Annual Report and Accounts 2003

TEMENOS™

Corporate Profile

TEMENOS is a global leader in providing financial institutions with integrated banking systems that increase productivity and profitability and allow them to respond to changing market conditions. The Group's solutions, TEMENOS T24 and TEMENOS CoreBanking, are utilised in a variety of segments including retail, wholesale, universal, international corporate banking, wealth management and private banking as well as microlending. TEMENOS has 34 offices in 29 countries and has installed over 500 systems since being founded in 1993. The Group had revenues of US$ 146.2 million for the year ended 31 December 2003. In June 2001, TEMENOS became a public company, quoted on the SWX Swiss Exchange.

Trading details

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

Key Figures (31 December)

All financial units in thousands of US dollars except earnings per share, operating margin and EBITDA margin.

	2003	2002
Employees	1,224	1,179
Revenues	146,191	113,338
Operating profit (loss)	10,722	(44,411)
Operating margin	7.3%	n/a
EBITDA	25,195	(31,610)
EBITDA margin	17.2%	n/a
Net profit (loss)	10,887	(49,487)
Cash generated from (used in) operating activities	16,422	(4,802)
Total assets	151,790	122,385
Shareholders' equity	66,157	52,728
Basic earnings (losses) per share	US$ 0.20	US$ (0.95)
Diluted earnings (losses) per share	US$ 0.19	US$ (0.95)

Contents

TEMENOS GROUP AG

Financial Highlights

(in millions of US dollars except earnings per share)

	2003 *31 December (12 months)*	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	146.2	113.3	140.9	95.3	28.8	43.6
Operating costs	135.5	157.7	125.3	79.7	24.9	38.5
Operating profit (loss)	10.7	(44.4)	15.6	15.6	3.9	5.1
Profit (loss) before taxation	12.7	(47.1)	9.9	13.8	3.5	5.0
Net profit (loss) after tax	10.9	(49.5)	5.9	11.2	2.8	4.2
EBITDA	25.2	(31.6)	23.3	20.2	5.3	7.6
Basic earnings (losses) per share (in US$)	0.20	(0.95)	0.13	0.20	0.09**	0.06
Diluted earnings (losses) per share (in US$)	0.19	(0.95)	0.12	0.19	0.09**	0.06
Operating cash flow	16.4	(4.8)	(0.3)	2.5	3.5	9.6
Current assets	108.2	69.4	132.7	47.4	24.1	20.4
Non-current assets	43.6	53.0	38.7	18.0	10.1	5.1
Total assets	151.8	122.4	171.4	65.4	34.2	25.5
Current liabilities (excluding deferred revenues)	49.5	32.3	24.6	24.7	13.5	9.8
Deferred revenues	35.9	22.2	16.6	20.0	13.7	11.7
Total current liabilities	85.4	54.5	41.2	44.7	27.2	21.5
Non-current liabilities	0.2	15.2	30.1	62.4	–	0.1
Total liabilities	85.6	69.7	71.3	107.1	27.2	21.6
Minority interest	–	–	2.5	0.7	0.2	–
Shareholders' equity (deficit)	66.2	52.7	97.6	(42.4)	6.8	3.9
Total equity and liabilities	151.8	122.4	171.4	65.4	34.2	25.5

(*) The accounting year end of the Group was changed from 30 June to 31 December effective from the financial year ending 31 December 2001. Comparatives for the full year ended 31 December 2000 have been compiled.

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

Chairman's Statement

After the challenging 2001/2 periods, we are very happy to announce a significant improvement in our results. Against an unstable geopolitical background, most countries are still trying to create sustainable growth, whilst combating recession and unemployment. However, we are pleased to note that the financial and banking industry has returned to encouraging levels of profitability. Many financial institutions have approved new strategic projects to further streamline their systems. Equally, the introduction of new technologies will reduce costs.

These improved market conditions have led to significant growth in 2003, with us outperforming the majority of our direct competitors. Revenues increased by 29% to US$ 146m – the highest ever; net after-tax profits increased to US$ 11m from a loss of US$ 49m. We now have over 1,200 staff operating in more than 30 countries. Finally, operating cashflow increased to US$ 16m, also the highest ever. It is worth noting that most of our major competitors have reported decreasing revenues and profits. We believe that our focus on product performance, continuous investment in new technologies and our client-centred approach are the main reasons for this turnaround.

The improvement is due also to the immense contribution of our new CEO, Andreas Andreades. Andreas is a hard worker, who understands our clients' requirements, the industry at large and the TEMENOS culture. He has created an efficient Management team and a global organisation capable of rising to the challenges at hand. We are firmly back on course with a scalable infrastructure, increasing opportunities and maintenance revenue stream.

TEMENOS' improved performance was indicated by our stock price, as we reported in our quarterly results. We finished first in the Zurich Stock Exchange list of the best performing stocks for 2003. This in itself is a pleasing achievement. More rewarding still is that we increased the free float of TEMENOS to 60% of our issued share capital. The combined effect of the increased free float and our positive results was the increase in our daily trading volumes. The investment community views TEMENOS in a favourable light and we are certain that, in the future, we will continue to grow.

A monumental achievement for TEMENOS was the release of TEMENOS T24 during our annual TEMENOS CLIENT FORUM, which was held in Berlin. The industry reacted extremely positively and enthusiastically. After all, it is unique in offering – amongst many other features – a true non-stop processing capability, 24 hours a day. Thus it eliminates the end-of-day concept prevalent in older systems. Two aspects of this achievement should be noted. Firstly, most companies faced with difficulties since 2001 would find it easy to cancel any product investment to safeguard their limited resources. However, we have invested for the last three years on this concept and, despite the difficulties we faced in the last two years, we protected long-term shareholder value by applying the necessary resources. Secondly, this product launch reaffirms our aspiration to invest continuously in developing new modules and adding new functionality to our already rich offering. As such, we ensure that our products respond to evolving market needs and that we offer the most innovative solution available.

