of earnings, retained earnings, cash flows and changes in shareholders' equity for the year then ended, as well as the notes thereon, of TEMENOS Group AG and its subsidiary companies (the "Group"). These consolidated financial statements, which have been prepared in compliance with International Accounting Standards, are the responsibility of the Board of Directors of the Company. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

We conducted our audit in accordance with the auditing standards promulgated by the Swiss profession and those prescribed under the International Standards on Auditing issued by the International Federation of Accountants (IFAC). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements, referred to above, give a true and fair view of the consolidated financial position of TEMENOS Group AG and its subsidiary companies, as of 31 December 2001, and of the results of the operations of the Group, its cash flows and the changes of shareholders' equity in the year then ended, in accordance with International Accounting Standards and they comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

The accounting practices used by TEMENOS Group AG in preparing the accompanying consolidated financial statements conform with International Accounting Standards but, in certain respects, they do not conform with accounting principles generally accepted in the United States of America (US GAAP). A description of these differences and a reconciliation of consolidated net income and shareholders' equity to US GAAP are set forth in Note 20.

10 March 2002

Albert Bamert **Gilbert Darmstädter** **Christos P. Panayiotides** **Paris Efthymiades**

Auditors in charge

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated statement of earnings and retained earnings

for the year ended 31 December 2001

	2001	2000
Revenues		
Software licensing	79 709	58 878
Services	61 159	36 372
Total revenues (note 22)	140 868	95 250
Operating costs and expenses		
Software development	30 397	15 291
Services	53 479	35 635
Sales & marketing *(note 25)*	24 050	14 798
General & administrative	16 776	13 462
Amortisation of goodwill *(notes 6 and 8)*	559	478
Total operating costs and expenses	125 261	79 664
Operating profit	15 607	15 586
Other income (expenses)		
Interest expense – net	(2 856)	(607)
Financial instrument related expenses *(notes 9 and 26)*	(1 746)	(224)
Equity component of financial instrument costs *(notes 9 and 26)*	(2 785)	(464)
Foreign exchange gains – net	1 132	45
Other non-operating income (expenses) *(note 27)*	500	(500)
Total other expenses	(5 755)	(1 750)
Profit before taxation	9 852	13 836
Taxation *(note 11)*	(2 098)	(2 131)
Net profit for the year, after taxation	7 754	11 705
Minority share in profits of subsidiary	(1 812)	(496)
Net profit for the year attributable to the Group	5 942	11 209
Dividends declared on preferred redeemable shares	–	(617)
	5 942	10 592
Retained earnings (deficit) at the beginning of the year	8 548	(2 044)
Retained earnings at the end of the year	14 490	8 548
Earnings per Share (in US $):		
basic	0.13	0.20
diluted	0.12	0.19

The attached notes form part of these consolidated financial statements.

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated balance sheet

as at 31 December 2001

	2001	2000
Assets		
Current assets		
Cash and cash equivalents	65 259	*1 413*
Accounts receivable	33 479	*24 823*
Accrued revenues	30 736	*14 319*
Deferred expenses *(note 26)*	3 256	*6 883*
Total current assets	132 730	*47 438*
Non–current assets		
Tangible fixed assets – net *(note 5)*	10 633	*7 410*
Intangible fixed assets – net *(note 6)*	21 011	*7 146*
Capitalised development costs *(note 7)*	5 034	*1 979*
Guarantees and escrowed bank deposits	1 152	*773*
Deferred tax asset *(note 11)*	827	*713*
Total assets	171 387	*65 459*
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	13 006	*10 162*
Accrued expenses	8 221	*7 185*
Bank loans & overdrafts *(note 10)*	–	*3 397*
Obligations related to redeemed shares	–	*870*
Income taxes payable *(note 11)*	3 407	*3 126*
Total current liabilities	24 634	*24 740*
Deferred revenues	16 572	*19 993*
Non–current liabilities		
Long-term portion of capital restructuring loan *(note 9)*	29 774	*62 291*
Long-term liabilities under finance leases *(note 12)*	320	*119*
Total liabilities	71 300	*107 143*
Shareholders' equity (deficit)		
Share capital *(note 13)*	146 714	*39*
Share redemption deficit *(note 17)*	–	*(54 371)*
Warranted share subscription reserve *(note 15)*	1 173	*3 223*
Employee share options reserve *(note 14)*	1 680	*952*
Retained earnings	14 490	*8 548*
Goodwill acknowledged on restructuring	(65 431)	*–*
Cumulative translation adjustment *(note 18)*	(1 029)	*(751)*
Total shareholders' equity (deficit)	97 597	*(42 360)*
Minority Interest	2 490	*676*
Total equity and liabilities	171 387	*65 459*

The attached notes form part of these consolidated financial statements.

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated statement of cash flows

for the year ended 31 December 2001

	2001	2000
Cash flows from operating activities		
Cash receipts from customers	110 125	76 275
Cash paid to suppliers and employees	(108 524)	(73 483)
Cash generated from operations	1 601	2 792
Income taxes paid	(1 931)	(263)
Net cash from (to) operating activities	(330)	2 529
Cash flows from investing activities		
Acquisition of tangible fixed assets	(5 081)	(6 627)
Acquisition of intangible fixed assets	(16 551)	(2 584)
Capitalised development costs	(4 101)	(1 580)
Net cash used in investing activities	(25 733)	(10 791)
Cash flows from financing activities		
Proceeds of issuance of shares, net of related expenses	128 922	180
Acquisition and cancellation of own common shares	–	(60 000)
Proceeds (repayment) of capital restructuring loan	(29 953)	60 000
Proceeds (repayment) of short-term borrowings	(3 378)	3 409
Interest payments, net of receipts	(2 836)	(67)
Payment of financial instrument related expenses	(2 630)	–
Payment of finance lease liabilities	(218)	(88)
Net cash from financing activities	89 907	3 434
Overall effect of exchange rate changes	2	(243)
Net increase (decrease) in cash and cash equivalents in the year	63 846	(5 071)
Cash and cash equivalents at the beginning of the year	1 413	6 484
Cash and cash equivalents at the end of the year	65 259	1 413

The attached notes form part of these consolidated financial statements.

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

	Share capital	Share premium
Balance at 1 January 2000	**53**	**156**
Net profit for the year attributable to the Group	–	–
Preference dividend	–	–
Cumulative translation adjustment	–	–
Employee share options granted	–	–
Preference shares redeemed	–	–
Shares issued on conversion of preferred redeemable into common shares	1	–
Share premium on conversion of preferred redeemable into common shares	–	6 129
Transferred to share redemption deficit	–	(7 906)
Premium paid on shares issued	–	1 621
Own shares purchased and cancelled	(15)	–
Effective cost of share warrant issued	–	–
Balance at 31 December 2000	**39**	**–**
Net profit for the year attributable to the Group	–	–
Cumulative translation adjustment	–	–
Employee share options granted	–	–
Shares issued on exercising of options	1	499
Shares issued on acquisition of subsidiary	–	2 526
Shares issued on capital restructuring	113 538	–
Shares issued in relation to merging with I.T. Services Ltd	57	93
Shares issued in relation to a warrant	2 227	–
Shares issued on initial public offering (IPO)	30 586	110 110
Initial public offering related expenses	–	(11 774)
Shares and share options issued subsequent to IPO	266	27
Transferred to goodwill acknowledged on restructuring	–	(101 481)
Balance at 31 December 2001	**146 714**	**–**

The attached notes form part of these consolidated financial statements.

consolidated statement of changes in shareholders' equity

Share redemption deficit	Share redemption reserve	Warranted share subscription reserve	Employee share options reserve	Retained earnings	Cumulative translation adjustment	Goodwill acknowledged on restructuring	Total
–	8 449	–	444	(2 044)	(296)	–	6 762
–	–	–	–	11 209	–	–	11 209
–	–	–	–	(617)	–	–	(617)
–	–	–	–	–	(455)	–	(455)
–	–	–	508	–	–	–	508
–	(2 319)	–	–	–	–	–	(2 319)
–	(1)	–	–	–	–	–	–
–	(6 129)	–	–	–	–	–	–
7 906	–	–	–	–	–	–	–
–	–	–	–	–	–	–	1 621
(62 277)	–	–	–	–	–	–	(62 292)
–	–	3 223	–	–	–	–	3 223
(54 371)	–	3 223	952	8 548	(751)	–	(42 360)
–	–	–	–	5 942	–	–	5 942
–	–	–	–	–	(278)	–	(278)
–	–	–	728	–	–	–	728
–	–	–	–	–	–	–	500
–	–	–	–	–	–	–	2 526
–	–	–	–	–	–	(113 538)	–
–	–	–	–	–	–	–	150
–	–	(2 226)	–	–	–	–	1
–	–	–	–	–	–	–	140 696
–	–	–	–	–	–	–	(11 774)
–	–	1 173	–	–	–	–	1 466
54 371	–	(997)	–	–	–	48 107	–
–	–	1 173	1 680	14 490	(1 029)	(65 431)	97 597

The attached notes form part of these consolidated financial statements.

