TEMENOS

Annual Report 2002

TEMENOS™

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 300 installed client bases. The company had revenues of US$113.3 million for the year ended December 31, 2002. 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

	2002	2001
Employees	1179	1259
Revenues	113,338	140,868
Operating profit (loss)	(44,411)	15,607
Operating margin	n/a	11%
Net profit (loss)	(49,487)	5,942
Operating cashflow	(4.8)	(0.3)
Total assets	122,385	171,387
Shareholders' equity	52,728	97,597

Basic earnings (losses) per share	USD (0.95)	USD 0.13
Diluted earnings (losses) per share	USD (0.95)	USD 0.12
Return on equity	n/a	6.1%

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Financial Highlights

(in millions of US dollars)

	2002 *31 December (12 months)*	2001 *31 December (12 months)*	2000 *31 December (12 months)*	1999 *31 December (6 months)*	1998/99 *30 June (12 months)*
Revenues	113.3	140.9	95.3	28.8	43.6
Operating costs and expenses	157.7	125.3	79.7	24.9	38.5
Operating profit (loss) before amortisation of goodwill	(43.2)	16.2	16.1	3.9	5.1
Profit (loss) before taxation	(47.1)	9.9	13.8	3.5	5.0
Net profit (loss), after tax, attributable to the Group	(49.5)	5.9	11.2	2.8	4.2
Basic earnings (losses) per share (in US$)	(0.95)	0.13	0.20	0.09*	0.06
Diluted earnings (losses) per share (in US$)	(0.95)	0.12	0.19	0.09*	0.06
Operating cashflow	(4.8)	(0.3)	2.5	3.5	9.6
Current assets	69.4	132.7	47.4	24.1	20.4
Non-current assets	53.0	38.7	18.0	10.1	5.1
Total assets	122.4	171.4	65.4	34.2	25.5
Current liabilities	(32.3)	(24.6)	(24.7)	(13.5)	(9.8)
Deferred revenues	(22.2)	(16.6)	(20.0)	(13.7)	(11.7)
Non-current liabilities	(15.2)	(30.1)	(62.4)	–	(0.1)
Total liabilities	(69.7)	(71.3)	(107.1)	(27.2)	(21.6)
Minority interest	–	(2.5)	(0.7)	(0.2)	–
Shareholders' equity (deficit)	52.7	97.6	(42.4)	6.8	3.9

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

Chairman's Statement

2002 has been a challenging and eventful year – both for TEMENOS and the financial services industry in general. The economic and political uncertainty has had a profound effect on investors and our clients, the banking community. This negative sentiment affected the stock markets significantly, notably the technology sector, which took a dramatic hit. In a year, where most of the companies reported negative results and the spectre of war in Iraq continued to undermine public confidence, I believe that TEMENOS has emerged stronger, wiser and more competitive. On a world stage, we do not expect 2003 to be a better year compared to 2002; however, we are convinced that the decisions we made in 2002 will return TEMENOS to profitability in 2003 and we will reaffirm ourselves as the leading software vendor in the banking software arena.

Coming out of a successful IPO (in June 2001) and listening to expert opinion, we set our targets for 2002 on the basis that the markets would have improved. Assisted by strong fourth quarter 2001 new business "signings", we set our goals for 2002 to a modest 24% growth. In hindsight, our assumption was wrong. The markets took a downturn and banks lost confidence. It became more difficult for these financial institutions to commit to new strategic projects, regardless of the strength of their business case, and, instead, they embarked upon a wave of restructuring. We did not anticipate such a dramatic slowdown of the world economy continuing through the year and we were slow to react to these market conditions; our figures reflect this. By June 2002, we realised that we could not meet our 2002 targets.

We, too, like many others, including our clients – the banks, embarked on a restructuring programme of our operations that has resulted in a reduction of our projected cost base for 2003 by approximately US$ 35 million (compared to 2002). This entailed headcount reductions, reduction of investments in projects that were no longer viewed as strategic and a transfer of various functions to less costly locations.

Of course, numbers are only one measure of our performance through the year.

2002 was not all doom and gloom for TEMENOS. Despite the challenging business environment, characterised by deal and project delays, the new licensing agreements signed were, in terms of initial license fees, the highest recorded in any year in the history of TEMENOS. The initial license fee "signings," a key performance indicator for our business, reached US$ 58.0 million, up 26% compared to the previous year. Because most of these signings occurred in the second half of 2002, their contributions to our 2002 results were minimal.

A number of significant deals with world-renown banking names, especially "Tier 1" banks, were signed during 2002. These included major deals with ING Bank, Samsung, Schroders, Industrial Bank of Korea, China Merchant Bank, BankThai and many others. In particular, ING selected TEMENOS GLOBUS™ (hereinafter referred to as TEMENOS GLOBUS or GLOBUS) for all their wholesale banking operations in Europe, Asia and the USA. GLOBUS will be implemented over a period of three years, supporting the banks, on a 24 x 7 basis, in 39 countries, out of three major hub locations. The ING solution is superior to anything else demanded by the industry worldwide and the project is progressing well, a testament to the investment we made in 2002 in our product's functionality, technological superiority and our global footprint of support. Many new potential clients are following this project, which is planned for a first phase "go live" in 2003. We believe that this project is a landmark in the process of developing and implementing banking systems that are truly capable of operating at a global level.

Industrial Bank of Korea is a joint win with IBM in Asia and the first "signing" of our retail COREBANKING division. Experts agree that retail corebanking spending is the area with the highest growth potential. "Tier 1" banks are looking at COREBANKING systems in order to decrease their cost base and cost per transaction. We expect to be a prominent player in this segment of the market, where very few players can offer a comprehensive yet modern solution.

Asia is showing positive signs of a turnaround and is forecast to be one of our fastest growing regions, where we can benefit from our own extensive distribution network. To further strengthen our delivery capability in Asia, we acquired, in 2002, the banking clients of our Asian distributor, PK Technology. We believe that in this demanding environment it is preferable to have a direct interface with our clients, so that additional sales and services can be delivered faster.

To build a successful and sustainable application software company, one needs to deliver a product that is rich in functionality, a product that is technologically advanced, a product that is supported by a distribution network, and be capable of deploying teams of experts based at close proximity to the client location and able to understand local banking requirements and norms.

We have invested heavily in our product and, indeed, the reason for leading the industry is the undisputed fact that our product is, by far, the richest in functionality and the most technologically advanced than any other non-niche product offered today. At the same time our distribution capability (along with our worldwide partners we operate out of 40 office locations) and our maintenance and support program makes us a true leader in the industry. Our restructuring in 2002 has not compromised any of the above strategic strengths of TEMENOS.

Armed with record "signings" in 2002 and the lessons learnt from our mistake not to react earlier to the then prevailing adverse market conditions, we set our 2003 goals at a lower level than we would have done in the past. Banks have mostly completed their own restructuring processes and are, again, giving priority to the evaluation of projects, aiming at replacing old legacy systems. However, many economies are still confronted with difficult problems, the Middle East situation is far from being settled and the markets exhibit unprecedented volatility. The political and economic climate is "cloudy" and this is bound to have an effect on the behaviour of the banking industry. Given these circumstances, our 2003 budget is conservative with 74% of our projected revenues already contracted during 2002, and preservation of cash is the highest priority, we project positive cash flows for the entire 2003 year. With a clear and strong balance sheet, a great team and loyal clients, we will focus on producing positive results in 2003.

I would like to extend my thanks to all our employees for their loyalty, support and dedication over the past, very difficult year. Additionally, I would like to express my gratitude to the management team and the directors of the Company, who have shown great ability, resolve and support for tough decisions. I thank you all for your support and look forward to a successful 2003.

George Koukis
Chairman & CEO

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George Koukis Chairman & CEO

Board of Directors and Management Board

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

BOARD OF DIRECTORS

George Koukis (57) *Chairman and Chief Executive Officer* [5]

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.

Mr. G. Koukis is a Greek and Australian national. He has a substantial equity interest in TEMENOS Group AG, which is disclosed in the Directors' Report. He also holds 1,000,100 options all issued prior to 31 December 2001.

Andreas Andreades (37) *Deputy Chief Executive Officer* [4]

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.

Mr. A. Andreades is a Cypriot national. He also holds 189,100 options (of which 9,000 are in trust). 10,000 of these were granted in 2002. Mr Andreades holds no other directorships.

Kim Goodall (47) *Vice Chairman* [3]

Mr. K. Goodall holds an accounting degree from the University of New South Wales. Mr. 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 co-founded PK Technology, a Malaysian information technology company, which, for an extended period of time, was 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, now, a very small shareholder of PK Technology and, up to April 2002, he was serving as a non-executive director of the company. Mr. Goodall is also a director of an affiliated entity of Global Technology Limited. He is a member of the Australian Computer Society, a member of the Chartered Institute of Marketing and a Justice of the Peace.

Mr. K. Goodall is an Australian national. He has a substantial equity interest in TEMENOS Group AG, which is disclosed in the Directors' Report. He also holds 175,100 options all issued prior to 31 December 2001.

Chris Pavlou (57) *Non-executive Director* [1,2,5]

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.

Mr. C. Pavlou is a British national. He does not hold share options in the TEMENOS GROUP.

Paul Selway-Swift (59) *Non-executive Director* [1,2,3]

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.

Mr. P. Selway-Swift is a British national. He holds a small number (11,400) shares in TEMENOS Group AG but he has no share options.

Ray Leonard (57) *Non-executive Director* [5]

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.

Mr. R. Leonard is a South African national. He does not hold any share options in the TEMENOS GROUP, other than the shares held through the Global Technology Group, in which he has a substantial equity interest. These shares are disclosed in the Directors' Report.

Angelos Plakopitas (63) *Non-executive Director* [4]

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. (The Global Finance Group is unrelated to the Global Technology Group). 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.

Mr. A. Plakopitas is a Greek national. He does not hold shares or share options in the TEMENOS GROUP, other than the shares held through affiliated entities of Global Finance AE, in which he has a substantial equity interest. These shares are disclosed in the Directors' Report. Due to other professional commitments, Mr. Plakopitas has expressed the intention to retire from the Board, at the forthcoming annual general meeting of the shareholders.

Lewis Polk Rutherfurd (58) *Non-executive Director* [1, 3]

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.

Mr. L. Rutherfurd is an American national. He does not hold share options in the TEMENOS GROUP but one of the investment funds Mr. Rutherfurd is associated with has a small equity interest in TEMENOS Group AG.

1 *Member of Audit Committee*
2 *Member of Compensation Committee*
3 *Due for re-election in 2003*
4 *Due for re-election in 2004*
5 *Due for re-election in 2005*

MANAGEMENT BOARD

The members of the Management Board (who are not members of the Board of Directors), their background and their responsibilities within the Group are set out below:

David Arnott (34) *Chief Financial Officer*

Mr. D. Arnott holds a BS 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.

Mr. D. Arnott is a British national. He does not hold any shares in TEMENOS Group AG but he has a number of share options (disclosed below).