With its revolutionary technology, TEMENOS T24 has also been well received by the experts. Some said that, with its innovative approach to banking and other concepts, it tests the capabilities of any bank. In addition, one of TEMENOS T24's main benefits is that it will facilitate the compliance with the forthcoming BASLE II accord. The technology experts were not the only ones to praise TEMENOS T24 as many prospects in 2003 selected TEMENOS T24 as their future platform. Significant new contracts included Bank of Shanghai in China, Menatep in Russia and Bank of China in Americas.

Since the inception of TEMENOS, we have had long-term relationships with distributors in many parts of the world. As the character of corporate clients changes from local/regional to international and as technological improvements allow clients to manage processes through centralised locations (hubs), the demand for consistency in product and product related services has also changed. Due to this change in strategy, we have acquired the businesses of some of our distributors in Latin America, Australia, Malaysia, the Philippines and South Africa. The results to the end of 2003 were very pleasing.

We have created a special division in order to work with alliance partners and we expect to increase our coverage of each continent. Our alliance with IBM is getting stronger and yielding results, especially with TEMENOS CoreBanking. This is our modern, scalable, mainframe retail banking application, which is capable of handling the business volumes of the very largest banks worldwide. Indeed, according to industry forecasts, the retail core banking area offers one of the highest growth potentials. The BANSEFI win in Mexico includes TEMENOS CoreBanking and was a joint effort by IBM and TEMENOS. Today, we are working together on more joint accounts than in the previous year. We have also formed an alliance with ORACLE. In fact, our five current implementations of TEMENOS T24 are all based on either ORACLE or DB2 technologies.

TEMENOS was born on 16 November 1993. Exactly 10 years since we started business, with a handful of people and two offices, I would like to make a personal statement. A Brazilian businessman, who inherited a family business and proceeded to introduce change, wrote a book in which he said that the popular belief is that you either build an ethical company or a successful business! Every day I read about companies – lately one in Italy – that have criminally abused the confidence shown to them by their staff, clients, investors, shareholders, suppliers and government. Some of them continue to avoid imprisonment.

I am totally confident that one can build a successful company based on strong ethics. During the first 10 years, we not only concentrated on the important task of producing financial results. We also sought to foster in each individual a sense of pride in doing the right thing, delivering on promises, decision-making, being innovative, investing in good ideas and in the future and regarding any client relationship as sacred. The latter is one of the many meanings attributed to the ancient Greek word TEMENOS.

I believe that the TEMENOS culture and philosophy we practice each moment is what has given us the strength to emerge successfully from the difficulties we faced after 2001. This is not the contribution of one person. Rather, it is the result of the greatest team with whom I have ever had the privilege to share both the good and the bad – the TEMENOS staff, management and directors. This annual report is dedicated to each of you, for I cannot thank you enough for giving me the opportunity to write it.

I look forward to another year of great achievements.

George Koukis Chairman

I believe that the TEMENOS culture and philosophy we practice each moment is what has given us the strength to emerge successfully from the difficulties we faced after 2001.

Product Summary

Since its founding in November 1993, TEMENOS has established itself as an international leader in the banking software industry by providing financial institutions with integrated solutions which support increased productivity and profitability and allow them to respond quickly to changing market conditions.

TEMENOS is recognised as a market leader by industry experts, and works in close partnership with organisations such as IBM, HP and Oracle.

The TEMENOS client list is a true encyclopedia of banking covering all financial institutions from tier 1 global banks to local banks, in all geographies.

TEMENOS has demonstrated huge success and rapid growth with its TEMENOS GLOBUS™ product. It has been a market leader in the core system market since 1999. Over the last 3 years TEMENOS has invested millions of dollars in a major technical upgrade of this flagship product. The completion of the technological milestone has resulted in the introduction of TEMENOS T24. TEMENOS is now delivering 'TEMENOS T24', a true Non-stop, 24 hour, N tier, scalable, functionally rich, robust, real-time banking application that responds to evolving market needs and demands and offers the most innovative solution in the market. TEMENOS T24 is revolutionising the banking core system industry by removing the need for batch processing and enabling true 24 hour-online operations.

TEMENOS also offers TEMENOS CoreBanking, a modern and proven scalable mainframe retail banking application capable of handling the business volumes of the very largest banks worldwide.

In June 2001 TEMENOS acquired IRIS Banking System. IRIS was initially developed by IBM in conjunction with RSI, the service provider for Spanish rural banks.

Why TEMENOS CoreBanking?

With a revenue potential of US$ 14 bn, it was important for TEMENOS to ensure that it would gain a significant foothold in the retail banking core systems market and to bridge a gap in the Group's offering, hence the decision to acquire CoreBanking to specifically address the mainframe market. In addition, this was a new technology which had benefited from many years of development from IBM. CoreBanking was designed in 1995 and completed in 1998, based upon mainframe technologies – MVS, DB2, IMS or CICS, OS390 – and utilising IBM's Information Framework.

Called initially TEMENOS GLOBUS™ CoreBanking and now TEMENOS CoreBanking, the system is now compliant with TEMENOS' systems architecture and is a key part of our banking solutions strategy.

Since 2001, TEMENOS CoreBanking has been implemented within various clients and is referencable in 4 client sites.

Over the last 3 years TEMENOS has invested millions of dollars in a major technical upgrade of this flagship product.




10 Year Review

Major achievements in our first decade.

The journey to become the international leader in banking software.

'TEMENOS' is Greek for 'something of value'. Since its formation in November 1993, TEMENOS has indeed become a valuable company with a firm grounding. Today more than ever, TEMENOS truly lives up to its name.

Performance beyond expectations has become second nature. In fact, impressive achievements have been a TEMENOS characteristic since day one. Establishing credibility and market share are just two of TEMENOS' first decade accomplishments.

During a period of remarkable expansion, TEMENOS has retained its unique culture. We are still fast moving, dedicated, dependable and, above all, human. It is our positive attitude that helps to generate excellent performances and results.