TEMENOS GROUP AG

notes to the consolidated financial statements
31 December 2001

1. Legal Status and Principal Activities

TEMENOS Group AG (the "Company") was incorporated in Glarus, Switzerland on 7 June 2001 as a stock corporation (Aktiengesellschaft) and has succeeded TEMENOS Holdings NV, a company incorporated in the Netherlands Antilles, as the ultimate holding company of the TEMENOS GROUP. As part of the restructuring process, which was undertaken in the context of the listing of the shares of TEMENOS Group AG on the SWX (main) Swiss Exchange, all the issued and outstanding shares of TEMENOS Holdings NV were exchanged, shortly before the initial public offering of these shares, for TEMENOS Group AG shares thus rendering the former a wholly owned subsidiary of the latter.

The Company and its subsidiaries (the "TEMENOS GROUP" or the "Group") are engaged in the development and marketing of *TEMENOS GLOBUS*, an integrated banking software system. The Group is also involved in supporting the implementation of the system at various client locations around the world as well as offering "help desk" support services to existing users of *TEMENOS GLOBUS*. Given the nature of *TEMENOS GLOBUS*, the existing and potential client base is primarily restricted to banking and other financial services institutions.

TEMENOS Group AG serves the role of the ultimate holding company of the Group but is not, otherwise, engaged in trading, financing or investing activities, except as the holder of all the issued and outstanding shares of TEMENOS Holdings NV.

Effective 26 June 2001, the shares of TEMENOS Group AG are publicly traded on the SWX (main) Swiss Exchange. The majority of the shares of the Company are held by persons in senior managerial positions.

2. Basis of Presentation of the Consolidated Financial Statements

The accounting year–end of TEMENOS Holdings NV, the Company's predecessor, was 30 June. The accounting year-end of the Group has been changed to 31 December to align it with common industry practice, thus facilitating comparisons with other companies which are active within the banking software industry. These consolidated financial statements cover the twelve-month period extending from 1 January to 31 December 2001 while the comparative figures provided cover the twelve-month period extending from 1 January to 31 December 2000.

The consolidated financial statements have been prepared in accordance with the accounting and reporting requirements of the International Accounting Standards promulgated by the International Accounting Standards Board.

A reconciliation of consolidated net income and shareholders' equity, as reported in these financial statements, with the amounts which would have been reported had these financial statements been compiled under generally accepted accounting principles in the United States of America, is provided in note 20.

The reporting currency of the Group is the US dollar which is also the Group's principal functional currency.

3. Accounting Policies

The accounting policies applied in the preparation of the consolidated financial statements, which are judged to be material or critical in determining the reported results and in stating the financial position of the Group, are the following:

(a) Basis of consolidation

The consolidated financial statements reflect the assets, liabilities, revenues, expenses, changes of equity and cash flows of TEMENOS Group AG and all companies in which the Company holds, directly or indirectly, more than 50% of the equity and voting shares and/or controls the management thereof. All intercompany transactions and balances have been eliminated on consolidation.

The assets and liabilities of the subsidiaries are translated into the reporting currency of the Group (US dollars) at the exchange rates prevailing at the balance sheet date. The results of operations are translated, on a monthly basis, at the average exchange rates of each monthly period. The resulting translation gains or losses are transferred directly to reserves and are reflected as a "cumulative translation adjustment" under shareholders' equity.

TEMENOS GROUP AG

notes to the consolidated financial statements
31 December 2001

(b) Basis of accounting

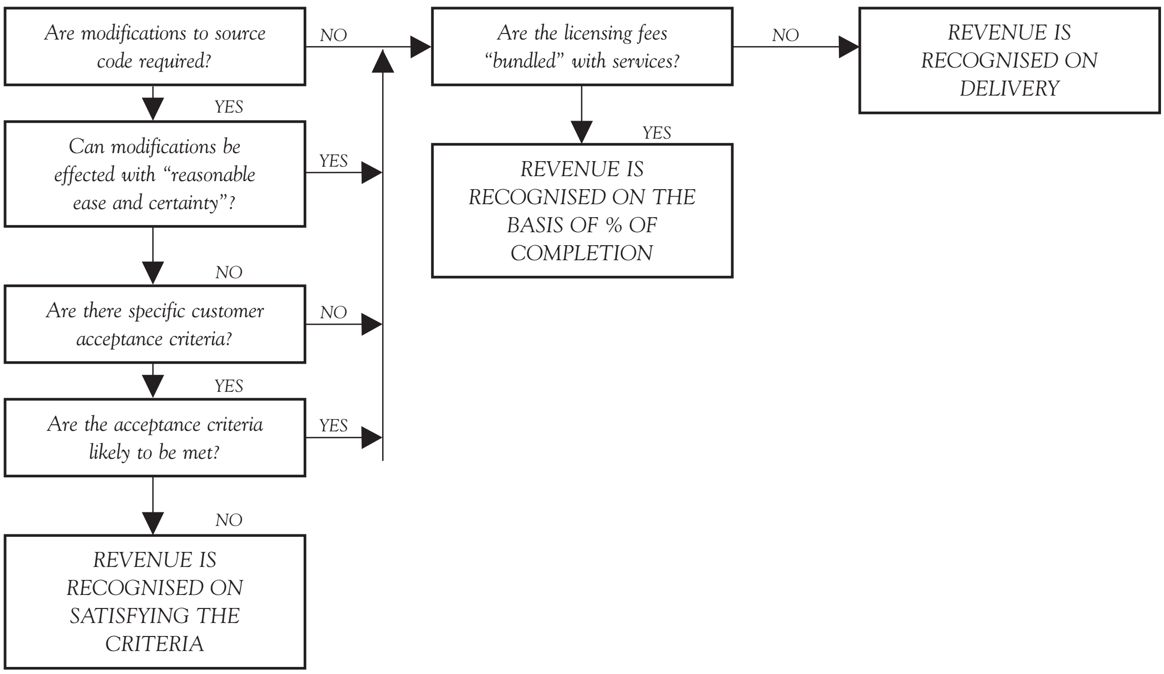
The consolidated financial statements have been prepared under the historical cost convention.

(c) Revenue recognition

The TEMENOS GROUP derives revenues from (a) the licensing of the software over which it has intellectual property rights; (b) the provision of software development services which are specifically commissioned by clients and aim at expanding the functionality of *TEMENOS GLOBUS* and (c) the rendering of software implementation and support services. The revenue derived from sources (a) and (b) is reported in the consolidated statement of earnings under "software licensing" while the revenue derived from source (c) is reported under "services".

Initial software licensing fees are recognised when the following conditions exist: (i) there is persuasive evidence that an arrangement exists, (ii) delivery has occurred, (iii) the licensing fee payable is fixed or determinable and (iv) collectibility is probable. To the extent that the initial licensing fee incorporates the reward of the vendor for providing "upgrades" and "help desk" support services (usually extending over a period of one year), the market value of these services is deferred and recognised over the period of time during which such an obligation is undertaken on the part of the vendor. In the case of "conditional contracts", i.e. contracts which stipulate that the initial licensing fees are payable only if certain conditions are met, the related revenues are recognised only when the conditions in question have been met, except if the conditions imposed can be met with reasonable ease and certainty. A requirement for extensive modifications to the source code of *TEMENOS GLOBUS* is deemed to constitute a condition which cannot be satisfied with "reasonable ease and certainty". In this latter case, the initial licensing fees generated under the contracts entered into are deferred and recognised on satisfying the criteria ("milestones") stipulated in such contracts. Earlier recognition is permitted, if it is considered likely that the acceptance criteria will, in fact, be met. Where the initial software licensing fees are "bundled" with implementation support services, such licensing fees are recognised substantially in accordance with the rules applicable to long-term contract revenue recognition. Most of the licensing agreements entered into generate initial licensing fees which are recognised in accordance with the rules applicable to long-term contract revenue recognition, hence the generation of substantial "deferred revenues" which are reported as a "liability" of the Group.

The key decisions taken in respect of recognising initial licensing fee revenue are pictorially presented below:



Recurring license fees and "help desk" support fees are recognised over the term of the related contracts while service fees are recognised as and when the underlying services are rendered.

TEMENOS GROUP AG

notes to the consolidated financial statements

31 December 2001

Licensing and service fees that have been invoiced but have not been recognised as revenue are reported on the balance sheet under "deferred revenues" while fees which have been earned but have not been invoiced are reported under "accrued revenues". The timing of invoicing and collections is contractually regulated and it may not match (and, indeed, it rarely matches) the timing of recognising the related revenue under the accounting policy followed by the TEMENOS GROUP which aims at matching revenues with costs.

The direct costs associated with sales contracts, such as sales commissions, third-party licensing costs and implementation support fees etc., are expensed to the statement of earnings, as incurred.