Andre Loustau (45) *Chief Technical Officer*

Mr. A. Loustau has been with TEMENOS and its predecessor companies since 1984, serving in a variety of positions, including those of Development Manager and Project Manager.

Mr. A. Loustau is a British national. He does not hold any shares in TEMENOS Group AG but he has a number of share options (disclosed below).

Philip Stanning (30) *Sales Manager*

Mr. P. Stanning joined the TEMENOS GROUP in 1998 from Compuware, where he held a number of senior sales positions. Initially, Mr. Stanning was responsible for North Europe, where he built a very successful sales organisation. In March 2000, he assumed overall responsibility for the sales of TEMENOS, on a worldwide basis.

Mr. P. Stanning is a British national. He does not hold any shares in TEMENOS Group AG but he has a number of share options (disclosed below).

Malou Ducomble (47) *Operations Manager*

Ms M. Ducomble holds a business degree and a financial management diploma from New York University. Prior to joining TEMENOS, she held a number of operating positions in MPCT Solutions Limited, First Chicago, Winter Partners and Commerzbank.

Ms M. Ducomble is an American national. She does not hold any shares in TEMENOS Group AG but she has a number of share options (disclosed below).

The aggregate number of share options held by the above four members of the Management Board is 389,300. These options have an exercise price, which ranges from US$ 0.01 to US$ 15, per option.

The shares and share options held by the members of the Board of Directors and of the Management Board include those held by parties closely linked to them.

No member of the Board of Directors or the Management Board has contractual arrangements with the TEMENOS GROUP, that could be deemed as onerous or, in the case of the members of the Management Board, that are substantially different from the terms and conditions under which other senior employees of the Group are engaged.

Other than as disclosed, no member of the Board of Directors or the Management Board holds management or advisory positions in any business group, Swiss or foreign, which could, in any way, give rise to conflicts of interest.

Directors' Report

on corporate governance, results, financial position and future developments

The directors present their annual report and the audited financial statements of the TEMENOS GROUP for the year ended 31 December 2002. This report should be read in conjunction with the Chairman's Statement.

ACTIVITIES

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

REVIEW OF DEVELOPMENTS

2002 was a difficult year for software companies serving the banking industry. Many banks were forced (by adverse market conditions) to restructure their operations in an attempt to contain costs and to maintain their competitive edge. Although these developments are creating long-term opportunities for software vendors, they have caused short-term delays in concluding contracts. Inevitably, the delays have adversely affected the TEMENOS business. Fortunately, there are clear signs that these problems are gradually being overcome and, indeed, banks are slowly turning to software vendors for help in enhancing their ability to serve their clients effectively and efficiently. TEMENOS is ideally qualified to provide this support through products that have superb functionality, are capable of meeting very diverse needs and can be implemented (can "go live") in a relatively short period of time.

In the meantime, we have been focusing on curtailing unnecessary costs, on eliminating activities that did not form part of our core business and on improving the efficiency with which we operate. Such measures invariably cause a feeling of discomfort to employees but we are pleased to report to the shareholders that the process has been successfully completed and our employees are again focusing on generating profitable business.

Unfortunately, the adverse economic conditions, which prevailed in sub-Saharan Africa and, in particular, in countries such as Zimbabwe, Nigeria and South Africa, where GLOBUS licensees are located, and the inevitable adverse impact these conditions have had on business enterprises operating in the region, rendered it necessary and appropriate to provide for all the receivables in arrears, due from the licensees/distributors based in this area. As a consequence, our operating results for 2002 ended up being burdened with substantial additional costs, in the form of a provision for the possible uncollectibility of these receivables. In the year ended 31 December 2002, the amount charged to operations in this respect was US$ 2.6 million.

In general, the adverse economic conditions, which prevailed in 2002, have induced many of our clients to adopt a more demanding approach towards all their suppliers and to question and challenge arrangements and understandings that, in the past, were honoured on a good faith basis. Under these circumstances, management took the prudent approach of recognising the costs resulting from this more critical approach on the part of clients, irrespective of the fact that part of these revenues may ultimately prove to be collectible. The resulting total burden on operations (in the form of a charge to operations in respect of receivable balances that were deemed to be doubtful of collection) of this prudent approach amounted, in 2002, to US$ 11.7 million. (This amount is inclusive of the charge of US$ 2.6 million, referred to in the preceding paragraph).

As disclosed in the TEMENOS Annual Report for 2001, in the early part of 2002, TEMENOS Holdings NV acquired a 20% equity interest in an Italian company specialising in serving the financial services industry by providing software tools, which facilitate the management of wealth. This equity interest was acquired through the injection of new capital into the investee company, amounting to US$ 2.5 million. Under the arrangements, which were then entered into, the TEMENOS GROUP had an option, which had to be exercised by the end of 2002, to acquire – over a period of approximately three years – the remaining equity of the investee company, 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. Given (a) the subsequent sharp fall of equity prices and, in particular, of the price of the shares of TEMENOS Group AG and (b) the prolongation of the adverse economic conditions prevailing within the banking industry and, by extension, the adverse impact these conditions had on software companies that specialise in serving the banking industry, the excercise of the option would have been unacceptably dilutive to TEMENOS Shareholders. Under these circumstances and given the practical difficulties of valuing a minority equity interest in a privately owned, close company and the related difficulties of disposing such a minority interest, TEMENOS management perceived it was prudent to fully amortise this investment for financial reporting purposes, irrespective of the efforts which are being made to recover its cost.

The cumulative impact of the above developments, combined with the prudent approach taken of not recognising future tax relief in respect of the reported losses, resulted in reporting an exceptional after tax loss for the year of almost US$ 50 million. Management is satisfied that the loss reported in 2002 is a reflection of the extraordinary conditions and circumstances, which prevailed in 2002, and it is not, in any way, indicative of the likely future results of our operations.

Due to strong management of our operations and following our restructuring undertaken in the Summer of 2002, operating cash outflows for the year were only US $4.8 million.

Our plans for 2003 aim at generating an operating profit of US$ 10 million and all the indications, so far, suggest that this target will be attained or exceeded.

In the technical sphere, TEMENOS has been working on a fundamentally new approach to the "close of business" problem confronting banks, leading to systems that are capable of operating round the clock, without having to go through the classic "end of day" closing process. TEMENOS GLOBUS is being made capable of running on multiple application servers, on a variety of databases (including Oracle) and of processing data volumes many times greater than has been "benchmarked" so far. The significant amounts invested in further developing the TEMENOS products are set out in the consolidated financial statements of the Group.

We continue to invest in TEMENOS COREBANKING to ensure that it is fully packaged to cater for the needs of large multinational retail banks aiming to become their software platform of choice.

ADEQUACY OF RESOURCES

An important issue, which has been addressed by the Board of Directors, is the adequacy of the resources that are necessary for enabling the TEMENOS GROUP to attain its plans for 2003.

In terms of liquidity, the Group is in a satisfactory position, having recently contracted from Deutsche Bank AG a US$ 15 million working capital facility and a US$ 20 million loan, which is repayable in 2003 only to the extent of US$ 5 million. These anticipated cash outflows (US$ 2.5 million on 31 July and US$ 2.5 million on 31 October 2003) have, of course, been taken into consideration in the projected cash outflows of 2003.
The other factors, which have enabled the Board to firmly conclude that the available resources are sufficient for taking an optimistic view of the future, are set out in the following section of this report.

VALUATION OF THE TEMENOS GROUP

In valuing the TEMENOS Holdings NV shares in the unconsolidated financial statements of TEMENOS Group AG (effectively the sole asset of TEMENOS Group AG), at their listed price, the Company is taking an extremely prudent and conservative approach, in view of the following facts:

- In the past two years, equity markets, throughout the world, have exhibited unprecedented volatility.
- In the second half of 2002 and in the first months of 2003, the market has been valuing the shares of TEMENOS Group AG and, by extension, the whole of the TEMENOS Group very conservatively. This is understandable but likely to change for the better, given that:

1. 2002 was an extremely difficult year for banking software vendors. Almost without exception, banks were focusing on addressing their own short-term problems and they were deferring decisions on the introduction of new systems or on the substantial upgrading of their existing systems. This trend has already reversed. The reversal of the trend is evident from the substantial "new signings" in the fourth quarter of 2002 and those that followed in January/February of 2003. The "pipeline" is very robust but, of course, there is always a time-lag between the time of the (re)initiation of the procurement process and the time a contract is signed.

2. The amount of revenues budgeted for 2003 (of US$ 130 million) represents a small increase of 15%, compared to the revenues reported in 2002 (of US$ 113 million). Barring any world-scale catastrophic events, such an increase in revenues is believed to be readily attainable, given the changing attitude of the banks and the fact that three quarters of the projected revenues were already contracted for, at the end of 2002.

3. The 2003 budgeted costs and expenses of the Group have been drastically reduced (compared to 2002) by approximately US$ 35 million. A substantial part of these savings is associated with personnel-related costs.

4. In the latter part of 2002, TEMENOS went through a relatively costly process of restructuring its operations. "Headcount" was reduced from 1,259 (as at 31 December 2001) to 1,179 (as at 31 December 2002). More importantly, the trend of software

production being “shifted” from high-cost to low-cost locations was reinforced and accelerated in 2002, resulting in anticipated saving of the order of US$ 16 million. A further substantial saving, which is anticipated in 2003 (of approximately US$ 8 million) relates to fees paid to third-party consultants for supporting the implementation of GLOBUS. With the “acquisition” of almost 100 consultants from ex-TEMENOS distributors in Malaysia, the Philippines, Russia, Romania and Ecuador (included in the “headcount”, as at 31 December 2002), the projected savings are realistically deemed to be attainable.

5. 2002 was also an exceptional year in terms of the costs generated as a result of the adverse economic conditions prevailing on the African continent (South Africa, Zimbabwe, Nigeria) and the adverse impact these conditions had on the financial position of the TEMENOS distributors in the region, notably the Global Technology Group of South Africa.

6. In 2002, TEMENOS was successful in eliminating non-core, loss-making activities, such as those of seeking to provide operational services (in Switzerland) and the marketing/ distribution of the jBASE database engine to third parties, the latter activity having been undertaken by an independent company.

7. The absence of a compelling need for further acquisitions and the absence of such plans in our 2003 projections.

Based on the above considerations and the detailed explanations and amplifications provided by its executive members, the Board has concluded that the TEMENOS GROUP has, or is likely to generate sufficient cash resources to cover its needs and, therefore, there are no compelling reasons for seeking new capital and/or for restructuring the existing capital of the Company, particularly since the ultimate holding company of the Group does not have any obligations of substance towards any third party.

POST BALANCE SHEET EVENTS

There are no reportable post-balance sheet events. As already stated in this report, the operating results of the first two months of 2003 clearly suggest that the financial targets set for 2003 will be attained.

RESULTS AND DIVIDENDS

The results for the year are reflected, in detail, in the consolidated financial statements of the Group.
As stated in the Prospectus issued in the context of the Initial Public Offering (IPO) of its shares, TEMENOS Group AG intended to follow and is, indeed, following a policy of reinvesting its internally-generated cash resources to finance the development and growth of the business. The Group does not currently anticipate declaring or paying any cash dividends on its shares.