But it has not all been plain sailing. The last decade has seen many challenges. Even in the past few years we have faced the transition to the new millennium, the events of 9/11 in the USA and the subsequent wars leading to worldwide recession. TEMENOS did not emerge unscathed. We were forced to readjust staff numbers and refocus on core business operations that were seen as more strategic. Several functions were transferred to less costly locations.

1993	1994	1996	1997	1998
TEMENOS formed. London, Geneva & Luxembourg offices opened.	Far East offices opened.	50th client signed. Client/server released.	100th client signed. USA office opened.	150th client signed. Middle East, South Africa and Central Europe offices opened.

From a private company with a 30-strong team, we have grown to become a publicly listed, global group, recognised as a leader in the banking software industry. We achieved this through 10 years of effort, focusing on product development and establishing TEMENOS on a stable, secure foundation.

Our revenues have grown substantially and this allowed us to undertake, in June 2001, an initial public offering of stock on the SWX Swiss Stock Exchange (SWX: TEMN). The proceeds from this offering enabled us to increase our reach by opening new offices in untapped regions.

Nevertheless, even during times of crisis, we maintained our strategy of investing heavily in our products. We know that this is the only way to build a successful and sustainable application software company. Such a goal requires the delivery of technologically advanced products that are rich in functionality and supported by a broad distribution network. We must also be able to deploy teams of experts based close to the client, who understand local banking requirements and norms.

1999	2000	2001	2002	2003
200th client signed.	IBM Strategic Partnership.	Initial Public Offering (IPO). Acquisition of Integrated Core Technologies (TEMENOS CoreBanking).	300th client signed.	Launch of TEMENOS T24.

An important year for TEMENOS, 2003 has seen us emerge from difficult times leaner and more efficient. Returning to growth and profitability, we have come out of the recession stronger than ever, better able to focus aggressively on business development. Over the last decade, TEMENOS has evolved into a leading provider of banking software systems, with 34 offices around the world.

Throughout this period TEMENOS has supported banks and banking by delivering operational excellence.

Directors' Report

on 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 2003. 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.

Business Review

2003 has been a pivotal year for TEMENOS. Following two years of challenging market conditions, in late 2002 we embarked on a restructuring of our operations. This entailed the completion of the transfer of a very significant portion of our product development capacity to India, the exiting from non-core activities, the in-sourcing of former distributor businesses, and scaling back certain of our overhead functions. It is a credit to the entire organisation that during 2003 we have successfully completed all aspects of the turnaround, which has left us with our product greatly enhanced, our distribution and sales capability intact, a focused organisation behind our core business, with a strong and mature culture and the desire to succeed. Operating costs are significantly reduced compared to 2002 levels, yet we have an organisation that can deliver significant leverage as market conditions improve.

Due to strong management of our operations, operating cash flows of US$ 16.4 million were generated in 2003. As discussed elsewhere in the report, 2003 has contained a number of other significant events for TEMENOS: the launch of TEMENOS T24, our non-stop product; significantly increased interest in our mainframe-based CoreBanking product; the successful integration of our former distributor businesses in Africa, Asia and South America; the appointment of Andreas Andreades as CEO and the creation of an Executive Board to support him in his new role; and the success of our Business Partner model, evidenced by our stronger relationships with IBM, HP, and Oracle in particular.

From a market perspective, as general economic conditions improve, we expect financial institutions to once again focus on addressing the twin problems of outdated and expensive legacy systems, coupled with increased regulatory demands.

The increased demand compared to 2002 has resulted in revenue growth of 29% for 2003, to US$ 146.2 million. As a result, our operating profit for the year was US$ 10.7 million. During the year we also absorbed US$ 14.5 million of depreciation and amortisation costs resulting from our acquisitions since 2001, which we are expensing over 3 years. EBITDA, which we feel is a more relevant business metric as it correlates more closely with cashflows, was US$ 25.2 million for the year.

Despite the early signs of improved conditions in our sector, we believe that it is prudent today to await further visibility before we factor any significant momentum in our business. As a result, we continue to review our balance sheet every quarter, and ensure that it reflects our best view of prevailing conditions.

Historically we have licensed many of our contracts in US dollars, the Group's functional currency. As a result, a significant portion of our revenue and cash in-flows are in US dollars, whereas the majority of our cost base is in Europe. In anticipation of a weakening dollar, we hedged our net currency exposure for 2003 early in the year with financial instruments, and as a result were largely protected from the significant weakening of the US dollar in the second half of the year. In addition, we have hedged the majority of our 2004 exposure at rates prevailing in November 2003, before the significant weakening of the US dollar against other major currencies took place. In parallel, we have been endeavouring to reduce our structural currency mismatch by migrating our revenue stream away from US dollar (by signing new deals in non-US dollar denominations), and have been successful so far in this respect.

For 2004 we plan for growth both in revenues and profits as we see further improvement in the readiness of financial institutions to commit to replacing outdated legacy systems as their own internal situation visibily improves, as well as from leveraging our existing infrastructure and distribution capabilities.

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

A. Andreades
Chief Executive Officer 4 March 2004

It is a credit to the entire organisation that during 2003 we have successfully completed all aspects of the turnaround

Corporate Governance

Introduction

This report has been prepared in compliance with the Directive on Information Relating to Corporate Governance (hereafter "DCG") issued by the SWX Swiss Exchange and entered into force on 1 July 2002.

In the present Annual Report, the corporate governance information has been summarized in a separate section, whereas references to other parts of the Annual Report have been included in certain instances in an effort to avoid duplication.

In order to enhance readability, the present corporate governance section follows the suggested structure as described in the DCG's annex.

If there is a specific disclosure listed in the DCG that is not addressed in the following statements, the given item does not apply to TEMENOS Group AG (hereafter "TEMENOS", "the Group" or "the Company") or is considered immaterial.

Unless otherwise indicated, the information provided in this report reflects the situation as at 31 December 2003.