(d) Foreign currency transactions

All Group companies maintain their books in their functional (local) currency. Transactions denominated in currencies other than the functional currency are translated into the functional currency using the rate of exchange ruling on the date of the transaction. At the end of the period, assets and liabilities denominated in foreign currencies are restated using the rate of exchange ruling on the balance sheet date. The resulting exchange gains or losses are credited or charged to the results for the period.

(e) Accounts receivable

Accounts receivable are stated net of the provision for amounts which are deemed to be doubtful of collection.

(f) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows (in years):

Furniture and fixtures	10
Office equipment	5
Computer equipment	3
Motor vehicles	4

Leasehold improvements are depreciated over the shorter of the lease term or ten years.

(g) Intangible fixed assets

Intangible fixed assets consist of purchased goodwill, quantified as the excess of the cost of acquiring a business over the fair value of the identifiable assets and liabilities so acquired, of purchased copyrights relating to software and of purchased computer software. These assets are stated at cost less accumulated amortisation. Amortisation is calculated using the straight-line method, over a period of five years in the case of purchased goodwill and over a period of three years in the case of all other intangible assets.

(h) Capitalisation of development costs

The costs associated with the development of new or substantially improved products or modules are capitalised to the extent that they satisfy the criteria set forth under International Accounting Standard #38, "Intangible Assets". Amortisation is charged to the statement of earnings, using the straight-line method, over a three-year period commencing in the month following the month in which the product is available for distribution. In contrast, the cost of the enhancements effected to TEMENOS GLOBUS on an on-going basis, as well as the cost of developing products specifically commissioned by clients, is charged to operations in the year in which such costs are incurred.

(i) Income taxes

Current taxation is provided based on the taxable income reported for fiscal purposes in the various tax jurisdictions. The tax which is deferred or accelerated by the effect of timing differences between accounting and taxable income is accounted for only to the extent that it is probable that a liability or asset will crystallise. Deferred tax is computed under the liability method.

TEMENOS GROUP AG

notes to the consolidated financial statements
31 December 2001

The TEMENOS GROUP operates, through subsidiaries or branches, in many tax jurisdictions. The nominal and effective tax rates applicable vary substantially and, therefore, the overall (consolidated) tax charge in any one year is a function of the results attained and reported in each tax jurisdiction within which the Group operates. Furthermore, the ability of the Group to recover or otherwise utilise taxes withheld at source is, in practice, a function of the efficiency with which the taxing authorities involved operate. In case of doubt, the TEMENOS GROUP follows the prudent policy of treating such taxes as unrecoverable, even though they may ultimately prove to be recoverable.

(j) Employee share options

The TEMENOS GROUP operates an Employee Share Options Scheme under which an option is granted to employees of the Group to acquire shares of TEMENOS Holdings NV at a predetermined exercise price. Such options have a minimum vesting period of three years and must be exercised within a maximum period of ten years from the date on which they are granted. All shares acquired through the Employee Share Options Scheme are automatically converted into TEMENOS Group AG shares on the basis of an exchange ratio of 1:1.

The cost of the share options granted in any given period, under the Employee Share Options Scheme operated by the TEMENOS GROUP, is quantified as being the difference between the market value of the underlying shares, at the time of granting the options, and the price at which such options may be exercised. The cost thus quantified is charged to operations over the period during which these options vest.

(k) Financial instruments

The Group's only financial instruments are cash, short–term receivables and payables, debt and certain other forms of financing, such as finance leases. Management believes that the carrying amounts of these financial instruments approximate their fair value because of their short-term nature. Management further believes that the interest rates applicable to its debt and other forms of financing represent fair market rates and, therefore, their carrying value approximates fair value. The TEMENOS GROUP does not use derivative financial instruments.

Concentration of credit risk is principally associated with accounts receivable and accrued (unbilled) revenue generated by clients. The Group is exposed to a credit risk in this respect. The client base is not large and receivables are limited to fewer than 250 financial institutions. This credit risk is, however, mitigated by the fact that the Group's clients are highly rated financial institutions. The Group does not generally require collateral or other security to support these financial instruments. The Group does not anticipate non-performance by the counterparties in excess of the recorded provision for receivables which are deemed doubtful of collection.

The interest and currency exchange rate risks associated with the capital restructuring loan contracted by TEMENOS Holdings NV in November 2000 are explained in note 9.

4. Subsidiary Companies included in the Consolidation

In addition to TEMENOS Group AG, the following subsidiaries are included in the consolidated financial statements. In the course of the year 2000, the names of numerous subsidiaries of the Group were simplified. In these cases, the name previously held is shown in brackets:

Company Name	Country of Incorporation	Ownership Interest
TEMENOS Holdings NV	Netherlands Antilles	100%
TEMENOS (NL) BV (ex TEMENOS Systems (NL) BV)	Netherlands	100%
TEMENOS Headquarters SA (ex TEMENOS Systems Headquarters SA)	Switzerland	100%
TEMENOS Suisse SA (ex TEMENOS Systems SA)	Switzerland	100%
TEMENOS Operational Management Services SA	Switzerland	100%
TEMENOS Luxembourg SA (ex TEMENOS Systems Luxembourg SA)	Luxembourg	100%
TEMENOS UK Limited (ex TEMENOS Systems (UK) Limited)	United Kingdom	100%
TEMENOS Systems Ireland Limited	Ireland	100%
TEMENOS Hong Kong Limited (ex TEMENOS Systems Pacific Limited)	Hong Kong	100%
TEMENOS Singapore Pte Limited (ex TEMENOS Systems Pacific Pte Limited)	Singapore	100%
TEMENOS India Pte Limited (ex TEMENOS Systems (India) Private Limited)	India	100%
TEMENOS (Thailand) Co. Limited (ex TEMENOS Systems (Thailand) Co. Limited)	Thailand	100%

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Company Name	Country of Incorporation	Ownership Interest
TEMENOS Indonesia PT	Indonesia	100%
TEMENOS U.S.A., Inc.	U.S.A.	100%
TEMENOS Middle East Limited	Cyprus	100%
TEMENOS Eastern Europe Limited	Cyprus	51%*
TEMENOS Global Services Limited	Cyprus	100%
TEMENOS France SAS	France	100%
TEMENOS Holland BV	Netherlands	100%
TEMENOS Global NV**	Netherlands	100%
TEMENOS Deutschland GmbH	Germany	100%
TEMENOS Iberia SL	Spain	100%
Alphametrics Holdings Limited	United Kingdom	100%
Integrated Core Technologies Participations SA**	Luxembourg	100%
Integrated Core Technologies SA**	Spain	100%
Integrated Core Technologies Software and Services Limited**	United Kingdom	100%
jBase Software Limited	United Kingdom	100%
jBase Software Inc.	U.S.A.	100%
Vol-de-Nuit SA**	Switzerland	100%

(*) TEMENOS Eastern Europe Limited is jointly managed by the TEMENOS GROUP and by persons nominated by the minority shareholder, a *TEMENOS GLOBUS* distributor. Under the shareholders' agreement entered into between the two parties, TEMENOS Holdings NV is under an obligation to purchase, if requested to do so, the minority shares at the price/earnings ratio applicable to the TEMENOS GROUP.

(**) Newly formed or newly acquired company, not fully operational as yet, or dormant company.

In addition to the subsidiary companies listed above, TEMENOS GROUP subsidiaries maintain branches or offices at the following locations: Athens (Greece), Beirut (Lebanon), Dubai (United Arab Emirates), Saraburi (Thailand) and Beijing (China).

In April 2001, Alphametrics Limited, a UK based software company, was acquired by the TEMENOS GROUP, partly in exchange for shares and partly in exchange for cash and promissory notes. The basic elements of this transaction are summarised below (in thousands of US dollars):

Fair value of assets acquired (of which US$ 2,270 thousand represents the estimated fair value of computer software programs)	4 005
Less cash and cash equivalents	(572)
	3 433
Purchased goodwill	476
Value of the business acquired	3 909
Fair value of shares issued	2 526
Deferred consideration	341
Cash paid (over and above the cash and cash equivalents acquired)	872
Transaction related expenses	170
Total cost of the acquired business	3 909

In addition, as part of this transaction, 37,614 options on TEMENOS shares were granted to certain employees of Alphametrics Limited, who are, now, employees of the TEMENOS GROUP. These options, which are included in the number of outstanding share options, as at 31 December 2001, reported in note 14, are exercisable at a nominal exercise price.

The value of the purchased computer software programs and of goodwill is being amortised over a period of three and five years, respectively.