FINANCIAL REPORTING

The Group compiles its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB). In the difficult area of revenue recognition, the Group voluntarily adheres to Generally Accepted Accounting Principles, as understood in the United States of America (US GAAP). The accounting policies followed by the Group are elaborated on in the notes to the consolidated financial statements. The directors’ responsibilities for the financial statements are described in a subsequent section of this report.

BOARD OF 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-ultimate holding company of the Group and as the owner of the intellectual property rights over the software owned by the Group, is identical. The Board of Directors comprises Mr. G. Koukis, Chairman and Chief Executive Officer of the Group, Mr. A. Andreades, Deputy Chief Executive Officer of the Group, Mr. K. Goodall, Vice Chairman, and five non-executive directors. Three of the non-executive directors are associated with companies, which hold shares in TEMENOS Group AG. The full composition of the Board is set out on pages 6 and 7.
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 Group’s operating subsidiaries, their annual 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 Group's public reports, to liaise with the external auditors and to review 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.

As a rule the term of office of the members of the Board of Directors is 3 years, whereby one year shall be understood to be the period from one Ordinary General Meeting of Shareholders to the next. Upon expiration of their terms of office the members may be re-elected immediately and without limitations.

The election of its members is organised in such a way as to ensure that at each Ordinary General Meeting of Shareholders one-third of the members shall complete their term of office. Members newly appointed during a term of office shall complete the term of office of their predecessor.

The Current Board of Directors commenced their term of office in June 2001. Some of the directors were re-elected at last year's AGM.

MANAGEMENT BOARD

The Management Board comprises 7 senior executives, including the three executive members of the Board of Directors, who have overall responsibility for strategy implementation and coordination.

The members of the Management Board are:
G. Koukis, Chairman and Chief Executive Officer of the Group
A. Andreades, Deputy Chief Executive of the Group
D. Arnott, Chief Financial Officer of the Group
A. Loustau, Chief Technical Officer of the Group
K. Goodall, Vice Chairman
P. Stanning, Sales Manager
M. Ducomble (Ms), Operations Manager

A short biographical note for each member of the Management Board is set on page 7.

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 generated and utilised within the Group or made available for publication. Such a system can provide reasonable, but not absolute, assurance against material misstatement, losses or fraud. Towards the end of 2002, the Group appointed an Internal Auditor, who reports directly to the Chairman and Chief Executive Officer of the Group and, ultimately, to the Board of Directors.

A process for identifying, evaluating and managing the risks confronting the Group is at the design and implementation stage. Until such a 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 within the Group are approved by the Board of Directors of the Company.

Financial results are monitored by the Board on a quarterly basis. 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 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. The Board confirms that measures continue to be taken to reinforce internal controls and risk management procedures and to deal with necessary improvements that 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.

DIRECTIVE ON INFORMATION RELATING TO CORPORATE GOVERNANCE

In April 2002, the SWX Swiss Exchange introduced a Corporate Governance Directive, which became effective on 1 July 2002. The Directive is intended to encourage issuers to make certain key information relating to corporate governance available to investors in an appropriate form. The Directive applies to all issuers whose securities are listed on the SWX.

In terms of substance, the TEMENOS GROUP has, over the years, consistently been disclosing the information required to be disclosed by the Corporate Governance Directive. Nevertheless, as required by the Directive and for the convenience of the reader of this Annual Report, a separate section of the Annual Report is dedicated to this issue.

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 Group's policy, endorsed by the Remuneration Committee, is to provide appropriate remuneration "packages", including share options, to attract and retain executives of the highest calibre. The Remuneration Committee reviews the performance of the executive directors and makes recommendations, with respect to their annual remuneration, bonus awards and awards of share options, to the Board for final determination. These recommendations are formulated by reference to individual effort, talent and expertise and to the prevailing market conditions. No severance payments were made to directors during the year.

The Group continues to review, on an ongoing basis, the compensation, including bonuses, of its employees worldwide, by reference to the prevailing market norms, at each of the locations it operates. Studies, commissioned in 2002, have shown that, overall, our employee-compensation practices are in line with market norms.

The emoluments of the non-executive directors are quantified by reference to the time spent on Board and Committee matters. The non-executive directors, who are associated with companies that hold shares in TEMENOS Group AG, are not compensated for serving as members of the Board.

Further details of directors' remuneration and share options are set out in notes 23 and 12, respectively, to the consolidated financial statements.

DIRECTORS AND THEIR INTERESTS

The current directors of the Company are shown on pages 6 and 7. All the directors held office throughout the year.

The interests of the directors in the share capital of the Company are shown below, under "Substantial Shareholdings".

SHARE CAPITAL

Details of the movement of share capital are set out in note 12 to the consolidated financial statements of TEMENOS Group AG and in note 3 to the (unconsolidated) financial statements of the Company.

The entire equity of all subsidiary undertakings is held by the Group, except for 49% of the shares of TEMENOS Eastern Europe Limited, which is held by Informer AE. For the reasons elaborated on in the consolidated financial statements, our investment in TEMENOS Eastern Europe Limited is accounted for on the basis that the existing arrangement is a form of a "joint venture".

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 35.5% (2001: 35.9%) and of the Vice Chairman and Marketing Director 15.1% (2001: 15.2%). In addition, Global Technology Limited and its affiliate Global Technology Investment Holdings (Pty) Limited, hold 15.0% (2001: 15.2%) of the share capital of the Company. (The slight decreases noted have been caused by the increase, in 2002, of the total number of issued and outstanding shares). Global Technology Limited is a publicly listed company in South Africa and serves as the distributor of TEMENOS in sub-Saharan Africa. 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 (unrelated to the Global Technology Group of South Africa), together with certain entities related to them, collectively hold 5.9% (2001: 6.0%) of the share capital of TEMENOS Group AG. Mr. Angelos Plakopitas, who serves on the Board of TEMENOS Group AG, is a director and has a substantial equity interest in the Global Capital Group.

The number of 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.

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.

Neither the Company nor any of its subsidiaries made any donation for political purposes in 2002 or 2001.

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 aptitude 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.

SHAREHOLDER/INVESTOR RELATIONS

The Company encourages a two-way communication with both institutional and private investors and endeavours to respond promptly to queries received. Mr. M. Chuard, who serves as the Group's Investor Relations Officer, is charged with the responsibility of maintaining a clear and effective communication line with both institutional and private investors.

All shareholders have at least twenty days' notice of the Annual General Meeting. At the Annual General Meeting, the directors and the auditors are introduced to the shareholders and are available for questions.

ANNUAL GENERAL MEETING

The Second Annual General Meeting of the shareholders of TEMENOS Group AG will be held on 27 June 2003, at 14:00, at the SWX Swiss Exchange in Zurich, Switzerland. Further details are available at the TEMENOS website (www.temenos.com).

AUDITORS

After seven years and following the guidance of the Swiss corporate governance standard concerning audit rotation, the Board of Directors have decided to propose PricewaterhouseCoopers SA to replace BDO at the following Annual General Meeting. BDO's appointment will end at the forthcoming AGM.

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 year, and the results of their operations, their cash flows and changes in shareholders' equity in the course of the year. In compiling its financial statements, the TEMENOS GROUP has been consistently applying the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB). A reconciliation of the reported consolidated net income and shareholders' equity to those that would have been reported under accounting principles generally accepted in the United States of America (US GAAP) is also provided in note 19 to the consolidated 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. Such records must reflect, with reasonable accuracy, the financial position of the Company and that of 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 2003

Information Relating to Corporate Governance

To avoid unnecessary repetition, this report is cross-referenced to other sections of the Annual Report, where the information, required to be disclosed by the Corporate Governance Directive promulgated by the SWX Swiss Exchange, is given. All references are to the notes to the consolidated financial statements of TEMENOS Group AG, unless it is otherwise explicitly stated.

1	**Group structure and Shareholders**	
1.1	Group structure	*Note 4*
1.2	Significant shareholders	*Directors' Report and note 3 to the unconsolidated financial statements of TEMENOS Group AG*
1.3	Cross-shareholdings	*None*
2	**Capital structure**	
2.1	Capital	*Note 12 and note 3 to the unconsolidated financial statements of TEMENOS Group AG. There is only one class of registered shares and all shares have equal voting rights.*
2.2	Authorised and conditional capital	
2.3	Changes of capital	
2.4	Shares and participation certificates	
2.5	Bonus certificates	*None*
2.6	Limitations on transferability and nominee registrations	*None. Nominee registrations permitted*
2.7	Convertible bonds and options	*Note 13 (on Employee Share Options)*
3	**Board of Directors**	
3.1	Members of the board of directors	*Directors' Report and section of Annual Report dedicated to the Board of Directors and the Management Board*
3.2	Other activities and functions	
3.3	Cross-involvement	
3.4	Elections and terms of office	
3.5	Internal organisational structure	
3.6	Definition of areas of responsibility	
3.7	Control instruments	
4	**Management board**	
4.1	Members of the management board	*Directors' Report and section of Annual Report dedicated to the Board of Directors and the Management Board*
4.2	Other activities and functions	
4.3	Management contracts	
5	**Management compensation, shareholdings and loans**	
5.1	Method of quantification	*Please refer to Directors' Report*
5.2	Compensation of active members	*Note 23*
5.3	Compensation of former members	*None*
5.4	Share allotments in 2002	*None*
5.5	Share ownership	*Directors' Report and section of Annual Report dedicated to the Board of Directors and the Management Board*
5.6	Share options	
5.7	Additional compensation	*None*
5.8	Loans, guarantees etc. granted	*None*
5.9	Highest total compensation	*US$ 750 thousand*

6	**Shareholders' participation rights**	
6.1	Restrictions on voting-rights	*There are no statutory quorums. Resolutions and elections by the General Assembly are taken by a simple majority, with the exceptions of the resolutions enlisted in Article 704 of the Swiss Code of Obligations (cf. Article 15 of the Articles of Incorporation).*
6.2	Quorum and majority requirements	*The minima prescribed by law.*
6.3	Convening the general meeting of shareholders	*The General Meeting of Shareholders is convened by a publication of the invitation in the Swiss Official Gazette of Commerce, at least twenty days prior to the day of the Meeting (cf. Article 11 of the Articles of Incorporation).*
6.4	Agenda formulation, convening a meeting by a minority	*Shareholders, representing shares of an aggregate nominal value of at least SFr 1 million, may request an item to be placed on the agenda (but such a request must be made at least 45 days prior to the date of the meeting). Shareholders representing 10% of the share capital may convene a general meeting. Such a demand must be made in writing at least 45 days prior to the date of the meeting (cf. Article 11 of the Articles of Incorporation).*
6.5	Share register	*Only registered shareholders may exercise the voting rights emanating from the shares they hold (but they may authorise, in writing, other persons to represent them). The registration of shareholders is subject to the Board's approval. The Board may refuse its consent, if, on request, the applicant fails to confirm that the shares are held in his name and for his benefit or he provides information, which is false. So far, none of the registration requests have been denied by the Board. All Shareholders registered 20 days prior to the day of the General Meeting are invited and are eligible to exercise their voting rights.*
7	**Changes of control and defence measures**	
7.1	Duty to make an offer	*None, other than those generally applicable to companies that are listed on the SWX Swiss Exchange*
7.2	Clauses on changes of control	*None*

8	**Auditors**	
8.1	Date of assumption and duration of mandate	*BDO International were appointed as auditors of the Company by its founders. Their mandate was renewed for a year, at the first shareholders annual general meeting, and will end at the forthcoming Annual General Meeting.*
8.2	Audit fees	*Note 25*
8.3	Fees for non-audit services	*Note 25*
8.4	Composition of the Audit Committee	*Messrs C. Pavlou, P. Selway-Swift and L. Rutherfurd, non-executive directors*
9	**Information policy**	
		TEMENOS Group AG publishes its annual report as at 31 December and interim financial consolidated financial statements as of 30 June of each accounting year. It also publishes key financial information at the end of each quarter. This information is available at www.temenos.com and, on request, by mail from 18 Place des Philosophes, Geneva, Switzerland.