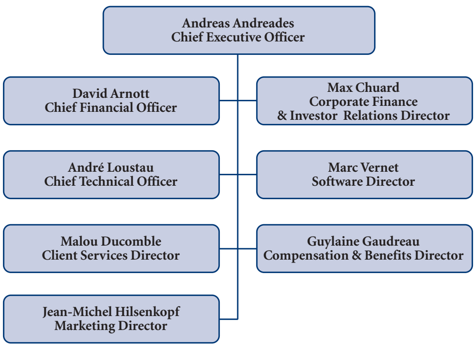
Group structure and shareholders

1.1 Group structure

The ultimate holding company, TEMENOS Group AG, was registered in Glarus on 7 June 2001 and its shares have been listed on the SWX Swiss Exchange since 26 June 2001. TEMENOS is headquartered in Geneva.

1.1.1 Operational Group structure

The Group is organised and managed by the Chief Executive Officer (CEO) who is the head of the Executive Board as shown in the organisation chart below.



1.1.2 TEMENOS Group AG is the sole listed company within the Group.

1.1.3 The Executive Board is responsible for managing, coordinating and executing the Group's business operations and for ensuring efficient operation and attainment of the business targets.

The Executive Board may delegate some of its responsibilities to the Management Board, which is focused on corporate matters or to the Development Board, which is focused on the development and quality of the software systems.

From a global operations point of view the Group is divided into 8 operational regions, i.e. Continental Europe, Eastern Europe, Northern Europe, Middle East Gulf and Africa (MEGA), Asia Pacific, North America, Americas South and CIS (Russian Federation, CIS & Baltic States); each of them headed by a Regional Manager. Please refer to the "TEMENOS Worldwide Offices" section for all contact details.

With the exception of TEMENOS Eastern Europe Ltd, all other subsidiaries are wholly owned either directly or indirectly by TEMENOS Group AG, as the ultimate parent company of the Group.

1.2 Significant shareholders

Please refer to note 3 of the unconsolidated financial statements of TEMENOS Group AG for the list of significant shareholders as at 31 December 2003.

The following publications have been made in the Swiss Commercial Gazette:

Publication of 18 September 2003

- George Koukis holds 29.4% of the voting rights (15,912,678 registered shares)
- Kim Warren Goodall holds 10.8% of the voting rights (5,871,147 registered shares)

Publication of 24 June 2003

- Fidelity International Ltd (Bermuda) holds 5.8% of the voting rights (3,139,901 registered shares).

Publication of 2 April 2003

- Global Finance SA (Greece) through its funds Global Capital Investors LP and Global Capital Investors (II) LP holds 10.3% of the voting rights (5,551,720 registered shares)

No other shareholder holds more than 5% of the voting rights in TEMENOS.

1.3 There are no cross-shareholdings to report.

Capital structure

2.1 Capital

On 31 December 2003, the ordinary capital amounts to CHF 272,362,345, consisting of 54,472,469 registered shares, each with a nominal value of CHF 5. All the shares are fully paid-up. Each recorded share entitles its holder to one vote.

TEMENOS has an authorised capital totalling CHF 47,847,315 and a conditional capital totalling CHF 38,345,120 for shares that may be issued on the exercising of share options granted to employees of the Group. Additional conditional capital totalling CHF 68,400 exists for shares that may be issued in conjunction with financial instruments.

2.2 Authorised and conditional capital

Authorised capital

Pursuant to the Articles of Association, the Board of Directors is authorised to increase the share capital to a maximum aggregate amount of CHF 47,847,315 through the issuance of a maximum of 9,569,463 fully paid-in registered shares with a nominal value of CHF 5 per share. An increase in partial amounts is permitted. This power expires on 27 June 2005.

The Board of Directors shall determine the date of issue of such new shares, the issue price, type of payment, conditions of exercising pre-emptive rights, and the beginning of the dividend entitlement. The Board of Directors may issue new shares by the means of a firm underwriting by a banking institution or syndicate with subsequent offer of those shares. The Board of Directors may allow the expiry of pre-emptive rights which have not been exercised or it may place these rights as well as shares, the pre-emptive rights for which have not been exercised, at market conditions.

The Board of Directors is authorised to restrict or withdraw the pre-emptive and subscription rights of existing shareholders and allocate them to third parties if (i) the shares are to be used for the take-over of another company or enterprise, of parts of an enterprise or of participations for the financing of such transactions; or if (ii) the shares are to be used for the purpose of expanding the scope of shareholders in connection with the quotation of shares on national and foreign stock exchanges.

Conditional capital for employee participation

Pursuant to the Articles of Association, the company's share capital shall be increased by a maximum aggregate amount of CHF 38,345,120, through the issuance of a maximum of 7,669,024 registered shares, which shall be fully paid-in, with a nominal value of CHF 5 each, through TEMENOS Holdings N.V., a subsidiary of the Company (the "Subsidiary"), to officers, directors and employees at all levels of the Company and group companies. The pre-emptive rights as well as the right for advance subscription of existing shareholders are precluded.

The issue of shares or respective option rights through the Subsidiary to officers, directors and employees of the Company and group companies, is subject to one or more regulations to be issued by the Board of Directors on the basis of the following general rules: (i) new shares may only be issued to the Subsidiary for purposes of distribution to directors, officers or employees of the Company and group companies; (ii) new shares to be issued through the Subsidiary to employees of the Company or group companies shall be issued against paying-in in cash the nominal value of CHF 5 per share.

Conditional capital for financial instruments

Pursuant to the Articles of Association, the share capital may be increased by an amount not exceeding CHF 68,400 by issuing up to 13,680 registered shares to be fully paid-in with a nominal value of CHF 5 each, through exercise of conversion and/or option rights, which are granted in connection with bonds or similar debt instruments of the Company or one of its group companies. The owners of option rights from time to time are entitled to the new shares.

The conditions of the option rights, including exercise period and exercise price, are to be determined by the Board of Directors, whereby the exercise price may be fixed at a price lower than the market or intrinsic value. The pre-emptive rights as well as the right for advance subscription of existing shareholders are precluded.