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In October 2001, Integrated Core Technologies Participations SA, a Luxembourg based software company, as well as its two wholly owned subsidiaries based in Spain and the United Kingdom, were acquired by the TEMENOS GROUP, partly in exchange for TEMENOS Group AG shares and partly in exchange for share options. The principal asset thus acquired was the intellectual property rights over IRIS (subsequently renamed GLOBUS COREBANKING), a suite of retail banking software products developed by a consortium of Spanish banks with the support and encouragement of IBM. GLOBUS COREBANKING is in the process of being integrated with TEMENOS GLOBUS. The integration process is expected to be completed by June 2002 and, once completed, will enable the TEMENOS GROUP to launch a software platform which will fully cover the needs of a wide spectrum of banking activities and services, ranging from relatively small private banking concerns to the very large, retail banking institutions. The basic elements of this transaction are summarised below (in thousands of US dollars):

Estimated fair value of computer software programs acquired	13 966
Fair value of other assets acquired	100
Less fair value of assumed liabilities	(12 600)
Value of the business acquired	1 466
Fair value of 86,207 shares issued	293
Fair value of 344,826 share options granted at a nominal exercise price	1 173
Total cost of the acquired business	1 466

The amortisation of the value of the purchased computer software programs will commence on 1 July 2002, the date by which the integration process referred to above is expected to be completed and GLOBUS COREBANKING will be available for commercial exploitation.

5. Tangible Fixed Assets

Tangible fixed assets are analysed as follows (in thousands of US dollars):

	Furniture & fixtures	Office equipment	Leasehold improvements	Computer equipment	Motor vehicles	TOTAL
Cost						
31 December 2000	1 835	1 268	2 994	5 200	345	11 642
As restated*, 1 January 2001	1 786	1 241	2 922	5 059	328	11 336
Additions 2001	2 070	468	1 790	2 749	224	7 301
Disposals 2001	(111)	(161)	(410)	(426)	–	(1 108)
31 December 2001	3 745	1 548	4 302	7 382	552	17 529
Depreciation**						
31 December 2000	441	500	713	2 507	71	4 232
As restated*, 1 January 2001	428	485	695	2 435	68	4 111
Additions 2001	311	243	608	1 973	91	3 226
Disposals 2001	(19)	(44)	(93)	(285)	–	(441)
31 December 2001	720	684	1 210	4 123	159	6 896
Net book value						
31 December 2001	3 025	864	3 092	3 259	393	10 633
31 December 2000	1 394	768	2 281	2 693	274	7 410

(*) The amounts, as at 1 January, have been restated to reflect the changes in the parity of the functional (local) currencies of the operating entities owning the assets with the US dollar, between 1 January and 31 December 2001.

(**) The depreciation charge reported above has been quantified as follows (in thousands of US dollars):

	Charge for the year	Currency translation adjustments	Total value adjustment
Year ended:			
31 December 2001	2 956	270	3 226
31 December 2000	1 777	(14)	1 763

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6. Intangible Fixed Assets

Intangible fixed assets consist of purchased goodwill, purchased copyrights relating to software and computer software. These costs are analysed as follows (in thousands of US dollars):

	Purchased goodwill	Purchased copyrights	Computer software	TOTAL
Cost				
31 December 2000	2 434	5 909	1 404	9 747
As restated*, 1 January 2001	2 434	5 909	1 374	9 717
Additions 2001	476	16 541	588	17 605
31 December 2001	2 910	22 450	1 962	27 322
Amortisation**				
31 December 2000	516	1 573	512	2 601
As restated*, 1 January 2001	516	1 573	500	2 589
Additions 2001	559	2 834	329	3 722
31 December 2001	1 075	4 407	829	6 311
Net book value				
31 December 2001	1 835	18 043	1 133	21 011
31 December 2000	1 918	4 336	892	7 146

(*) The amounts, as at 1 January, have been restated to reflect the changes in the parity of the functional (local) currencies of the operating entities owning the assets with the US dollar, between 1 January and 31 December 2001.

(**)The amortisation charge reported above has been quantified as follows (in thousands of US dollars):

	Charge for the year	Currency translation adjustments	Total value adjustment
Year ended:			
31 December 2001	3 662	60	3 722
31 December 2000	1 681	8	1 689

7. Capitalised Development Costs

The TEMENOS GROUP follows a policy of investing a substantial part of its revenues in research and development work, which is directed towards the enhancement of *TEMENOS GLOBUS* and, by extension, the enhancement of revenues in future years.

The part of these development costs which are associated with new or substantially improved modules or applications which are not specifically commissioned and paid for by clients is capitalised and amortised, using the straight-line method, over a three-year period commencing in the month following the month in which the product is available for distribution.

In contrast, the development work, which is specifically commissioned and paid for by clients, as well as the development work which is of a general nature, is charged to operations in the year in which such costs are incurred.

The movement in capitalised development costs is reflected as follows (in thousands of US dollars):

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	Cost	Amortisation	Net book value
31 December 2000	9 619	7 640	1 979
Additions 2001	4 102	1 047	3 055
Deletions 2001	(893)	(893)	–
31 December 2001	12 828	7 794	5 034

8. Depreciation and Amortisation

The depreciation and amortisation charge is analysed as follows (in thousands of US dollars):

	Depreciation of tangible fixed assets (note 5)	Amortisation of purchased goodwill (note 6)	Amortisation of other intangible fixed assets (note 6)	Amortisation of capitalised development costs (note 7)	Aggregate amount charged to operations
Year ended:					
31 December 2001	2 956	559	3 103	1 047	7 665
31 December 2000	1 777	478	1 203	1 128	4 586

9. Capital Restructuring Loan

In November 2000, TEMENOS Holdings NV, the then ultimate holding company of the TEMENOS GROUP, contracted a loan of US$ 36 million and Euro 28 million from a major international bank, which was wholly and exclusively used for financing the purchase of 14,447,030 of its own shares from one of the shareholders of the company. The shares thus acquired were cancelled. The loan contracted carried interest at the London Interbank Offered Rate (LIBOR) plus 4.25% per annum, gradually reducing to LIBOR plus 1% per annum, if certain conditions directly associated with the profitability and the capital gearing of the TEMENOS GROUP were met. The effective interest rate applied in the year ended 31 December 2001, was 7.56% (2000: 10.93%) per annum and 8.86% (2000: 9.35%) per annum for US dollars and Euros, respectively. The original term of the loan was two years expiring on 28 November 2002. The portion of the loan which was denominated in Euros plus a portion of the loan denominated in US dollars (US$ 6.2 million) was, in fact, repaid in July 2001, out of the proceeds of the initial offering of the shares of TEMENOS Group AG on 26 June 2001. The loan contracted was secured by a pledge of 24,838,025 TEMENOS Holdings NV shares and on shares of certain subsidiaries of the Group as well as by a charge on the intellectual property rights on software owned by the Group. The loan agreement entered into required the TEMENOS GROUP to meet certain financial covenants and it imposed various restrictions concerning, inter alia, the disposal of assets and the acquisition of new assets which, however, could be waived with the consent of the lender. The loan agreement also imposed an obligation on the TEMENOS GROUP to retain the services of certain "key employees" while it precluded the payment of any dividends or other distributions, except with the consent of the lender.

In connection with, and as part of the consideration for, the arrangement of this loan facility, a warrant was issued to an affiliate of the lender entitling the latter to purchase 786,320 TEMENOS Holdings NV shares at an exercise price of US$ 0.001 per share. In addition, a front-end fee of US$ 2.2 million was paid to the lender in January 2001 for arranging the facility. The expenses (excluding interest charges) associated with this financial instrument ultimately amounted to US$ 5.9 million. These costs were partly amortised in the year ended 31 December 2000 (US$ 0.7 million) and partly amortised in the year ended 31 December 2001 (US$ 4.5 million). The unamortised balance as of 31 December 2001, amounting to US$ 0.7 million will be amortised over the remaining term of the loan, i.e. in the period from January to November 2002. This facility was a compound financial instrument, consisting of a debt portion and an equity portion, which represented the fair value of the share warrant issued in favour of the lender (which was exercised in 2001). As of 31 December 2001 and 2000, the debt element is reported under the caption "capital restructuring loan". As at 31 December 2000, the equity element was reported under the caption "warranted share subscription reserve", within shareholders' equity. The warranted share subscription reserve was utilised at the time of exercising the share warrant. For further details on the accounting treatment afforded to this transaction refer to note 26.

The TEMENOS GROUP is restricted from becoming further indebted to financial institutions and it may be called upon to repay all the outstanding amounts under this loan arrangement and under the credit facility referred to in the following note, in case of any of the events of default, specified in the loan agreements, materialising.

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In March 2002, TEMENOS Holdings NV concluded a preliminary agreement to contract a new loan from the same lender, amounting to US$ 30 million, the proceeds of which will be used to repay the existing loan. The new loan is subject to broadly similar terms and conditions as the pre-existing loan except that the applicable interest rate has been fixed at LIBOR plus 1.5% and is repayable in four half-yearly instalments of US$ 5 million, the first being due on 31 March 2003 and the last on 30 September 2004 and in four half-yearly instalments of US$ 2.5 million, the first being due on 30 September 2003 and the last on 31 March 2005.

Given that these new loan arrangements have been agreed upon between the borrower and the lender and since they constitute a binding agreement on both parties, the amount of US$ 29.8 million, due to the lender as of 31 December 2001, is reported in these financial statements under non-current liabilities, irrespective of the fact that the aforesaid agreement is subject to certain legal formalities being completed.