In general, TEMENOS Group AG is governed by the provisions of Swiss legislation and is subject to the obligations emanating from the law. The full text of the articles of association of TEMENOS Group AG is available, on request, from 18 Place des Philosophes, Geneva, Switzerland, 1205.

TEMENOS GROUP AG

Financial Statements

31 December 2002

And independent Auditors' Reports thereon

BDO International
Certified and Registered Auditors

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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 2002, 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 2002, 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 Financial Reporting 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 19.

10 March 2003

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 (losses) and retained earnings (deficit)

for the year ended 31 December 2002

	2002	2001
Revenues		
Software licensing	**55 872**	*79 709*
Services	**57 466**	*61 159*
Total revenues (note 21)	**113 338**	*140 868*
Operating costs and expenses		
Software development	**34 801**	*30 397*
Services	**55 590**	*53 479*
Sales & marketing *(note 24)*	**43 821**	*24 050*
General & administrative	**22 328**	*16 776*
Amortisation of goodwill *(notes 6 and 8)*	**1 209**	*559*
Total operating costs and expenses	**157 749**	*125 261*
Operating profit (loss)	**(44 411)**	*15 607*
Other income (expenses)		
Interest expense – net	**(347)**	*(2 856)*
Financial instrument related expenses *(note 26)*	**(770)**	*(4 531)*
Foreign exchange gains – net	**945**	*1 132*
Equity investment amortised *(note 27)*	**(2 500)**	*–*
Other non-operating income	**–**	*500*
Total other expenses	**(2 672)**	*(5 755)*
Profit (loss) before taxation	**(47 083)**	*9 852*
Taxation *(note 10)*	**(2 404)**	*(2 098)*
Net profit (loss) for the year, after taxation	**(49 487)**	*7 754*
Minority share in profits of subsidiary	**–**	*(1 812)*
Net profit (loss) for the year attributable to the Group	**(49 487)**	*5 942*
Retained earnings at the beginning of the year	**14 490**	*8 548*
Retained earnings (deficit) at the end of the year	**(34 997)**	*14 490*
Earnings (losses) per Share (in US $):		
basic	**(0.95)**	*0.13*
diluted	**(0.95)**	*0.12*

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated balance sheet

as at 31 December 2002

	2002	2001
Assets		
Current assets		
Cash and cash equivalents	**23 993**	*65 259*
Accounts receivable	**20 474**	*33 479*
Accrued revenues	**20 315**	*30 736*
Deferred expenses *(note 26)*	**4 649**	*3 256*
Total current assets	**69 431**	*132 730*
Non–current assets		
Tangible fixed assets – net *(note 5)*	**11 473**	*10 633*
Intangible fixed assets – net *(note 6)*	**21 122**	*21 011*
Capitalised development costs *(note 7)*	**8 248**	*5 034*
Guarantees and escrowed bank deposits	**12 111**	*1 152*
Deferred tax asset *(note 10)*	**–**	*827*
Total assets	**122 385**	*171 387*
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	**17 574**	*13 006*
Accrued expenses	**7 188**	*8 221*
Bank loans & overdrafts *(note 9)*	**5 000**	*–*
Income taxes payable *(note 10)*	**2 507**	*3 407*
Total current liabilities	**32 269**	*24 634*
Deferred revenues	**22 208**	*16 572*
Non–current liabilities		
Long-term portion of capital restructuring loan *(note 9)*	**15 000**	*29 774*
Long-term liabilities under finance leases *(note 11)*	**180**	*320*
Total liabilities	**69 657**	*71 300*
Shareholders' equity		
Share capital *(note 12)*	**148 704**	*146 714*
Warranted share subscription reserve *(note 14)*	**430**	*1 173*
Employee share options reserve *(note 13)*	**2 245**	*1 680*
Discount on shares issued for satisfying employee share options *(note 13)*	**(880)**	*–*
Retained earnings (deficit)	**(34 997)**	*14 490*
Goodwill acknowledged on restructuring	**(64 624)**	*(65 431)*
Cumulative translation adjustment *(note 17)*	**1 850**	*(1 029)*
Total shareholders' equity	**52 728**	*97 597*
Minority interest *(note 4)*	**–**	*2 490*
Total equity and liabilities	**122 385**	*171 387*

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 2002

	2002	2001
Cash flows from operating activities		
Cash receipts from customers	**137 591**	*110 125*
Cash paid to suppliers and employees	**(141 624)**	*(108 524)*
Cash generated from (absorbed by) operations	**(4 033)**	*1 601*
Income taxes paid	**(769)**	*(1 931)*
Net cash absorbed by operating activities	**(4 802)**	*(330)*
Cash flows from investing activities		
Acquisition of tangible fixed assets	**(4 187)**	*(5 081)*
Acquisition of intangible fixed assets	**(4 937)**	*(16 551)*
Capitalised development costs	**(4 440)**	*(4 101)*
Equity investment in a software company	**(2 500)**	*–*
Net cash used in investing activities	**(16 064)**	*(25 733)*
Cash flows from financing activities		
Proceeds of issuance of shares, net of related expenses	**219**	*128 922*
Repayment of capital restructuring loan	**(9 774)**	*(29 953)*
Repayment of short-term borrowings	**–**	*(3 378)*
Restricted cash deposited with a banking institution	**(10 000)**	*–*
Interest payments, net of receipts	**(347)**	*(2 836)*
Allocation to minority shareholder of a subsidiary	**(1 004)**	*–*
Payment of financial instrument related expenses	**(80)**	*(2 630)*
Payment of finance lease liabilities	**(170)**	*(218)*
Net cash from (used in) financing activities	**(21 156)**	*89 907*
Overall effect of exchange rate changes	**756**	*2*
Net increase (decrease) in cash and cash equivalents in the year	**(41 266)**	*63 846*
Cash and cash equivalents at the beginning of the year	**65 259**	*1 413*
Cash and cash equivalents at the end of the year	**23 993**	*65 259*

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

	Share capital	Share premium
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**	**–**
Loss for the year attributable to the Group	–	–
Cumulative translation adjustment	–	–
Employee share options granted, net of cancellations	–	–
Shares issued for satisfying employee share options	938	–
Shares issued in relation to acquisitions	1 052	807
Transferred to goodwill acknowledged on restructuring	–	(807)
Balance at 31 December 2002	**148 704**	**–**

consolidated statement of changes in shareholders' equity

Share redemption deficit	Warranted share subscription reserve	Employee share options reserve	Discount on shares issued to employees	Retained earnings (deficit)	Goodwill acknowledged on restructuring	Cumulative translation adjustment	Total
(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	(65 431)	(1 029)	97 597
–	–	–	–	(49 487)	–	–	(49 487)
–	–	–	–	–	–	2 879	2 879
–	–	565	–	–	–	–	565
–	–	–	(880)	–	–	–	58
–	(743)	–	–	–	–	–	1 116
–	–	–	–	–	807	–	–
–	430	2 245	(880)	(34 997)	(64 624)	1 850	52 728

TEMENOS GROUP AG

notes to the consolidated financial statements
31 December 2002

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, in 2001, 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 in offering "help desk" support services to existing users of TEMENOS GLOBUS.

In the year 2002, the TEMENOS GROUP extended its offering of banking software products to cover the needs of large retail banks. The needs of this segment of the market are, now, fully covered by a new, powerful product, known as TEMENOS GLOBUS COREBANKING, which has taken many man-years to develop and, having been successfully tested by two world-class financial institutions, was made available to prospective licensees in the course of 2002.

Given the nature of TEMENOS GLOBUS and TEMENOS GLOBUS COREBANKING, the existing and potential client base of the Group 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

In line with common industry practice, the accounting year-end of TEMENOS Group AG is 31 December. These consolidated financial statements cover the twelve-month period extending from 1 January to 31 December 2002 while the comparative figures provided cover the twelve-month period extending from 1 January to 31 December 2001.

The consolidated financial statements have been prepared in accordance with the accounting and reporting requirements of the International Financial Reporting Standards (IFRS) 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 19.

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 (excluding intragroup balances, which are denominated in US dollars and are eliminated on consolidation) 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 (excluding intragroup transactions, which are denominated in US dollars and are eliminated on

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consolidation) 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.

(b) Basis of accounting

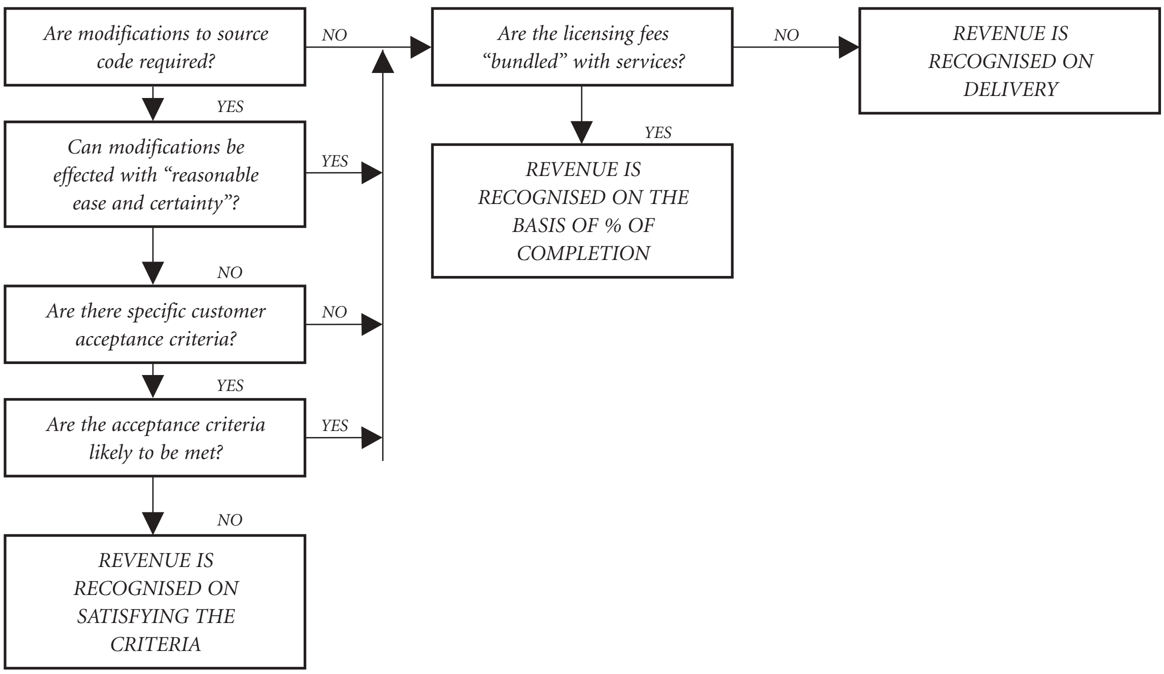
The consolidated financial statements have been prepared under the historical cost convention.