2.3 Changes in capital

TEMENOS Group AG was incorporated on 7 June 2001 and has succeeded TEMENOS Holdings N.V., incorporated in the Netherlands Antilles, as the ultimate holding company of the Group.

Statutory accounts

in thousands of CHF	31.12.2003	31.12.2002	31.12.2001
Share capital	272,362	270,666	258,986
Legal reserves	174,852	175,006	173,787
Profit (loss) carried forward	51	(340,923)	102
Total equity	447,265	104,749	432,875

2.4 Shares

All equity securities of TEMENOS are in the form of registered shares, each with a nominal value of CHF 5. Each share confers the right to one vote at the Annual General Meeting of Shareholders and all shares are fully entitled to receive dividends. The Group did not pay any dividend in 2003. In this respect, TEMENOS does not currently anticipate paying any dividends, intending to retain future earnings to finance the development and growth of its business.

2.5 Profit sharing certificates

As above-mentioned, the Group does not issue such equity securities.

2.6 Limitations on transferability and nominee registrations

There are no restrictions on the transfer of shares. Only shareholders entered in the share register as shareholders or as usufructuaries may exercise the voting rights linked to the shares or the other rights connected with these voting rights. The Group shall recognise only one representative for each share. Nominee registrations are permitted.

2.7 Convertible bonds and warrants/options

Regarding stock options granted to employees, please refer to note 15 of the consolidated financial statements.

Board of Directors

The Board of Directors is elected by the shareholders and holds the ultimate decision-making authority of the Group except those matters reserved by law or by the Group's Articles of Association for approval by the shareholders.

3.1 Members of the Board of Directors

As at 31 December 2003, the Board of Directors comprises seven members, five of whom are non-executive. The non-executive members of the Board have no material business dealings with TEMENOS.

a) Status as at 31 December 2003

George Koukis (57) *Chairman, executive director*

Mr. George 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.

As Chairman and founder of TEMENOS, Mr. Koukis manages a number of key client relationships and participates actively in the strategy of the Group.

Mr. Koukis is a Greek and Australian national and continues to hold positions on the Board of Directors of several operating companies within the Group. He has a substantial equity interest in TEMENOS Group AG, as mentioned in section 1.2.

Mr. Koukis was elected in 2001 and re-elected in 2002 for a three-year term of office. Until 1 July 2003, Mr. Koukis also held the position of Chief Executive Officer.

Kim Warren Goodall (48) *Vice Chairman, executive director**

Mr. Kim Warren 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. He is a member of the Institute of Directors and a Justice of the Peace.

Mr. Goodall is an Australian national. He has a substantial equity interest in TEMENOS Group AG, as mentioned in section 1.2.

Mr. Goodall was elected in 2001 and re-elected in 2003 for a three-year term of office.

*In October 2003, after almost 10 years with TEMENOS in various executive positions within the Group, Mr. Goodall decided to take retirement from the day-to-day management of the Group.

Andreas Andreades (38) *Chief Executive Officer, executive director*

Mr. Andreas 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 Deputy Chief Executive Officer and of Chief Executive Officer as from 1 July 2003.

Mr. Andreades is a Cypriot national and holds positions on the Board of Directors of a number of operating companies within the Group. Mr. Andreades was elected in 2001 and is due for re-election at the forthcoming Annual General Meeting of Shareholders.

Chris Pavlou (59) *Non-executive and independent director*
Mr. Chris 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 was 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. He is London and Cyprus educated.
Mr. Pavlou is a British national and does not hold share options in the Group.

Mr. Pavlou has never held a management position in the Group and has no business connections with the Group.

Mr. Pavlou was elected in 2001 and re-elected in 2002 for a three-year term of office.

Mr. Pavlou is also a member of the Audit and Compensation Committees.

Ioannis Protopapadakis (38) *Non-executive director*
Mr. Ioannis Protopapadakis has 15 years experience in the investment business as a stock broker and fund manager. He is Investment Manager at Global Finance SA (Greece), a major shareholder in the Company. Prior to joining Global Finance four years ago, Mr. Protopapadakis spent most of his career with the investment arm of The Prudential Insurance Company of America, as well as ING Barings. As a research analyst he has consistently been ranked number one in his areas of focus. Mr. Protopapadakis is a graduate of Oxford University.

Mr. Protopapadakis is a Greek national and does not hold share options in the Group.

Mr. Protopapadakis has never held a management position in the Group and has no important business connections with the Group.

Mr. Protopapadakis was elected in 2003 for a period of one year, as replacement for Mr. Angelos N. Plakopitas.

Paul Selway-Swift (60) *Non-executive and independent director*
Mr. Paul Selway-Swift has many years experience in the financial services industry with the HSBC Group where he held senior management positions in both Hong Kong and London. He is currently Non-Executive Chairman of Singer & Friedlander Group PLC, an independent financial services group; a non-executive director of SVB Holdings PLC, a specialist insurance group; he is also a non-executive director of Alba PLC, a consumer electronics group. All of these are quoted on The London Stock Exchange. He is Chairman of The Atlantis China Fund and a director of Li and Fung Ltd which is quoted on The Hong Kong Stock Exchange.

He was educated in England and subsequently attended Massachusetts Institute of Technology Program for Senior Executives.

Mr. Selway-Swift is a British national. He holds a small number of shares but does not hold share options in the Group; he has never held a management position in the Group nor does he have any other business connections with the Group.

He is a member of the Audit and Compensation Committees. He was first elected in 2001 and re-elected in 2003 for a three-year term.

Lewis Polk Rutherfurd (60)
Non-executive and independent director
Mr. Lewis Polk 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. Rutherfurd is an American national and does not hold share options in the Group.

Mr. Rutherfurd has never held a management position in the Group and has no business connections with the Group.

Mr. Rutherfurd was elected in 2001 and re-elected in 2003 for a three-year term of office.

Mr. Rutherfurd is also a member of the Audit Committee.

b) Change during 2003

As Global Technology Group (South Africa) is no longer a shareholder in the Company, Mr. Raymond Leonard resigned from his position of non-executive director on 23 June 2003.