10. Bank Loans & Overdrafts

In addition to the capital restructuring loan referred to in the preceding note, TEMENOS Holdings NV has a line of credit with an affiliate of the same international bank that permits the company to borrow up to US$ 15 million for terms varying from one to six months, at the London interbank offered rate of interest (LIBOR) plus 1.5% per annum plus a commitment fee of 1% per annum on the undrawn portion of the facility. This commitment on the part of the lender expires on 31 May 2002. As of 31 December 2001, no balance was outstanding under this facility (2000: US$ 3.4 million).

11. Taxation

The TEMENOS GROUP has – through its subsidiaries – a taxable presence in numerous countries in the world and the taxable profits (or losses) generated attract (or provide relief from) taxes at varying rates of taxation. Furthermore, the rules applied in each tax jurisdiction for determining the tax base of assets and liabilities and for the quantification of temporary differences (giving rise to deferred tax liabilities or assets) also vary. As a consequence, the nominal and, by extension, the effective tax rate, on the basis of which the tax charge for each accounting period is quantified, is a function of the geographic dispersion of the extra- and intra-group profits (or losses) reported by each operating entity in that accounting period.

As required by International Accounting Standard #12, the TEMENOS GROUP recognises the amount of income taxes payable (recoverable) in respect of the taxable profits (tax losses) reported in a given accounting period (current taxes) as well as the amounts of income taxes payable (recoverable) in future accounting periods in respect of taxable temporary differences, deductible temporary differences and the carryforward of unused tax losses. In the case of unused tax losses, a deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

As at 31 December 2001 and 2000, the unamortised deferred tax asset recognised in relation to tax losses incurred by certain subsidiary companies amounted to US$ 827 thousand and US$ 713 thousand, respectively.

The tax charge is analysed as follows (in thousands of US dollars):

	Year ended 31 December 2001	Year ended 31 December 2000
Profit before taxes, per the consolidated statement of earnings	9 852	13 836
Current tax	2 223	2 587
Deferred tax	(125)	(456)
Tax charge for the year	2 098	2 131

The computed tax charge, on the basis of the domestic rates applicable in the countries concerned, is reconciled to the tax charge reflected in the consolidated statement of earnings as follows (in thousands of US dollars):

	Year ended 31 December 2001	Year ended 31 December 2000
Computed tax charge	(1 457)	1 702
Tax effect of losses deemed likely to be utilised against future taxable profits	(125)	(451)
Tax effect of non-temporary differences, including the tax effect of losses not deemed likely to be utilised against future taxable profits and unrecoverable taxes withheld at source	3 680	880
Tax charge for the year	2 098	2 131

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The effective tax rate applicable to the Group, as a whole, may vary from one accounting period to another as a result of the taxed profits generated in certain jurisdictions being utilised to finance losses (which are not deemed likely to be off-set against future taxable profits) in other jurisdictions. The consolidated financial statements of the Group only reflect extra-group transactions and balances while the taxable profits of the Group are quantified by reference to both extra-group and intra-group transactions.

The deferred tax asset recognised in respect of the tax losses deemed likely to be utilised against future taxable profits is analysed as follows (in thousands of US dollars):

Deferred tax asset, as at 31 December 2000	713
Amount credited to operations in the year to 31 December 2001	125
Effect of exchange rate changes	(11)
Deferred tax asset, as at 31 December 2001	827

In many tax jurisdictions, the reported taxable profits or losses are considered provisional and subject to adjustment by the tax authorities, at the stage of the examination of the tax returns filed. This process of examination on the part of the tax authorities may extend over a lengthy period of time and it may entail extensive discussions between the tax authorities and the taxable entities involved. The tax charge for each accounting period (or the corresponding tax relief recognised) is based on the Group's best estimate of the likely ultimate outcome of this process.

12. Long–term Liabilities under Finance Leases

The long-term liabilities under finance leases are analysed as follows (in thousands of US dollars):

	31 December 2001	31 December 2000
Obligations under finance leases:		
repayable within one year	87	69
repayable between two and five years	304	135
	391	204
Finance charges allocated to future accounting periods	(21)	(27)
	370	177
Included in accounts payable within one year	(50)	(58)
	320	119

13. Share Capital

As at 31 December 2000, the issued and outstanding shares of TEMENOS Holdings NV, which, on 7 June 2001, was succeeded by TEMENOS Group AG as the ultimate holding company of the TEMENOS GROUP, comprised 39,438,805 common shares of a nominal value of US$ 0.001 each.

The changes in the number of issued and outstanding shares, in the year ended 31 December 2001, are summarised below:

	Number	Nominal value
Issued and outstanding, as at 31 December 2000	39 438 805	39
Shares issued in April 2001 as part of the consideration paid for the acquisition of Alphametrics Limited	165 531	–
Shares issued in June 2001 on exercising of an option to purchase shares, on the part of an existing shareholder of the Company	500 000	1
		40
TEMENOS Holdings NV shares exchanged for TEMENOS Group AG shares, on an 1:1 exchange basis, in June 2001	40 104 336	113 538
Shares of TEMENOS Group AG issued in exchange for the shares of I.T. Services Limited	20 300	57
Total number of TEMENOS Group AG pre–IPO shares	40 124 636	113 635
Shares issued to the public in June 2001	10 800 000	30 586
Shares issued to a share warrantholder in June 2001	786 320	2 227
Shares issued subsequent to the IPO	86 207	266
Total number of TEMENOS Group AG shares which had been issued and were outstanding, as at 31 December 2001	51 797 163	146 714

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The 10.8 million shares issued to the public in June 2001, were issued at a nominal value of CHF 5 per share plus a premium of CHF 18 per share. The proceeds of the public issue, amounting to US$ 140.7 million (CHF 248.4 million) are reported, in these consolidated financial statements, net of the IPO-related costs, which amounted to US$ 11.8 million. These costs include underwriting fees, professional fees, the impact of exchange movements and the stamp duty of 1% payable in Switzerland on the capital raised by the Company. The shares issued subsequent to the IPO, at a nominal value of CHF 5 per share plus a premium of CHF 1.5 per share, were all allotted to the ex-shareholders of Integrated Core Technologies Participations SA, when the company was acquired by the TEMENOS GROUP.

Thus, as at 31 December 2001, TEMENOS Group AG had a share capital of US$ 146.7 million (CHF 258,985,815) divided into 51,797,163 fully paid, voting, registered, common shares of a nominal value of CHF 5 each.

As of 31 December 2001, the authorised and issued share capital of TEMENOS Group AG comprised 51,010,843 shares of a nominal value of CHF 5 each. In addition to its authorised and issued share capital, TEMENOS Group AG has authorised “conditional” or “contingent” capital comprising 10,000,000 shares of a nominal value of CHF 5 each, which are reserved for satisfying obligations arising under the Employee Share Options Scheme operated by the TEMENOS GROUP, and 800,000 shares of a nominal value of CHF 5 each, which may be used to satisfy conversion and/or option rights granted in connection with bonds or similar debt instruments issued by the Company. Such “conditional” or “contingent” capital may be issued by resolution of the Board of Directors of the Company and it was, in fact, used in the year ended 31 December 2001 when the share warrant held by a creditor was exercised.

The share capital of all subsidiaries has been eliminated on consolidation.

As explained in note 14 below, the Company has granted options to its employees to acquire shares in the Company, the option price ranging from US$ 0.005 to US$ 15.00 per share and the vesting period ranging from 3 to 5 years. As at 31 December 2001, the total number of common shares committed under the Company’s Employee Share Option Scheme (net of cancellations) was 4,748,489 (2000: 4,503,891). 1,354,300 (2000: 1,354,000) of these options have been granted to executive members of the Board of Directors of the holding Company, at exercise prices ranging from US$ 0.02 to US$ 15.00 per share.

In addition to share options under the TEMENOS Employee Share Options Scheme, one of its existing shareholders had, in prior years, purchased the right to acquire 500,000 shares, at a pre-agreed price of US$ 1 per share. This right vested and was exercised at the initial public offering of the Company’s shares in the course of the year ended 31 December 2001.

Furthermore, in the year ended 31 December 2001, 344,826 share options were allotted to the ex-shareholders of Integrated Core Technologies Participations SA when the company was acquired by the TEMENOS GROUP. These share options vest over the period from 1 July 2002 to 1 July 2005 and they are exercisable at a nominal price.