(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. Many 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:



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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.

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, in a manner which ensures that these costs are properly matched with the revenues they are directly associated with.

(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, save the gains or losses resulting from the re-statement of intragroup balances, which, in the consolidated financial statements, are taken directly to shareholders' equity and are reported under "cumulative translation adjustment".

(e) Accounts receivable

Accounts receivable are stated net of the provision for amounts which are deemed to be doubtful of collection. In addition, a general provision is maintained, which is quantified by reference to the total amount of accounts receivable and accrued revenue reported at the end of the year.

(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 business-related 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, personnel-related purchased goodwill, representing the consideration paid to secure the services of trained, experienced consultants, capable of supporting the implementation of TEMENOS GLOBUS, 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 business-related purchased goodwill and over a period of three years in the case of all other intangible assets.

In 2002, an amount of US$ 1.264 thousand was invested for securing the services of experienced consultants, specifically trained to support the implementation of GLOBUS, who were previously employed by TEMENOS GLOBUS distributors. These highly-skilled persons have formed the core of the implementation support teams stationed in Malaysia, the Philippines, the CIS, Romania and Ecuador. Given the relative significance of this investment, it was felt appropriate to distinguish between business-related purchased goodwill (which is amortised over a period of 5 years) and personnel-related purchased goodwill (which is amortised over a period of 3 years).

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(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 or TEMENOS GLOBUS COREBANKING 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.

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.

In the year ended 31 December 2002, many TEMENOS entities operating in high-tax jurisdictions have reported losses which could have formed a basis for recognising deferred tax assets. However, in the case of a truly global organisation, such as TEMENOS, which operates in a multitude of tax jurisdictions, the ability to project future profits in each such tax jurisdiction sufficient to cover the unutilised tax losses, as of 31 December 2002, within a relatively short time horizon, is an exceedingly difficult task that is rendered even more difficult by the operation of national rules regulating the withholding of taxes at source and by the impact of the provisions of international treaties for the avoidance of double taxation, the provisions of which vary immensely from case to case. Under these circumstances, TEMENOS management felt that it would not be prudent to account, in 2002, for the tax relief, which may be given at the stage of off-setting the taxable profits of an entity forming part of the Group against its prior year tax losses.

(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.

Up to 31 December 2002, the cost of the share options granted in any given period, under the Employee Share Options Scheme operated by the TEMENOS GROUP, was 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.

In January 2003, certain new employee share options were granted, which are disclosed - as a post-balance sheet event - in note 13. The cost of these new options has been quantified by reference to the provisions of the draft International Financial Reporting Standard, ED2 (Share-based Payment), which, if adopted, will have retroactive effect in relation to employee share options granted on or after the publication of ED2 (in November 2002).

(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 licensees. The Group is exposed to a credit risk in this respect. The licensee base is not large and receivables are limited to fewer than 250

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financial institutions. This credit risk is, however, mitigated by the fact that the Group's licensees 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.

4. Subsidiary Companies included in the Consolidation

In addition to TEMENOS Group AG, the following subsidiaries are included in the consolidated financial statements:

Company Name	Country of Incorporation	Ownership Interest
TEMENOS Holdings NV	Netherlands Antilles	100%
TEMENOS Headquarters SA	Switzerland	100%
TEMENOS Suisse SA	Switzerland	100%
TEMENOS Luxembourg SA	Luxembourg	100%
TEMENOS (NL) BV	Netherlands	100%
TEMENOS Holland BV	Netherlands	100%
TEMENOS France SAS	France	100%
Quetzal Informatique SA	France	100%
TEMENOS Deutschland GmbH	Germany	100%
TEMENOS Iberia SL	Spain	100%
Integrated Core Technologies SA**	Spain	100%
TEMENOS UK Limited	United Kingdom	100%
jBase Software Limited	United Kingdom	100%
TEMENOS Systems Ireland Limited	Ireland	100%
TEMENOS USA, Inc.	U.S.A.	100%
TEMENOS (Russia) Limited	Cyprus	100%
TEMENOS Middle East Limited	Cyprus	100%
TEMENOS Global Services Limited	Cyprus	100%
IT Services Limited	Cyprus	100%
TEMENOS Singapore Pte Limited	Singapore	100%
TEMENOS Hong Kong Limited	Hong Kong	100%
TEMENOS India Pte Limited	India	100%
TEMENOS (Thailand) Co. Limited	Thailand	100%
TEMENOS Indonesia PT	Indonesia	100%
TEMENOS (Malaysia) Sdn Bhd	Malaysia	100%
TEMENOS Philippines, Inc.	Philippines	100%
TEMENOS Global NV*	Netherlands	100%
Vol-de-Nuit SA*	Switzerland	100%
jBase Software Inc.*	U.S.A.	100%
Integrated Core Technologies Participations SA*	Luxembourg	100%
TEMENOS Operational Management Services SA***	Switzerland	100%
Alphametrics Limited***	United Kingdom	100%
TEMENOS Eastern Europe Limited****	Cyprus	51%
TEMENOS Polska Sp. zoo****	Poland	51%
Logimax SA****	Romania	26.3%
Sigma Information Technology SAE****	Egypt	25.8%

(*) As at 31 December 2002, the entity was dormant and/or in the process of being dissolved.
(**) In the process of being merged with TEMENOS Iberia SL.
(***) Disposed of in the course of 2002.
(****) 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. Up to the year 2001, TEMENOS Eastern Europe Ltd was reported as a subsidiary of the

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Group. However, in view of the fact that, in the course of 2002, there have been indications that the minority shareholder may activate a contractual right to appoint half of the members of the board of directors of this company, corporate management felt that it would be prudent to account for this entity (and for its subsidiaries TEMENOS Polska Sp. zoo, Logimax SA and Sigma Information Technology SAE - all incorporated or acquired in 2002) in the consolidated financial statements of TEMENOS Group AG on the basis that the arrangement is a form of a "joint venture", resulting in the elimination of the minority interest in the Group and of a corresponding amount of net assets. This change had no impact on the after tax losses reported by the Group in 2002 but it has resulted in a reduction of the reported revenues and costs by the amount that relates to the minority. In the year ended 31 December 2002, the TEMENOS Eastern Europe Ltd sub-group reported after tax profits of US$ 3 million.

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), Moscow (Russia), Saraburi (Thailand) and Beijing (China).

In January 2002, 100% of the shares of Quetzal Informatique SA, a French company, was acquired by the TEMENOS GROUP, partly in exchange of shares and partly in exchange for cash. These shares were issued at a premium of SFr 11.5 each. In parallel, the intellectual property rights over QI-Documentaire / SPS v3, a suite of software programs, which facilitate compliance with the reporting requirements of regulatory agencies in France and certain French speaking territories, were acquired, for US$ 1,724 thousand in cash, from Purcell Capital, Inc., an entity then affiliated to Quetzal Informatique SA. The basic elements of this transaction are summarised below (in thousands of US dollars):

Fair value of computer software programs acquired	1 724
Fair value of other net assets acquired	215
	1 939
Purchased goodwill	1 228
Value of the business acquired	3 167
Fair value of shares issued (at a premium)	1 158
Cash paid	1 906
Transaction related expenses	103
Total cost of the acquired business	3 167

In July 2002, the TEMENOS GROUP acquired the GLOBUS-related business, including trained, experienced staff, of PKTech Hong Kong Limited, PKTech Philippines Inc. and PKTech Sdn Bhd (Malaysia), all forming part of the PKTech Group. This acquisition has been effected by two wholly owned subsidiaries, namely TEMENOS Philippines, Inc. and TEMENOS (Malaysia) Sdn Bhd, which were specifically incorporated for this purpose. The basic elements of this transaction are summarised below (in thousands of US dollars):

Purchased business-related goodwill	2585
Purchased employee-related goodwill	732
	3 317
Fixed assets acquired by TEMENOS (Malaysia) Sdn Bhd	173
Fixed assets acquired by TEMENOS Philippines, Inc.	10
Value of the business acquired	3 500

The consideration of US$ 3,500 thousand was outstanding, as at 31 December 2002, and is reported as a current liability, under "accounts payable".

In September 2002, 51.6% of the shares of Logimax SA, a Romanian company, was acquired by TEMENOS Eastern Europe Limited. Under the agreement entered into in the context of the acquisition of the shares, Logimax SA has been granted distribution rights to market and support the TEMENOS products in the territory of Romania. The basic elements of this transaction are summarised below (in thousands of US dollars):

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Fair value of net assets acquired (51.6%)	41
Less share of cash and cash equivalents (51.6%)	(11)
	30
Purchased goodwill (51.6%)	309
Value of business acquired, paid in cash to selling shareholders	339
Share of cost (49%) borne by the other party participating in the "joint venture" arrangements	(166)
Share of cost (51%), accounted for by the TEMENOS GROUP	173

In December 2002, 50.5% of the shares of Sigma Information Technology Company SAE, an Egyptian company, was acquired by TEMENOS Eastern Europe Limited. The basic elements of this transaction are summarised below (in thousands of US dollars):

Fair value of net liabilities acquired (50.5%)	(30)
Share of cash and cash equivalents (50.5%)	(4)
	(34)
Purchased goodwill (50.5%)	200
Value of business acquired, paid or payable in cash to selling shareholders	166
Share of cost (49%) borne by the other party participating in the "joint venture" arrangements	(81)
Share of cost (51%), accounted for by the TEMENOS GROUP	85

In September 2002, the shares of TEMENOS Operational Management Services SA were disposed of, by transferring them, for a nominal consideration, to the employees of this loss-generating entity. The operating loss generated by this entity, to the date of the disposal, amounted to US$ 1,699 thousand while the loss resulting from the disposal itself amounted to US$ 643 thousand. These amounts are reflected in the consolidated financial statements under the captions to which their component parts relate.

In October 2002, the shares of Alphametrics Limited were disposed of, by transferring them to selected employees of this entity, the activities of which, at the stage of the disposal, were unrelated to the core activities of the TEMENOS GROUP. After allowing for the value of the assets retained by the Group, the disposal was financially neutral.