3.2 Other activities and vested interests

Please refer to the information provided in section 3.1.

3.3 Cross-involvement

There are no cross involvements among the members of the Board of Directors and boards of other listed companies.

3.4 Elections and term of office

3.4.1 Principles of the election procedure and terms limits

The members of the Board of Directors are elected by the General Meeting of Shareholders for a term of office of three years, whereby one year shall be understood to be the period from one ordinary General Meeting of Shareholders to the next ordinary General Meeting of Shareholders. Upon the expiration of their terms of office the members may be re-elected immediately without limitation. Moreover, the Board of Directors shall organise the election of its members in such a way as to ensure that at each ordinary General Meeting of Shareholders approximately one-third of the members shall complete their term of office at any one ordinary General Meeting of Shareholders. Members newly appointed during a term of office shall complete the term of office of their predecessor.

3.4.2 First election and remaining term of office of each director

Please refer to the information provided in section 3.1.

3.5 Internal organisational structure

3.5.1 Allocation of tasks within the Board of Directors

The Board of Directors, together with its Audit and Compensation Committees, exercises inalienable and non-transferable functions as provided by the law (art. 716 CO) and by the Articles of Association. 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.

Seven members currently compose the Group's Board of Directors, five being non-executive.

The Board meets at least four times a year, but as often as business matters require.

Based on Article 17 of the Articles of Association of TEMENOS Group AG and on Article 3.5 of the Organisation By-Laws of the Company, the Board of Directors has delegated the entire operational management of the Company to the Chief Executive Officer, except where the law, the Articles of Association, the Organisation By-Laws or the present Regulations provide differently.

Please refer to section 3.1 for complementary information.

3.5.2 Composition, tasks and areas of responsibility for each Committee

The Audit and Compensation Committees are governed by terms of reference defining their purpose, obligations and compositions. As mentioned in section 3.1, these Committees comprise non-executive and independent directors. These committees report regularly to the Board of Directors.

Audit Committee

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 internal and/or external auditors.

The external and internal auditors are systematically invited to the Audit Committee meetings.

Compensation Committee

The Compensation Committee reviews, at least once a year, the compensation payable to the executive directors and to the members of the Executive Board and seeks to confirm that such compensation is in line with market norms.

The Group's policy, endorsed by the Compensation Committee, is to provide appropriate remuneration "packages", including share options, to attract and retain executives of the highest calibre. The Compensation Committee reviews the performance of the executive directors and of the members of the Executive Board, and makes recommendations to the Board, with respect to their annual remuneration, bonus awards and share options.





These recommendations are formulated by reference to individual performance – achievement of targets – and expertise as well as 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 2003, have shown that, overall, our employee-compensation practices are in line with market norms.

3.5.3 Work methods of the Board of Directors and its Committees

In 2003, the following meetings were held:

Board of Directors	4
Audit Committee	5
Compensation Committee	2

The average attendance at the meetings of the Board of Directors was 86%. Each Board meeting lasted between 3 and 4 hours.

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.

At the meetings of the Board and of its Committees, those members of the Executive Board who have relevant information and expertise required for the respective body to perform its duties are normally present. Such persons do not take part in any resolutions.

During each Board of Directors meeting, an updated and exhaustive business report is systematically prepared and presented by the Chief Executive Officer. Together with the Financial Report, prepared and presented by the Chief Financial Officer, this information enables the Board members to assess the course of the Company's business activities on a highly current basis.

3.6 Definition of areas of responsibility

The Board of Directors has delegated the entire operational management and conduct of business operations to the Chief Executive Officer, who chairs the Executive Board. With the active participation and guidance of the Company's Chairman, the Executive Board is responsible for managing, coordinating and executing the Company's business operations.

The members of the Executive Board are appointed by the CEO.

As mentioned in section 1.1.3, the Executive Board may delegate some of its responsibilities to the Management Board and/or Development Board.

3.7 Information and control instruments

The Board of Directors is 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.

A qualified Internal Auditor has been appointed, who reports directly to the Chief Executive Officer of the Group, and ultimately to the Board of Directors. Furthermore, the Internal Auditor has direct access to the Audit Committee.

A key control procedure is the day-to-day supervision of the business by the executive directors and members of the Executive Board. In discharging this duty, the above-mentioned persons travel extensively and they regularly visit all the operating entities within the Group.

Financial results are monitored by the Board of Directors 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 to deal with necessary improvements that come to the attention of Management and the Board. This goal is pursued on an on-going basis, whilst ensuring that equilibrium is maintained between the minimization of risk and of the costs associated with this process.

Executive Board

4.1 Members of the Executive Board

Andreas Andreades, *Chief Executive Officer*
Please refer to the information provided in section 3.1.

David Arnott (34) *Chief Financial Officer*
Mr. Arnott has been serving as the Chief Financial Officer of the 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. Arnott holds a BS from the University of Southampton and is a U.K. chartered accountant. Mr. Arnott is a British national.

Max Chuard (30) *Corporate Finance & Investor Relations Director*
Mr. Chuard joined TEMENOS in 2002, initially responsible for acquisitions and special projects; he then assumed responsibilities for the Corporate Finance and Investor Relations division of the Group. Prior to joining TEMENOS, Mr. Chuard spent five years in investment banking, first at JP Morgan and then at SWICORP, a Swiss merchant bank. Mr. Chuard graduated from HEC Lausanne in Switzerland with a degree in business administration, and a major in corporate finance. Mr. Chuard is a Swiss national.

Malou Ducomble (48) *Client Services Director*
Ms. Ducomble holds a business degree and a Financial Management diploma from New York University. Prior to joining TEMENOS in 1995, she held a number of operating and managerial positions in MPCT Solutions Limited (now Aleri Inc.) and Winter Partners. She was an auditor at First Chicago International Corp. (now BankOne), and an IT Manager with Commerzbank New York. Ms. Ducomble has wide ranging experience in project management and multinational accounts relationships. Ms. Ducomble is an American national.