Based on the vested portion of the share options which were outstanding, as at 31 December 2001 and 2000, the share capital which would have been raised, had these options been exercised by these dates, would have amounted to (in thousands of US dollars):

31 December 2001	6 472
31 December 2000	3 395

The dilution effect of the share options granted, when exercised, will be a function of the market price of the Company’s shares, at the time of exercising such options. Based on the market value of the shares of TEMENOS Group AG, as at 31 December 2001, and the vested portion of the options, as at the above date, the dilution effect of the options on the shares of TEMENOS Group AG has been quantified as follows (the number of shares and the amounts are stated in thousands):

	Common shares outstanding	Weighted average number of outstanding common shares	Employee and other share options outstanding	Share warrants outstanding	Anticipated aggregate proceeds on exercising all outstanding options	Proceeds on exercising all vested options	Vested share options at their then market value	Net dilutive effect of vested options	Equivalent common shares
31 December 2001	51 797	45 681	4 748	345	12 895	6 472	27 744	21 706	2 883
31 December 2000	39 439	53 157	5 004	786	11 765	3 390	51 288	47 898	3 685

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14. Employee Share Options Obligations

In 1997, a share option scheme was introduced under which the Board of Directors of TEMENOS Holdings NV was empowered to grant share options to employees of the company (and/or its subsidiary companies) in relation to a maximum of 10,000,000 common shares of a nominal value of US$ 0.001 each. On the corporate restructuring of the TEMENOS GROUP, in the course of the year ended 31 December 2001, this power was retained by TEMENOS Holdings NV, under an arrangement whereby the share options granted are "automatically" converted into TEMENOS Group AG shares on exercise. TEMENOS Group AG has been empowered to issue a corresponding number of its own shares for this purpose.

This power was exercised in the years 1997 to 2000 as well as in the year ended 31 December 2001 by granting share options to employees of the Group, net of cancellations, over an aggregate of 4,948,489 (as at 31 December 2000: 4,703,891) shares, the option price ranging from US$ 0.005 to US$ 15.00 per share and the vesting period ranging from 3 to 5 years. During the same period options to purchase 200,000 shares were exercised.

The cost of this scheme, being the difference between the estimated market value of the shares at the time of granting the options and the option price, has been estimated at US$ 2,892 thousand and is being charged to operations over the vesting period of the options as follows (in thousands of US dollars):

Up to 31 December 1999	444
In the year ended 31 December 2000	508
In the year ended 31 December 2001	728
Post 31 December 2001	1 212
Total cost of share options granted to employees	2 892

15. Warranted Share Subscription Reserve

As at 31 December 2000, the warranted share subscription reserve reflected the effective cost of a warrant on 786,320 TEMENOS Holdings NV common shares issued in favour of a lender of the company, in the year then ended. This warrant was exercised in the following year and the reserve was utilised for this purpose. As at 31 December 2001, the balance reported under this reserve represents the estimated fair market value of the share options granted in the context of an acquisition of a subsidiary, at the time of the transaction.

16. Share Premium Account

The share premium account reflects the premium collected on the issuance of new shares at a price above their par value. The movement in this account in the year ended 31 December 2001 was as follows (in thousands of US dollars):

As at 31 December 2000	–
Premium associated with the exercising of an option to purchase 500,000 shares	499
Premium associated with the shares issued on the acquisition of a subsidiary	2 526
Premium associated with the I.T. Services Ltd merger	93
Premium collected on IPO shares, net of related expenses	98 336
Premium on shares issued subsequent to IPO	27
Transferred from warranted share subscription reserve	997
Used to offset the share redemption deficit	(54 371)
Used to offset part of the goodwill acknowledged on restructuring	(48 107)
As at 31 December 2001	–

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17.Share Redemption Deficit

The share redemption deficit reflected the difference between the nominal value of and the actual price paid for the 14,447,030 common shares of TEMENOS Holdings NV, which were purchased and cancelled by the company in the year ended 31 December 2000, after adjusting the deficit with the balance previously reported in the share premium account. The deficit was offset in the year ended 31 December 2001, against share premium. The movement of the share redemption deficit account, in the years ended 31 December 2000 and 2001, was as follows (in thousands of US dollars):

Deficit arising on purchase and cancellation of 14,447,030 own common shares	(62 277)
Transferred from share premium account	7 906
As at 31 December 2000	(54 371)
Offset against share premium	54 371
As at 31 December 2001	–

18. Cumulative Translation Adjustment

The cumulative translation adjustment, which is reflected separately under shareholders' equity, represents the foreign exchange gains and losses resulting from the translation of the subsidiaries' assets, liabilities and results of operations from their functional (local) currency into the Group's reporting currency (US dollars). The movement in the cumulative translation adjustment is reflected below (in thousands of US dollars):

Balance at 31 December 2000	(751)
Translation losses for the year, arising on consolidation	(278)
Balance at 31 December 2001	(1 029)

19. Earnings per Share Computations

The earnings per share reported have been arrived at as follows (in thousands of US dollars except for the number of shares):

	Year ended 31 December 2001	Year ended 31 December 2000
Net profit for the year attributable to the Group	5 942	11 209
Profits attributable to preferred redeemable shares	–	(337)
Net profit for the year attributable to common shareholders	5 942	10 872
Weighted average of common shares outstanding during the year (in thousands) *	45 681	53 157
Equivalent common shares relating to vested share options and share warrants (in thousands)	2 883	3 685
Aggregate number of equivalent common shares for purposes of calculating the diluted earnings per share (in thousands)	48 564	56 842
Earnings per share (in US$ per share)		
– basic	0.13	0.20
– diluted	0.12	0.19

(*) For the purposes of computing the weighted average number of common shares outstanding, the previously existing preferred A shares (which, in the year ended 31 December 2000, were converted into common shares) have been converted into equivalent common shares, on the same basis upon which the conversion was ultimately realised. No dividend has ever been paid on these common shares.

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20. Reconciliation between International Accounting Standards and US Generally Accepted Accounting Principles

The TEMENOS GROUP financial statements are compiled in accordance with International Accounting Standards (IAS), which differ in certain respects from US generally accepted accounting principles (US GAAP). The effects of these differences on net income and shareholders' equity are shown in the following tables, with references to the respective reconciling items.

	Year ended 31 December 2001	Year ended 31 December 2000
Net income, per IAS	5 942	11 209
Timing differences in respect of the revenue recognised[1]	1 350	(1 050)
Deferred tax adjustment relating to US GAAP reconciliation items[2]	(157)	148
Net income, per US GAAP	7 135	10 307
Net income attributable to preferred redeemable shares[3]	–	(337)
Net income available to common shareholders, per US GAAP	7 135	9 970
Earnings per share:		
basic	0.16	0.19
diluted	0.15	0.18
Statement of comprehensive income		
Net income, per US GAAP	7 135	9 970
Other comprehensive income (loss) –		
currency translation adjustments:		
on restatement of financial statements of subsidiary companies	(278)	(455)
on purchase and cancellation of own shares	–	(2 277)
Comprehensive income, per US GAAP	6 857	7 238
Shareholders' equity (deficit)		
Shareholders' equity (deficit), per IAS	97 597	(42 360)
Timing differences in respect of the revenue recognised[1]	–	(1 350)
Deferred tax adjustment relating to US GAAP reconciliation items[2]	–	157
Total effect of US GAAP adjustments	–	(1 193)
Shareholders' equity (deficit), per US GAAP	97 597	(43 553)

([1]) Certain of the software licensing contracts entered into by the Group entailed substantial modifications to the source code of the programs, while incorporating customer acceptance criteria. Under IAS, the Group recognises revenue on these contracts using the percentage of completion method, if it is likely that the acceptance criteria will be met. Under US GAAP, the recognition of revenue had to be deferred until the acceptance criteria were satisfied or the acceptance conditions lapsed. This position was modified in the year ended 31 December 2001. In any event, the specific contract giving rise to the reconciliation difference was cancelled in the course of the year 2001.

([2]) Deferred tax recognised on revenue reconciling differences between IAS and US GAAP.

([3]) The 8% per annum dividend entitlement on the preferred redeemable shares was cumulative. Under US GAAP, this dividend entitlement must be accrued each year for calculating earnings available to common shareholders, irrespective of whether the corresponding dividends are declared or not. Save an amount of US$ 617 thousand, which is reported in 2000, as a proposed dividend, the balance of this dividend entitlement, amounting to US$ 3,025 thousand, was converted into common shares in the year 2000.

TEMENOS GROUP AG

notes to the consolidated financial statements

31 December 2001

21. Related Party Transactions and Balances

The transactions entered into, in the ordinary course of business, with the Global Technology Group of South Africa, which is deemed to be a related party as a consequence of cross-directorships and because of the substantial equity interest held by Global Technology Ltd in TEMENOS Group AG, and the respective receivable and payable balances reported at each year-end, are reflected in the following table (in thousands of US dollars):

	Due to the TEMENOS Group	Due by the TEMENOS Group	Revenues derived by the TEMENOS Group	Services rendered to the TEMENOS Group	Other costs born by the TEMENOS Group
Year ended:					
31 December 2001	2 768	2 858	4 136	5 298	4
31 December 2000	1 301	317	2 224	1 032	156

In the year ended 31 December 2000, TEMENOS Holdings NV concluded an agreement with Global Technology Limited, a member of the Global Technology Group, under which it acquired the intellectual property rights over software programs, which are complementary to TEMENOS GLOBUS, of an aggregate value of US$ 2.5 million. The obligation, which had thus arisen towards the vendor, was discharged by partly off-setting it against an amount of US$ 959,000 previously advanced and by issuing new shares of TEMENOS Holdings NV, on the basis of a company valuation of US$ 500 million. In addition, TEMENOS Holdings NV assigned to the vendor, for a limited period of three years, 35% of the licensing revenues which will be generated by licensing the software acquired to third parties.