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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 2001	3 745	1 548	4 302	7 382	552	17 529
As restated*, 1 January 2002	4 181	1 681	4 863	8 058	595	19 378
Additions 2002	592	317	2 047	1 377	310	4 643
Disposals 2002**	(430)	(416)	(305)	(2 008)	(72)	(3 231)
31 December 2002	4 343	1 582	6 605	7 427	833	20 790
Depreciation* **						
31 December 2001	720	684	1 210	4 123	159	6 896
As restated*, 1 January 2002	815	748	1 365	4 485	177	7 590
Additions 2002	495	258	1 187	2 220	197	4 357
Disposals 2002	(299)	(305)	(247)	(1 751)	(28)	(2 630)
31 December 2002	1 011	701	2 305	4 954	346	9 317
Net book value						
31 December 2002	3 332	881	4 300	2 473	487	11 473
31 December 2001	3 025	864	3 092	3 259	393	10 633

(*) 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 2002.

(**) The loss on the disposals effected in 2002 amounted to US$ 617 thousand.

(***) 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 2002	3 921	436	4 357
31 December 2001	2 956	270	3 226

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 business-related goodwill	Purchased personnel-related goodwill	Purchased copyrights	Computer software	TOTAL
Cost					
31 December 2001	2 910	–	22 450	1 962	27 322
As restated*, 1 January 2002	2 910	–	22 450	2 146	27 506
Additions 2002	3 914	1 264	1 492	621	7 291
Disposals 2002	–	–	(1 539)	(537)	(2 076)
31 December 2002	6 824	1 264	22 403	2 230	32 721
Amortisation**					
31 December 2001	1 075	–	4 407	829	6 311
As restated*, 1 January 2002	1 075	–	4 407	915	6 397
Additions 2002	1 064	145	5 013	969	7 191
Disposals 2002	–	–	(1 539)	(450)	(1 989)
31 December 2002	2 139	145	7 881	1 434	11 599
Net book value					
31 December 2002	4 685	1 119	14 522	796	21 122
31 December 2001	1 835	–	18 043	1 133	21 011

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(*) 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 2002.

(**) 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 2002	7 282	(91)	7 191
31 December 2001	3 662	60	3 722

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 TEMENOS GLOBUS COREBANKING 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 below (in thousands of US dollars):

	Cost	Amortisation	Net book value
31 December 2001	12 828	7 794	5 034
Additions 2002	*4 931	**1 717	3 214
Deletions 2002	(400)	(400)	–
31 December 2002	17 359	9 111	8 248

(*) The amortisation of these modules is anticipated to commence in 2003.
(**) Incorporates a currency translation adjustment of US$ 119 thousand.

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 business-related goodwill (note 6)	Amortisation of purchased personnel-related 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 2002	3 921	1 064	145	6 073	1 598	12 801
31 December 2001	2 956	559	–	3 103	1 047	7 665

9. Bank Loans & Overdrafts

In November 2002, TEMENOS Holdings NV embarked on a process of renegotiating the capital restructuring loan, which had been contracted from a major international bank in November 2000 and was renegotiated in March 2002. This process was completed in February 2003, resulting in the following arrangement coming immediately into effect:

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- A loan of US$ 10 million, attracting interest at a nominal annual rate of LIBOR+2.5%, compounded on a quarterly basis, repayable in four equal instalments, on 31 July 2003, 31 October 2003, 31 January 2004 and 30 April 2004.

- A revolving working capital facility of US$ 10 million, attracting interest at a nominal annual rate of LIBOR+3.5%, payable at the end of each utilisation period. This facility expires on 29 January 2004.

- A revolving overdraft facility of US$ 5 million, attracting interest at a nominal annual rate of LIBOR+5%, payable at the end of each utilisation period. This facility expires on 29 January 2004.

- A loan of US$ 10 million, which, however, is required to be deposited with the lender as security for the other facilities granted. The "spread", between the borrowing and the lending rates, resulting in a cost to the Group, is 0.875% per annum.

The security given to the lender for the above facilities is a pledge over the intellectual property rights in the software owned by the TEMENOS GROUP, including the benefit of present and future royalties arising from these property rights. Under the arrangements entered into, the TEMENOS GROUP is restricted from becoming further indebted to financial institutions. The facilities granted are subject to various financial covenants, including the requirement to report quarterly earnings before interest and tax adequate to cover the interest expense, initially by a factor of 2.5 and subsequently by a factor of 5. In addition, the TEMENOS GROUP is required to enter into new contracts in 2003 having a total value of not less than US$ 18 million.

As at 31 December 2002, the amount repayable in 2003 of US$ 5 million is reported under current liabilities while the balance of US$ 15 million, repayable in 2004, is reported under non-current liabilities. The amount of US$ 10 million, which is required to be deposited with the lender as security for the facilities granted, is reported under "Guarantees and escrowed bank deposits" in the non-current assets section of the balance sheet. The transitional arrangements, which were in place while these facilities were being negotiated (and were subsequently superseded) entailed restrictions on the use of a deposit, which, as at 31 December 2002, amounted to US$ 20 million.

10. 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 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. 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.

As required by International Financial Reporting 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 carry-forward of unused tax losses.

In the year ended 31 December 2002, many TEMENOS entities operating in high-tax jurisdictions have reported losses, which could have formed the basis for recognising deferred tax assets. However, in the case of a truly global organisation, such as TEMENOS, which operates in a multitude of tax jurisdictions, the ability to project future profits in each such tax jurisdiction sufficient to cover the unutilised tax losses, as of 31 December 2002, within a relatively short time horizon, is an exceedingly difficult task that is rendered even more difficult by the operation of national rules regulating the withholding of taxes at source and by the impact of international treaties for the avoidance of double taxation, the provisions of which substantially vary from case to case. Under these circumstances, TEMENOS management felt that it would not be prudent to account, in 2002, for the tax relief, which may be given at the stage of off-setting the taxable profits of an entity forming part of the Group against its prior year tax losses. As at 31 December 2001, the unamortised deferred tax asset recognised in relation to tax losses incurred by certain subsidiary companies amounted to US$ 827 thousand. This amount as well as the amount of the deferred tax asset associated with the losses reported in 2002 have been amortised for the reasons outlined above. Thus, the tax charge for the year has been quantified as follows (in thousands of US dollars):

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	Year ended 31 December 2002	Year ended 31 December 2001
Profit (loss) before taxes, per the consolidated statement of earnings	(47 083)	9 852
Current tax	1 577	2 223
Deferred tax	827	(125)
Tax charge for the year	2 404	2 098

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 2002	Year ended 31 December 2001
Computed tax charge (relief)	(8 475)	(1 457)
Tax effect of losses deemed likely to be utilised against future taxable profits	–	(125)
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	10 879	3 680
Tax charge for the year	2 404	2 098

It is deemed appropriate to highlight the fact that the consolidated financial statements of the Group only reflect extra-group transactions and balances while the taxable profits (losses) of the Group are quantified by reference to both extra-group and intra-group transactions.

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.

11. Long–term Liabilities under Finance Leases

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

	31 December 2002	31 December 2001
Obligations under finance leases:		
repayable within one year	118	87
repayable between two and five years	169	304
	287	391
Finance charges allocated to future accounting periods	(32)	(21)
	255	370
Included in accounts payable within one year	(75)	(50)
	180	320

12. Share Capital

As at 31 December 2001, the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, comprised 51,797,163 common shares of a nominal value of SFr 5 each.

TEMENOS GROUP AG

notes to the consolidated financial statements

31 December 2002

The changes in the number of issued and outstanding shares, in the year ended 31 December 2002, are summarised below:

		Nominal value (in thousands)	
	number	**in SFr**	**in US$**
Issued and outstanding, as at 31 December 2001	51 797 163	258 986	146 714
Shares issued in January 2002, as part of the consideration paid for the acquisition of Quetzal Informatique SA	117 640	588	351
Shares issued in September and December 2002, as part of the consideration paid for the acquisition of Integrated Core Technologies Participations SA*	218 414	1 092	701
Shares issued in the course of 2002 on exercising of employee share options	292 000	1 460	938
Total number of TEMENOS Group AG shares which had been effectively issued and were outstanding, as at 31 December 2002	52 425 217	262 126	148 704

(*) As a result of an oversight, the formal process of issuing and registering these shares was completed in the early part of 2003.

Thus, as at 31 December 2002, TEMENOS Group AG had a share capital of US$ 148.7 million (SFr 262.1 million) divided into 52,425,217 fully paid, voting, registered, common shares of a nominal value of SFr 5 each.

It should be noted, however, that, in the course of 2002, TEMENOS Group AG issued an additional number of shares (1,708,000 shares) of a nominal value of SFr 5 each, which, as at 31 December 2002, were held by TEMENOS Holdings NV (a wholly-owned subsidiary of TEMENOS Group AG) but had not been allotted to third parties and, as a consequence, have been excluded from the issued and outstanding share capital of the TEMENOS GROUP reported above. These shares are destined to be allotted to employees of the Group, at the stage when they exercise share options, under the TEMENOS Employee Share Options Scheme.

Thus, as of 31 December 2002, the authorised and issued share capital of TEMENOS Group AG effectively comprised 54,133,217 shares of a nominal value of SFr 5 each of which 1,708,000 had not been allotted to third parties. In addition to its authorised and issued share capital, TEMENOS Group AG has authorised and “conditional” or “contingent” capital, which may be issued by resolution of the Board of Directors of the Company, comprising:

9 577 739	shares that may be issued in the context of acquisitions etc. (this power of the Board expires on 5 June 2003).
8 000 000	shares that may be issued on the exercising of share options granted to the employees of the Group.
13 680	shares that may be issued in conjunction with financial instruments that may be issued by the Group.

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

As explained in note 13 below, the Group 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 2002, the total number of common shares committed under the Group’s Employee Share Option Scheme (net of cancellations) was 4,957,001 (2001: 4,748,489). 1,364,300 (2001: 1,354,300) 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 the year ended 31 December 2002, 292,000 shares were issued and allotted to employees of the Group on exercising of share options held by them.

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. 218,414 of these share options were exercised in 2002. 24,890 of the remaining options had vested on 31 December 2002 (but had not been exercised) while 101,522 options will vest over a period from 1 July 2003 to 1 July 2005. These options are exercisable at a nominal price.

TEMENOS GROUP AG

notes to the consolidated financial statements
31 December 2001

Based on the vested portion of the share options which were outstanding, as at 31 December 2002 and 2001, 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 2002	10 869
31 December 2001	6 472

It should be noted, however, that, in numerous cases, the exercise price of vested share options is above the market price of the underlying shares and, therefore, for as long as the market price remains at the levels prevailing at the stage of the publication of these financial statements, these options will not be exercised.

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 10 March 2003, and the vested portion, as at 31 December 2002, of the potentially dilutive options, the dilution effect of the latter 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 share options outstanding**	**Share warrants outstanding**	**Equivalent potentially dilutive common shares**
31 December 2002	52 425	52 026	4 957	126	2 394
31 December 2001	51 797	45 681	4 748	345	2 883

13. 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. 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 2001 as well as in the year ended 31 December 2002 by granting share options to employees of the Group, net of cancellations, over an aggregate of 5,449,001 (as at 31 December 2001: 4,948,489) 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 492,000 shares were exercised.