Guylaine Gaudreau (35) *Compensation & Benefits Director*
Mrs. Gaudreau joined the Group as the Worldwide Compensation & Benefits Director in 2002. Prior to joining the Group, she held different positions as consultant and manager for Towers Perrin in Canada, France and Geneva. Mrs. Gaudreau is an actuary, qualified both in Canada (FCIA) and the USA (FSA). Mrs. Gaudreau is a Canadian national.

Jean-Michel Hilsenkopf (40) *Marketing Director*
Mr. Hilsenkopf holds an engineering degree from a French business school and has an MBA (International Marketing) from Geneva University. He started his career as a banking consultant for a large international French bank. Mr. Hilsenkopf joined TEMENOS when it was incorporated in 1993. His expertise and experience in the sales organisation and as regional general manager during the past 10 years at TEMENOS has given him the vision and understanding of the business and market to drive the marketing efforts forward. Mr. Hilsenkopf is a French national.

André Loustau (45) *Chief Technical Officer*
Mr. Loustau has been with TEMENOS and its predecessor companies since 1984, serving in a variety of positions, including those of Development Manager and Chief Technology Officer. Mr. Loustau is a British national.

Marc Vernet (49) *Software Director*
Mr. Vernet started his career in International Banking, having many Project roles in various countries, before moving into Systems selection work as a Principal Consultant. Mr.Vernet joined TEMENOS in 1994 and spent several years in managing Client Services, before moving into the product organisation, where he has concentrated on scaling the capacity and building Product capabilities in both TEMENOS T24 and TEMENOS CoreBanking

systems. Mr Vernet holds both Swiss and British nationality.

4.2 Other activities and vested interests

Not applicable to the Executive Board members.

4.3 Management contracts

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

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

Compensations, shareholdings and loans

For the purpose of this report, Mr. Goodall is considered as executive member of the Board of Directors.

5.1 Content and method of determining the compensations

Please refer to section 3.5.2

5.2 Compensation for acting members of governing bodies

The total compensations granted to members of the Board of Directors and members of the Executive Board amounted to US$ 3,872,000. Out of this total, US$ 3,772,000 was paid to executive members of the Board of Directors and members of the Executive Board, and US$ 100,000 to the two non-executive directors who are not associated with companies that hold shares in the Company. 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. No severance payments were made to persons whose duties on the governing bodies had come to an end during the financial year 2003.

5.3 Compensation for former members of governing bodies

No compensation was paid to any former member of a governing body of TEMENOS.

5.4 Share allocation

There was no allotment of shares to executive and non-executive members of the Board of Directors in 2003 or to members of the Executive Board, or parties closely linked to such persons.

5.5 Share ownership

- Number of shares held on 31 December 2003 by executive members of the Board: 21,783,825.
- As of 31 December 2003, no shares were held by members of the Executive Board.
- Number of shares held on 31 December 2003 by non-executive members of the Board: 6,118,208.

5.6 Options

- Options held on 31 December 2003 by executive members of the Board of Directors and by members of the Executive Board.

Grant Year	Options outstanding
1997	175,000
1998	0
1999	17,000
2000	124,000
2001	12,300
2002	26,500
2003	922,500

Total	
Number of options	1,277,300
Lowest exercise price	US$ 0.015
Highest exercise price	US$ 15
Earliest exercise date	30 September 2000
Latest exercise date	1 October 2013

- The Company did not allocate stock options or other kinds of options to non-executive members of the Board of Directors.
- Each option entitles the holder to purchase one registered share of the Company (Subscription ratio 1:1).
- Options have vesting periods of 3 to 5 years and exercise periods from 5 to 7 years.

Please also refer to note 15 of the consolidated financial statements.

5.7 Additional fees and remunerations

Nothing to report.

5.8 Loans granted to members of governing bodies

As at 31 December 2003, the Company has provided loans of a total of US$ 202,736 to three members of the Executive Board.

5.9 Highest total compensation

Total compensation of the highest paid member of the Board of Directors, Chairman George Koukis, amounted to US$ 765,000 in 2003.

Shareholders' participation

6.1 Voting-rights and representation restrictions

There are no voting-right restrictions and no statutory group clauses. Each registered share entitles the holder to one vote at the shareholders' meetings of the Company. At such meetings, shareholders may attend in person or by written proxy. Shareholders who do not attend in person may either appoint a representative by a written proxy, their custodian bank, the Company or the independent proxy holder.

6.2 Statutory quorums

There are no statutory quorums. The General Meeting of Shareholders shall pass its resolutions and carry out its elections by a simple majority of the votes validly cast, subject to the compulsory exceptions provided by law.

6.3 Convocation of the general meeting of shareholders

In compliance with the Swiss Code of Obligations, the General Meeting of Shareholders is convened by publication of the invitation and the agenda, at least twenty days before the date of the meeting, in the Swiss Official Gazette of Commerce *(Schweizerische Handelsamtsblatt)*. Shareholders representing at least 10% of the share capital may convene an Extraordinary General Meeting.

6.4 Agenda

One or more shareholders representing shares of an aggregate nominal value of at least CHF 1 million may, up to 45 days before the date of the General Meeting, request an item to be included on the agenda. Such request must be in writing and shall specify the items and the proposals of these shareholders.

6.5 Inscriptions into the share register

Pursuant to Article 13 of the Company's Articles of Association, shareholders entered in the share register as shareholders on a specific qualifying date designated by the Board of Directors shall be entitled to attend and vote at the General Meeting. As a rule, all shareholders recorded in the share register at the time the invitation is published, i.e. approximately 20 days before the date of the meeting, are entitled to vote.

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 false information. To date, none of the registration requests have been denied by the Board of Directors.

The Third Annual General Meeting of Shareholders of the Company will be held in Zurich on 25 June 2004.

Changes of control and defence measures

7.1 Duty to make an offer

None, other than applicable provisions of the Federal Act on Stock Markets and Securities Trading.