The transactions entered into, in the ordinary course of business, with PK Technology Sdn Bhd, a Malaysia based company that is publicly traded in Singapore and in which a shareholder and director of TEMENOS Group AG serves as a director and has a small equity interest, and the respective receivable and payable balances reported at each year-end, are reflected in the following table (in thousands of US dollars):

	Due to the TEMENOS Group	Due by the TEMENOS Group	Revenues derived by the TEMENOS Group	Services rendered to the TEMENOS Group	Other costs born by the TEMENOS Group
Year ended:					
31 December 2001	243	1 571	486	3 017	75
31 December 2000	–	809	76	1 597	–

In the year ended 31 December 2001, TEMENOS Holdings NV concluded an agreement with PK Technology Sdn Bhd, under which it acquired the intellectual property rights over software programs, which are complementary to TEMENOS GLOBUS, of an aggregate value of US$ 75 thousand. Under the arrangements entered into, TEMENOS Holdings NV, assigned to the vendor, for a limited period of three years, 10% of the licensing revenues which will be generated by licensing the software acquired to third parties. The vendor retained the right to license the software, within its own territory, royalty-free.

In December 1999, a building was leased by TEMENOS Suisse SA in Geneva (utilised as office accommodation of the lessee) that is owned by a company which is managed and controlled by two of the major shareholders and directors of TEMENOS Group AG. The rent payable, amounting to US$ 213 thousand (CHF 360 thousand) per annum, has been confirmed by reputable, independent estate agents as representing a fair market rent for the property. In general, the terms and conditions of the lease agreement entered into conform to standard market practices.

TEMENOS GROUP AG

notes to the consolidated financial statements
31 December 2001

22. Revenues: Segmental Analysis

Given the global nature of the activities of the Group and the integrated approach taken in serving clients around the world, the Directors believe that the analysis of revenues, profit, assets employed and cash flows, by country of origin of the resources utilised, is practically unfeasible and, in any event, it would not provide the reader with any meaningful information; accordingly, an analysis of revenues, by the region of the destination of the product or service supplied is set out below (in thousands of US dollars):

	Licensing	Services	Total
Year ended 31 December 2001			
Europe	55 016	42 371	97 387
Asia/Pacific	8 341	10 511	18 852
Americas	8 913	6 860	15 773
Africa	7 439	1 417	8 856
	79 709	61 159	140 868
Year ended 31 December 2000			
Europe	36 959	23 863	60 822
Asia/Pacific	9 727	6 285	16 012
Americas	3 614	4 634	8 248
Africa	8 578	1 590	10 168
	58 878	36 372	95 250

23. Personnel Costs and Numbers

Total personnel costs (salaries, bonuses, sales commissions, social security and pension contributions and other employee benefits, including the cost of the employee share option scheme operated by the Group) and the total number of the employees of the Group as at 31 December 2001 and 2000, by the region in which the employees are permanently based, are set out below (in thousands of US dollars except for staff numbers):

	Year ended 31 December 2001	Year ended 31 December 2000
Personnel Costs	66 955	42 061
Number of persons employed	1 259	811

	Personnel costs	Number of Persons Employed
Year ended 31 December 2001		
Europe	50 093	689
Asia	8 480	475
Americas	8 382	95
	66 955	1 259
Year ended 31 December 2000		
Europe	31 879	461
Asia	4 553	294
Americas	5 629	56
	42 061	811

The number of persons employed, reported above, is inclusive of "consultants", who render their services to the Group on an exclusive, on-going basis, and of persons who are engaged for a specified term of time, which may or may not be extended.

Throughout the world, the Group maintains defined contribution plans for its employees under which the relevant contributions are expensed as they accrue. The aggregate cost of these plans – many of which are state-sponsored – in the year 31 December 2001, amounted to US$ 2.9 million. The Group does not maintain, nor is it committed to support, any defined benefit plans for its current or former employees.

TEMENOS GROUP AG

notes to the consolidated financial statements

31 December 2001

24. Directors' Emoluments

The personnel costs disclosed under note 23 above include the following amounts, representing executive directors' emoluments: US$ 1,433 thousand and US$ 1,259 thousand in 2001 and 2000, respectively. The emoluments of non-executive directors in the year ended 31 December 2001 amounted to US$ 79 thousand.

25. Sales and Marketing Expenses

Included in sales and marketing expenses is an amount of US$ 347 thousand (2000: US$ 1,276 thousand) representing a release of a provision (2000: a charge to operations) in respect of receivable balances that were deemed to be doubtful of collection.

26. Financial Instrument Related Costs

As already explained in note 9, in late November 2000, TEMENOS Holdings NV (the then ultimate holding company of the TEMENOS GROUP) proceeded with the implementation of a capital restructuring scheme which entailed the borrowing of US$ 36 million and Euro 28 million from an international banking institution, the granting of a share warrant in favour of the lender over 786,320 common shares and the purchase-back and cancellation of 14,447,030 of its own common shares. The costs associated with the implementation of this scheme amounted to US$ 5,935 thousand. The amount of US$ 690 thousand (2000: US$ 5,221 thousand) is reported on the balance sheet under "deferred expenses" and it will be amortised over a period of eleven months to November 2002.

The relevant amounts are set out below (in thousands of US dollars):

	Charged to Operations in the year ended 31 December		Deferred (reported under "deferred expenses")	Deducted from shareholders' equity	Total
	2000	2001			
Fees paid to the lender (or to entities associated with the lender)	156	1 418	608	–	2 182
Legal and other professional fees	68	328	82	26	504
Equity component (share warrant) of financial instrument costs	464	2 785	–	–	3 249
	688	4 531	690	26	5 935

The value (cost) of the equity portion of this compound financial instrument was quantified (by reference to the Group valuation at which the shares of TEMENOS Holdings NV were purchased-back and cancelled) at US$ 3,249 thousand. The amount reported as forming part of shareholders' equity has been appropriately reduced by the proportion of the transaction related expenses which corresponds to its equity element of US$ 26 thousand.

27. Other Non–operating Income and Expenses

The amount of US$ 500 thousand, reported under non-operating expenses, in the year ended 31 December 2000, represented an advance given to a then unrelated software company with a view to establishing an ongoing business relationship with it. The amount advanced was subsequently deemed to be unrecoverable and it was fully amortised. However, in the course of the year 2001, the TEMENOS GROUP acquired the intellectual property rights over the software owned by the investee and the amount previously advanced and amortised was utilised to partly settle the consideration agreed upon. Under the circumstances, it was deemed appropriate to re–instate the amount advanced in 2000 and to treat it as part of the consideration paid for acquiring the aforesaid asset.

TEMENOS GROUP AG

notes to the consolidated financial statements
31 December 2001

28. Commitments

The Group has obligations under operating leases relating mainly to the office premises used by its subsidiary companies. Lease expenses for the years ended 31 December 2001 and 2000 amounted to approximately US$ 4.7 million and US$ 2.4 million, respectively.

As at 31 December 2001, the Group had obligations under non-cancellable operating leases, expiring between January 2002 and February 2012, for future minimum annual payments (in thousands of US dollars) falling due:

Not later than one year	6 645
Later than one year and not later than five years	23 000
Later than five years	6 122
Total	35 767

The Group is also contractually committed to sponsor the Sauber Petronas Formula 1 motor racing team up to 31 December 2003. The total commitment is for US$ 6,325 thousand of which US$ 1,325 thousand was paid and expensed in the year ended 31 December 2001, the committed balance remaining amounting to US$ 2,500 thousand for 2002 and US$ 2,500 thousand for 2003. In addition, the Group was contractually committed to sponsor Dominique Wavre to participate in the Transat Jacques Vabre 2001 boat race. The commitment was for US$ 302 thousand (CHF 500 thousand) of which US$ 221 thousand was expensed in the year ended 31 December 2001 and the balance of US$ 81 thousand will be expensed in the first quarter of the year ending 31 December 2002.

29. Post–Balance Sheet Events

In the early part of 2002, the TEMENOS GROUP concluded an agreement for the acquisition of all the shares of QUETZAL Informatique SA, a French company specialising in the development and marketing of software designed to facilitate the reporting imposed on financial institutions by regulatory agencies. The shares of the investee have been acquired in exchange for 117,640 shares of TEMENOS Group AG and an amount of US$ 289 thousand (Euro 324 thousand) in cash.

In the early part of the year 2002, the TEMENOS GROUP also acquired a 20% equity interest in INFOservice SRL, an Italian company specialising in serving the financial services industry by providing software tools which facilitate the management of wealth. The equity interest referred to above has been acquired through the injection of new capital into the investee company, amounting to US$ 2.5 million. Under the arrangements entered into, the TEMENOS GROUP has an option, which must be exercised by the end of the year 2002, under which it may opt to acquire – over a period of approximately three years – the remaining equity of INFOservice SRL in exchange for a combination of cash and TEMENOS Group AG shares, the consideration being a function of the performance of the investee over this period of time and the corresponding market price of the shares of TEMENOS Group AG.