Up to 31 December 2002, the cost of this scheme, net of cancellations, was quantified at US$ 2,701 thousand, representing the difference between the estimated market value of the shares at the time of granting the options and their respective exercise prices. This cost is being charged to operations over the vesting period of the options as follows (in thousands of US dollars):

Up to 31 December 2000	952
In the year ended 31 December 2001	728
In the year ended 31 December 2002	565
Post 31 December 2002	456
Total cost of share options granted to employees	2 701

TEMENOS GROUP AG

notes to the consolidated financial statements
31 December 2002

A summary of the status of the TEMENOS Employee Share Options Scheme is set out below:

Employee share options, outstanding on 31 December 2001:		
having vested by 31 December 2002 or vesting in 2003:		
having an exercise price per option of:		
less than US$ 1	2 703 500	
US$ 1 to US$ 10	1 158 893	
over US$ 10	9 000	
		3 871 393
vesting after 2003:		
having an exercise price per option of:		
less than US$ 1	444 614	
US$ 1 to US$ 10	197 782	
over US$ 10	234 700	
		877 096
		4 748 489
New options granted in 2002, vesting between 3 and 5 years:		
having an exercise price per option of:		
less than US$ 1	15 000	
US$ 1 to US$ 10	19 166	
over US$ 10	648 122	
		682 288
Less options cancelled in 2002:		
Options relating to employees whose services were terminated	(654 250)	
Less options, which disengaged employees were allowed to retain	472 474	
		(181 776)
Less options exercised in 2002*		(292 000)
Employee share options, outstanding on 31 December 2002		4 957 001

(*) These options, which had been granted at the pre-incorporation stage of TEMENOS Group AG, had an exercise price that was lower than the nominal price of the shares issued, resulting in these shares being issued at a discount.

In January 2003, 1,350,600 new employee share options were granted, having an exercise price of US$ 0.90 (SFr 1.30) per share and a vesting period of 3 to 5 years, which are hereby disclosed as a post-balance sheet event. The cost of these new options has been quantified by reference to the provisions of the draft International Financial Reporting Standard, ED2 (Share-based Payment), which, if adopted, will have retroactive effect in relation to employee share options granted on or after the publication of ED2 (in November 2002). This cost, which will be charged to operations over the vesting period of the options granted, has been estimated at US$ 970 thousand.

TEMENOS GROUP AG

notes to the consolidated financial statements
31 December 2001

14. 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 and 2002, the balance reported under this reserve represents the estimated fair market value, at the time of the transaction, of the share options granted in the context of an acquisition of a subsidiary, which had not been exercised by the aforesaid dates.

15. 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 2002, is reflected in the Consolidated Statement of Changes of Shareholders' Equity.

16. Share Redemption Deficit

The share redemption deficit originally 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.

17. 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 in the Statement of Changes of Shareholders' Equity.

18. Earnings (losses) per Share Computations

The earnings (losses) per share reported have been arrived at as follows (in thousands of US dollars except for the number of shares). In the years ended 31 December 2001 and 2002, TEMENOS Group AG had only one class of (common) shares.

	Year ended 31 December 2002	**Year ended 31 December 2001**
Net profit (loss) for the year attributable to common shareholders	(49 487)	5 942
Weighted average of common shares outstanding during the year (in thousands)	52 026	45 681
Equivalent common shares relating to vested share options and share warrants (in thousands)	2 394	2 883
Aggregate number of equivalent common shares for purposes of calculating the diluted earnings per share (in thousands)*	54 420	48 564
Earnings (losses) per share (in US$ per share)		
– basic	(0.95)	0.13
*– diluted**	(0.95)	0.12

(*) In the year ended 31 December 2002, the potential common shares, relating to vested share options and share warrants, are anti-dilutive and, therefore, have been ignored for the purposes of calculating the diluted losses per share.

TEMENOS GROUP AG

notes to the consolidated financial statements
31 December 2001

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

The TEMENOS GROUP financial statements are compiled in accordance with International Financial Reporting Standards (IFRS), 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 (in thousands of US dollars), with references to the respective reconciling items.

	Year ended 31 December 2002	Year ended 31 December 2001
Net income (loss), per IFRS	(49 487)	5 942
Timing differences in respect of the revenue recognised	–	1 350
Deferred tax adjustment relating to US GAAP reconciliation items	–	(157)
Net income (loss), per US GAAP	(49 487)	7 135
Earnings (losses) per share (in US$ per share)		
basic	(0.95)	0.16
diluted	(0.95)	0.15
Statement of comprehensive income		
Net income (loss), per US GAAP	(49 487)	7 135
Other comprehensive income (loss) – currency translation adjustments on restatement of financial statements of subsidiary companies	2 879	(278)
Comprehensive income (loss), per US GAAP	(46 608)	6 857
Shareholders' equity		
Shareholders' equity, per IFRS and US GAAP	52 728	97 597

20. 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 (relief given to) the TEMENOS Group
Year ended:					
31 December 2002	5 530	2 867	2 761	500	(489)
31 December 2001	2 768	2 858	4 136	5 298	4

Given the adverse economic conditions prevailing in sub-Saharan Africa and, in particular, in countries such as Zimbabwe, Nigeria and South Africa, where GLOBUS licensees are located, and the inevitable adverse impact these conditions have on business enterprises operating in the region, it was felt prudent and appropriate to provide for all the receivables in arrears, due from the licensees/distributors who are based in this area. As a consequence, the net amount of US$ 2,663 thousand, reported as being due from the Global Technology Group on 31 December 2002, appropriately reduced by deferred licensing and recurring licensing fees amounting to US$ 1,333 thousand (not recognized as revenues by 31 December 2002), has been provided for as being doubtful of collection. In the year ended 31 December 2002, the full amount charged to operations in this respect amounted to US$ 2,470 thousand.

TEMENOS GROUP AG

notes to the consolidated financial statements

31 December 2001

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. In the context of this transaction, TEMENOS Holdings NV assigned to the vendor, for a limited period of three years, 35% of the licensing revenues, which would have been generated by licensing the software acquired to third parties.

The transactions entered into 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 served, up to April 2002, as a director and had a very 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). Save the transactions specifically referred to below, these transactions were entered into in the ordinary course of business.

	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 (See below)
Year ended:					
31 December 2002	865	4 574	133	1 316	3 500
31 December 2001	243	1 571	486	3 017	75

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 the year ended 31 December 2002, TEMENOS Holdings NV concluded a further agreement with PK Technology Sdn Bhd, under which the GLOBUS distribution arrangements previously in place (in Malaysia and the Philippines) were terminated and the TEMENOS GROUP (through two wholly-owned subsidiaries specifically incorporated for this purpose in Malaysia and the Philippines) acquired the GLOBUS-related business of the PK Group. The details of this transaction are reported in note 4.

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$ 250 thousand (SFr 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.

21. 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 2002			
Europe	32 090	43 024	75 114
Asia/Pacific	11 985	7 202	19 187
Americas	6 711	5 054	11 765
Africa	5 086	2 186	7 272
	55 872	57 466	113 338
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

TEMENOS GROUP AG

notes to the consolidated financial statements
31 December 2001

22. 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 2002 and 2001, 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 2002	Year ended 31 December 2001
Personnel Costs	77 814	66 955
Number of persons employed	1 179	1 259

	Personnel costs	Number of Persons Employed
Year ended 31 December 2002		
Europe	56 889	550
Asia	10 965	584
Americas	9 960	45
	77 814	1 179
Year ended 31 December 2001		
Europe	50 093	689
Asia	8 480	475
Americas	8 382	95
	66 955	1 259

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 2002, amounted to US$ 3.4 million (2001: US$ 2.9 million). Generally, the Group does not maintain, nor is it committed to support, any defined benefit plans for its current or former employees.

Exceptionally, TEMENOS Headquarters SA and TEMENOS Suisse SA are obliged, under Swiss law, to underwrite the financial position of their respective employee-related pension funds thus effectively rendering these schemes "defined benefit plans". As required under IFRS #19, an independent, qualified Swiss actuary was engaged to verify the computations and the appropriateness of the underlying assumptions on the basis of which a further charge (beyond the employer contributions already effected), amounting to SFr 40 thousand (US$ 29 thousand), was made to operations in the year ended 31 December 2002. The pertinent details relating to these pension funds are set out below (in thousands of US dollars). Effective 1 January 2003, the legally prescribed minimum return on the minimum contributions is 3.25% per annum while the discount rate used in quantifying the present value of the defined benefit obligations was 2.75% per annum.

	TEMENOS Headquarters SA	TEMENOS Suisse SA
Invested assets	1 544	7 278
Receivable contributions	134	265
Legally required (additional) return	(1)	(4)
Outstanding obligations to former employees	(593)	(3 763)
Net assets	1 084	3 776
Less defined benefit obligations	(1 084)	(3 581)
Pension fund surplus	–	195

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

notes to the consolidated financial statements

31 December 2002

23. Directors' and Senior Employees' Compensation

The personnel costs disclosed under note 22 above include the following amounts, representing the three executive directors' compensation: US$ 1,383 thousand and US$ 1,433 thousand in 2002 and 2001, respectively. The compensation of the two independent, non-executive directors, in the year ended 31 December 2002, amounted to US$ 100 thousand (US$ 79 thousand).

The Management Board of the TEMENOS GROUP comprises the three executive directors and four other senior employees of the Group. The aggregate compensation of the latter, in the year ended 31 December 2002, amounted to US$ 1,170 thousand.

Included in the highest remunerated ten employees of the Group (in 2002) are five other persons, whose aggregate compensation in the year amounted to US$ 1,390 thousand.

24. Sales and Marketing Expenses

Included in sales and marketing expenses is an amount of US$ 11,709 thousand, representing a charge to operations in respect of receivable balances that were deemed to be doubtful of collection. Given the globally prevailing adverse economic conditions, TEMENOS management felt that, for financial reporting purposes, it would be prudent to make full provisions for all receivables (including accrued but not invoiced revenues) which are doubtful of collection, in addition to the general provision of US$ 400 thousand which has been maintained at a level similar to that of last year. Every effort will, of course, be made to collect these receivables, while not upsetting the business relationships that an excessively aggressive collection policy might risk to upset.

25. Audit Fees

Included in general and administrative expenses is an amount of US$ 400 thousand representing audit fees charged to the TEMENOS GROUP, on a worldwide basis. (These fees are inclusive of the statutory audit fees or, where no statutory audit is required, of the fees relating to work undertaken in the context of the audit of the consolidated financial statements of the Group, which have been charged to the individual operating entities forming part of the Group, around the world). In addition to the audit fees charged to the Group, fees, amounting to approximately US$ 280 thousand, have been generated from the provision of tax advisory and other professional services. These fees have been mostly allocated to firms forming part of BDO International.