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REPORT OF THE STATUTORY AUDITORS

The Shareholders of TEMENOS Group AG in General Meeting

As statutory auditors, we have audited the accounting records and the financial statements, comprising the balance sheet as of 31 December 2001 and the statement of earnings for the period from 7 June 2001 (date of incorporation) to 31 December 2001, as well as the notes thereon, of TEMENOS Group AG (the "Company"). These financial statements, which have been prepared in compliance with International Accounting Standards, are the responsibility of the Board of Directors of the Company. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

We conducted our audit in accordance with auditing standards promulgated by the Swiss profession. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and the financial statements, referred to above, and the proposed appropriation of available earnings comply with Swiss law and the Company's Articles of Incorporation.

We recommend that the financial statements submitted to you be approved.

10 March 2002

Albert Bamert **Gilbert Darmstädter** **Christos P. Panayiotides** **Paris Efthymiades**

Auditors in charge

TEMENOS GROUP AG

The amounts are expressed in thousands of Swiss Francs

balance sheet

as at 31 December 2001

	(CHF thousands)
Assets	
Investments	433 006
Liabilities	
Taxes payable	(9)
Other payables	(122)
	(131)
Net assets	432 875
Shareholders' equity	
Share capital	258 986
Share premium	173 787
Retained earnings	102
Total shareholders' equity	432 875

statement of earnings

for the period from incorporation to 31 December 2001

Gain on exchange	216
Operating expenses, capital and other indirect taxes	(105)
Profit before taxation	111
Taxation	(9)
Profit for the period	102

The attached notes form part of these financial statements.

TEMENOS GROUP AG

notes to the financial statements

31 December 2001

1. Legal Status and Activities

TEMENOS Group AG was incorporated in the Canton of Glarus, Switzerland as a stock corporation (Aktiengesellschaft) on 7 June 2001. On incorporation, TEMENOS Group AG succeeded TEMENOS Holdings NV in the role of the ultimate holding company of the Group but is not, otherwise, engaged in trading, financing or investing activities, except as the holder of all the issued and outstanding shares of TEMENOS Holdings NV and IT Services Limited. The shares of TEMENOS Group AG are publicly traded on the SWX (main) Swiss Exchange.

2. Investments

The investments of TEMENOS Group AG represent the shares of its two wholly owned subsidiary companies, as follows (the amounts are stated in thousands of Swiss francs):

TEMENOS Holdings NV, Netherlands Antilles	
40,104,335.86 shares of a nominal value of US$ 0.001 each	200 522
Advances for the acquisition of new shares	232 383
I.T. Services Limited, Cyprus	
100 shares of a nominal value of CY£ 1 each	101
	433 006

3. Share Capital

The share capital of the Company comprises registered shares having a nominal value of CHF 5 each, and is analysed as follows (the amounts are stated in thousands of Swiss francs):

	Shares	Amount
Authorised and issued share capital	51 010 843	255 054
Conditional or contingent capital issued	786 320	3 932
	51 797 163	258 986

The “conditional” or “contingent” share capital of the Company comprises 10,000,000 shares, which are reserved for satisfying obligations arising under the Employee Share Options Scheme operated by the TEMENOS GROUP, plus 800,000 shares, which may be used to satisfy conversion and/or option rights granted in connection with bonds or similar debt instruments issued by the Company. Such “conditional” or “contingent” capital may be issued by resolution of the Board of Directors of the Company.

As at 31 December 2001, the “conditional” or “contingent” capital, reserved for satisfying obligations associated with debt instruments issued by the Company, was utilised in respect of 786,320 shares issued to a financial institution for credit facilities placed at the disposal of the Group.

TEMENOS GROUP AG

notes to the financial statements

31 December 2001

The shares issued by the Company, in the period from incorporation to 31 December 2001, are set out below:

TEMENOS Holdings NV shares exchanged for TEMENOS Group AG shares, on a 1:1 exchange basis, in June 2001	40 104 336
Shares of TEMENOS Group AG issued in exchange for the shares of I.T. Services Limited	20 300
Total number of TEMENOS Group AG pre-IPO shares	40 124 636
Shares issued to the public in June 2001	10 800 000
Shares issued to a share warrantholder in June 2001	786 320
Shares issued subsequent to the IPO	86 207
Total number of TEMENOS Group AG shares which had been issued and were outstanding, as at 31 December 2001	51 797 163

So far as the Company is aware, the only holdings of 5% or more in the issued share capital of the Company are those of its Chairman and Chief Executive Officer (35.9%) and of its Vice-chairman and Marketing Director (15.2%). In addition, Global Technology Limited and its affiliate Global Technology Investment Holdings (Pty) Limited, hold 15.3% of the share capital of the Company. Global Technology Limited is a publicly listed company in South Africa and serves as the distributor of TEMENOS in sub-Saharan Africa, Australia and New Zealand. Mr. Ray Leonard, who serves on the Board of TEMENOS Group AG, is a director and major shareholder of the Global Technology Group. Finally, Global Capital Investors Limited Partnership and Global Capital Investors II Limited Partnership, together with certain entities related to them, collectively hold 6% of the share capital of the Company. Mr. Angelos Plakopitas, who serves on the Board of TEMENOS Group AG, is a director and has a substantial equity interest in this group. The number of the shares, which were offered to and were subscribed for by the public in June 2001, represented 21.2% of the then issued and outstanding share capital of TEMENOS Group AG, after the issuance of those shares.

4. Share Premium

The share premium is reported after deduction of expenses, amounting to CHF 20,742 thousand, which were incurred in conjunction with the initial public offering of the Company's shares.

5. Contingent Liabilities

TEMENOS Group AG has provided certain guarantees to third parties, primarily in favour of TEMENOS Holdings NV, in the context of credit facilities placed at the disposal of the latter. Management believes that these guarantees are unlikely to be activated.

6. Proposed Appropriation of Available Earnings

The Board of Directors proposes not to distribute any dividends and to carry the retained earnings forward.

Company Information

DIRECTORS

George Koukis *(Chairman & Chief Executive Officer)*
Kim Goodall *(Vice Chairman & Marketing Director)*
Andreas Andreades *(Deputy Chief Executive Officer)*
Ray Leonard *(Non-executive)*
Chris Pavlou *(Non-executive)* [1, 2]
Lewis Polk Rutherfurd *(Non-executive)* [1, 2]
Angelos Plakopitas *(Non-executive)* [2]
Paul Selway-Swift *(Non-executive)* [1, 2]

([1]) *Member of Audit Committee*
([2]) *Member of Compensation Committee*

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Information for Investors

CAPITAL STRUCTURE

The share capital is divided into 51.8 million registered shares of a nominal value of CHF 5.

APPROPRIATION OF PROFITS

TEMENOS does not expect to pay dividends in the foreseeable future.

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ANNUAL GENERAL MEETING

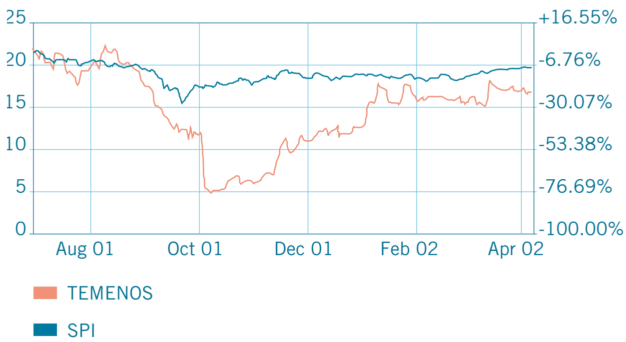
7 May 2002

NEXT PUBLICATION

6 May 2002	Q1 Report
6 August 2002	Q2 Report
September 2002	Interim Report
5 November 2002	Q3 Report

Development of the TEMENOS share price compared to the Swiss Performance Index

© Swissquote — Period from 29 June 2001 to 7 April 2002



STATISTICS ON TEMENOS SHARES

Registered shares of CHF 5 nominal	2001
Sector:	Technology/Software
Market Segment:	SWX Main Market
Index Member:	SPI
Swiss Security No:	124 5391
ISIN No:	CH0012453913
Symbol:	TEMN
Number of shares	51 797 163
Market price high/low (CHF)	23/4.90
Market price year-end (CHF)	12.50
Market capitalization high/low (CHF m)	1189/253
Market capitalization at 31.12. (CHF m)	647
Share capital nominal value at 31.12. (CHF m)	259

Key Figures per Share

Basic earnings per share (USD)	0.13
Diluted earnings per share (USD)	0.12
Consolidated shareholders' equity (USD m)	98
Consolidated shareholders' equity per share (USD)	1.88
Return on equity (%)	6.1

Major shareholders of TEMENOS Group AG

George Koukis	35.9
Global Technology Ltd and affiliates	15.3
Kim Goodall	15.2
Global Capital Investors and related entities	6.0

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