26. Financial Instrument Related Expenses

In 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, 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. This amount has been amortised as follows: 2000: US$ 714 thousand, 2001: US$ 4,531 thousand and 2002: US$ 690 thousand. The charge to operations in the year ended 31 December 2002 is also inclusive of an amount of US$ 80 thousand, representing expenses generated in the process of renegotiating these financing facilities. A further cost incurred in conjunction with the negotiation of the arrangements referred to in note 9, amounting to US$ 250 thousand, has been deferred and will be amortised in 2003.

27. Equity Investment Amortised

As disclosed in the TEMENOS Annual Report for 2001, in the early part of 2002, TEMENOS Holdings NV acquired a 20% equity interest in an Italian company specializing in serving the financial services industry by providing software tools, which facilitate the management of wealth. This equity interest was acquired through the injection of new capital into the investee company, amounting to US$ 2.5 million. Under the arrangements which were then entered into, the TEMENOS GROUP had an option, which had to be exercised by the end of 2002, under which it could have acquired - over a period of approximately three years - the remaining equity of the investee company, 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. Given (a) the subsequent sharp fall of equity prices and, in particular, of the price of the shares of TEMENOS Group AG and (b) the prolongation of the adverse economic conditions prevailing within the banking industry and, by extension, the adverse impact these conditions have on software companies which specialize in serving the banking industry, it was felt that it would have been imprudent to exercise the above option, which was, thus, allowed to lapse. Under these circumstances and given the practical difficulties of valuing a minority equity interest in a privately owned, close company and the related difficulties of disposing such a minority interest, TEMENOS management felt that it would be prudent to fully amortise this investment for financial reporting purposes, irrespective of the efforts which are being made to recover the cost of this investment.

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

notes to the consolidated financial statements

31 December 2002

28. Commitments and Contingencies

The Group has obligations under operating leases relating mainly to the office premises used by its subsidiary companies but also to leased equipment. Lease expenses for the years ended 31 December 2002 and 2001 amounted to approximately US$ 9.4 million and US$ 4.7 million, respectively.

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

	Office premises	**Equipment**
Not later than one year	8 149	1 049
Later than one year but not later than five years	22 942	2 387
Later than five years but not later than ten years	15 683	–
Later than ten years	4 733	–
Total	51 507	3 436

The Group is also contractually committed to sponsor the Red Bull Sauber Petronas Formula 1 motor racing team up to 31 December 2003. The commitment for 2003 amounts to US$ 2,500 thousand.

According to the lawyers acting for TEMENOS, a dismissed ex-employee of TEMENOS USA, Inc. has initiated, before the Supreme Court of the State of New York, legal action against the Company (as well as against TEMENOS Group AG and certain members of the Group's management), alleging unfair dismissal on grounds of creed and religion. The dismissed employee is claiming US$ 2.15 million as compensatory damages and US$ 3.0 million as punitive damages. The lawyers involved have stated that "the case is at a very preliminary stage" and, therefore, they "are not able to provide an opinion as to the outcome of this case". Management believes that the claim is totally unfounded and it intends to defend this action vigorously.

29. Post-Balance Sheet Events

There are no reportable post-balance sheet events.

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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 2002 and the statement of earnings for the year then ended, 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 (deficit) comply with Swiss law and the Company's Articles of Incorporation.

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

As a result of valuing the Group and, by extension, the shares of TEMENOS Holdings NV (substantially the sole asset of TEMENOS Group AG), on the basis of the market capitalisation of the latter, as at 31 December 2002, the Company is reporting net assets that are less than 50 percent of its share capital and legal reserves. Under article 725.1 of the Swiss Code of Obligations, the Board of Directors is required to place before the Shareholders of the Company the relevant facts and to elaborate on the measures taken and/or proposed to address the issue.

10 March 2003

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 2002

	2002	2001
	(SFr thousands)	
Assets		
Investments	**445 913**	*433 006*
Less provision for impairment *(on the basis of the market value of the TEMENOS Group AG shares) (note 2)*	**(341 063)**	*–*
	104 850	*433 006*
Liquid funds	**1**	*–*
	104 851	*433 006*
Liabilities		
Payable to other Group entities	**(47)**	*(30)*
Accrued expenses	**(46)**	*(92)*
Taxes payable	**(9)**	*(9)*
	(102)	*(131)*
Net assets	**104 749**	*432 875*
Shareholders' equity		
Share capital *(note 3)*	**270 666**	*258 986*
Share premium *(note 4)*	**175 006**	*173 787*
Retained earnings (deficit) *(note 2)*	**(340 923)**	*102*
Total shareholders' equity	**104 749**	*432 875*

statement of earnings (losses)

for the year ended 31 December 2002

	2002	2001*
Miscellaneous revenues	**67**	*216*
Expenses associated with the maintenance of the Register of Shareholders and other related costs	**(29)**	*(105)*
Operating profit before taxation	**38**	*111*
Impairment of the investment in subsidiary companies (on the basis of the market value of the TEMENOS Group AG shares) (note 2)	**(341 063)**	*–*
Profit (loss) for the period, before tax	**(341 025)**	*111*
Taxation	**–**	*(9)*
Profit (loss) for the period, after tax	**(341 025)**	*102*

(*) For the period from 7 June 2001 (date of incorporation) to 31 December 2001.

The attached notes form part of these financial statements.

TEMENOS GROUP AG

notes to the financial statements

31 December 2002

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):

	2002	2001
TEMENOS Holdings NV, Netherlands Antilles		
40,104,335.86 shares of a nominal value of US$ 0.001 each, at cost	200 522	200 522
Advances for the acquisition of new shares	245 290	232 383
I.T. Services Limited, Cyprus		
100 shares of a nominal value of CY£ 1 each, at cost	101	101
	445 913	433 006
Less provision for impairment on the basis of the market value of the		
TEMENOS Group AG shares	(341 063)	–
	104 850	433 006

The adverse economic conditions, which have prevailed throughout 2002, have adversely affected the market prices of equities and, in particular, those of software companies. In the separate financial statements of TEMENOS Group AG, the shares of TEMENOS Holdings NV (and those of IT Services Limited) have been valued on the basis of the market value of the shares of TEMENOS Group AG. Under the applicable Swiss Accounting Standards, the resulting "loss" must flow through the statement of earnings of the year in which the value adjustment is made. Given that this "impairment" has been quantified solely by reference to the market value of the shares of TEMENOS Group AG, the reader is referred to the consolidated financial statements for a more meaningful presentation of the results of the year of the entire Group, in relation to which TEMENOS Group AG serves as the ultimate holding company.

As more fully explained in the Directors' Report, management is satisfied that the TEMENOS Group has or is likely to generate sufficient cash resources to cover its needs and, therefore, there are no compelling reasons for seeking new capital and/or for restructuring the existing capital of the Company, particularly since the ultimate holding company of the Group does not have any obligations of substance towards any third party.

3. Share Capital

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

	2002		2001	
	Shares	Amount	Shares	Amount
Authorised and issued share capital*	51 346 897	256 734	51 010 843	255 054
Conditional or contingent capital issued	2 786 320	13 932	786 320	3 932
	54 133 217	270 666	51 797 163	258 986

(*) As a result of an oversight, the formal process of issuing and registering 218,414 of these shares was completed in the early part of 2003.

TEMENOS GROUP AG

notes to the financial statements
31 December 2002

It should be noted, however, that, in the course of 2002, TEMENOS Group AG issued 1,708,000 shares out of "conditional" or "contingent" capital, which, as at 31 December 2002, were held by TEMENOS Holdings NV (a wholly-owned subsidiary of TEMENOS Group AG) for satisfying obligations arising under the Employee Share Options Scheme operated by the TEMENOS Group and had not been allotted to third parties.

Thus, as of 31 December 2002, the issued share capital of TEMENOS Group AG effectively comprised 52,425,217 (54,133,217 less 1,708,000) voting, registered, common shares, having an aggregate nominal value of SFr 262,126 thousand.

In addition to its authorised share capital, TEMENOS Group AG has unutilised authorised and "conditional" or "contingent" capital, which may be issued by resolution of the Board of Directors of the Company, comprising:

9 577 739	shares that may be issued in the context of acquisitions etc. (this power of the Board expires on 5 June 2003).
8 000 000	shares that may be issued on the exercising of share options granted to the employees of the Group.
13 680	shares that may be issued in conjunction with financial instruments that may be issued by the Group.

The shares issued by the Company, in the year ended 31 December 2002, are set out below:

Total number of TEMENOS Group AG shares which had been issued, allotted and were outstanding, as at 31 December 2001	51 797 163
Shares issued and allotted in relation to acquisitions	336 054
Shares issued and allotted on exercising of employee share options	292 000
Total number of TEMENOS Group AG shares which had been issued, allotted and were outstanding, as at 31 December 2002	52 425 217

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 (35.5%) and of its Vice Chairman and Marketing Director (15.1%). In addition, Global Technology Limited and its affiliate Global Technology Investment Holdings (Pty) Limited, hold 15% 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 5.9% 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 SFr 8 thousand (2001: SFr 20,742 thousand), which were incurred in conjunction with the issuance of new 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 Earnings (deficit)

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

Information for Investors

CAPITAL STRUCTURE
The share capital is divided into 52.4 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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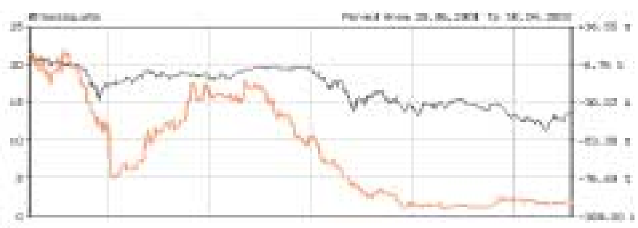
ANNUAL GENERAL MEETING
27 June 2003

NEXT PUBLICATION

29 July 2003	Q2 Results Presentation
September 2003	Interim Report
4 November 2003	Q3 Results Presentation

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



TEMENOS
SPI

STATISTICS ON TEMENOS SHARES

Registered shares of CHF 5 nominal	2002
Sector:	Technology/Software
Market Segment:	SWX Main Market
Index Member:	SPI
Swiss Security No:	124 5391
ISIN No:	CH0012453913
Symbol:	TEMN
Number of shares	52 425 217
Market price high/low (CHF)	18/1.05
Market price 31.12.2002 (CHF)	1.20
Market price 31.03.2003 (CHF)	1.70
Market capitalization high/low (CHF m)	970/57
Share capital nominal value at 31.12.2002 (CHF m)	262

Key Figures per Share	
Basic earnings (losses) per share (in US$)	(0.95)
Diluted earnings (losses) per share (in US$)	(0.95)
Consolidated shareholders' equity (USD m)	53
Consolidated shareholders' equity per share (USD)	1.01
Return on equity (%)	N/A

Major shareholders of TEMENOS Group AG	
George Koukis	35.5
Kim Goodall	15.1
Global Technology Ltd and affiliates	15.0
Global Capital Investors and related entities	5.9

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