7.2 Clauses on change of control

There are no clauses on changes of control.

Auditors

8.1 Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers SA were newly elected as statutory and group auditors at the Annual General Meeting of 27 June 2003, for a period of one year.

Michael Foley took up office as lead auditor for the Group audit engagement.

8.2 Auditing fees

Included in general and administrative expenses is an amount of US$ 538,000 representing audit fees charged to the Group by PricewaterhouseCoopers
(these fees are inclusive of the statutory audit fees).

8.3 Additional fees

In addition, other fees of approximately US$ 210,000 have been incurred through the provision of tax advisory and other professional services by PricewaterhouseCoopers.

8.4 Supervisory and control instruments vis-à-vis the auditors

The Audit Committee is responsible for monitoring the performance of external auditors, checking their independence, reviewing their findings, including major issues that arose during the course of the audit and reviewing the auditors' quality control procedures and steps taken by the auditors to respond to changes in regulatory and other requirements.

Information policy

TEMENOS encourages a two-way communication with both institutional and private investors and endeavors to respond promptly to queries.

TEMENOS publishes its annual report as at 31 December and interim consolidated financial statements as at 30 June. It also publishes quarterly financial information. All this information and additional company-specific information are available at www.temenos.com.

For more information, please contact Max Chuard, Corporate Finance & Investor Relations Director at mchuard@temenos.com.

TEMENOS GROUP AG

Financial Statements

31 December 2003

And Independent Auditors' Reports thereon

PRICEWATERHOUSECOOPERS

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REPORT OF THE GROUP AUDITORS TO THE GENERAL MEETING

OF TEMENOS GROUP AG, GLARUS

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes) on pages 25 to 51 of TEMENOS Group AG for the year ended December 31, 2003.

These consolidated financial statements are the responsibility of the board of directors. 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. The consolidated financial statements of the Company as of December 31, 2002, prior to the restatements in the reconciliation to accounting principles generally accepted in the United States described in Note 27, were audited by another auditor whose report dated March 10, 2003 expressed an unqualified opinion on those consolidated statements.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing issued by the International Federation of Accountants (IFAC), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and 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 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

International Financial Reporting Standards (IFRS) vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of consolidated net income (loss) for each of the two years in the period ended December 31, 2003 and the determination of consolidated shareholder's equity at December 31, 2003 and 2002 to the extent summarized in the supplemental information disclosed in Note 27 to the consolidated financial statements.

PricewaterhouseCoopers SA

M. Foley **T. Randolph**

Geneva, 4 March 2004

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated income statement
for the year ended 31 December 2003

	2003	2002
Revenues		
Software licensing	**59,741**	*36,591*
Maintenance	**32,227**	*28,000*
Services	**54,223**	*48,747*
Total revenues (note 16)	**146,191**	*113,338*
Operating costs and expenses		
Cost of licences	**6,694**	*3,201*
Services	**48,830**	*53,175*
Software development and maintenance	**30,113**	*34,905*
Sales and marketing	**23,458**	*42,931*
General and administrative	**24,679**	*22,328*
Amortisation of goodwill *(note 19)*	**1,695**	*1,209*
Total operating costs and expenses	**135,469**	*157,749*
Operating profit (loss)	**10,722**	*(44,411)*
Other income (expenses)		
Interest expense	**(583)**	*(1,076)*
Interest income	**306**	*729*
Income from financial instruments *(note 20)*	**892**	*–*
Financial instrument related expenses *(note 20)*	**(449)**	*(770)*
Foreign exchange gains – net	**1,800**	*945*
Impairment of investment *(note 21)*	**–**	*(2,500)*
Total other income (expenses)	**1,966**	*(2,672)*
Profit (loss) before taxation	**12,688**	*(47,083)*
Taxation *(note 10)*	**(1,763)**	*(2,404)*
Profit (loss) for the year after taxation	**10,925**	*(49,487)*
Minority interest	**(38)**	*–*
Net profit (loss) for the year	**10,887**	*(49,487)*
Earnings (losses) per Share (in US$) *(note 23)*:		
basic	**0.20**	*(0.95)*
diluted	**0.19**	*(0.95)*

The attached notes form part of these consolidated financial statements.

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated balance sheet

as at 31 December 2003

	2003	2002
Assets		
Current assets		
Cash and cash equivalents *(note 5)*	**31,736**	*23,993*
Accounts receivable *(note 6)*	**39,669**	*20,474*
Accrued revenues	**30,990**	*20,315*
Prepayments and other assets	**5,819**	*4,649*
Total current assets	**108,214**	*69,431*
Non-current assets		
Tangible fixed assets *(note 7)*	**9,189**	*11,473*
Intangible assets *(note 8)*	**12,830**	*21,122*
Capitalised development costs *(note 9)*	**8,639**	*8,248*
Guarantees and restricted bank deposits *(note 11)*	**11,403**	*12,111*
Deferred tax asset *(note 10)*	**1,515**	*–*
Total non-current assets	**43,576**	*52,954*
Total assets	**151,790**	*122,385*
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	**16,937**	*17,574*
Accrued expenses	**14,539**	*7,188*
Deferred revenues	**35,897**	*22,208*
Bank loans *(note 11)*	**15,000**	*5,000*
Income taxes payable	**3,066**	*2,507*
Total current liabilities	**85,439**	*54,477*
Non-current liabilities		
Bank loans *(note 11)*	**–**	*15,000*
Liabilities under finance leases *(note 12)*	**156**	*180*
Total liabilities	**85,595**	*69,657*
Minority interest	**38**	*–*
Shareholders' equity		
Share capital *(note 13)*	**155,560**	*154,190*
Treasury shares *(note 13)*	**(33)**	*(5,486)*
Share premium *(note 14)*	**(69,121)**	*(62,829)*
Fair value and other reserves	**3,861**	*1,850*
Retained earnings	**(24,110)**	*(34,997)*
Total shareholders' equity	**66,157**	*52,728*
Total equity and liabilities	**151,790**	*122,385*

The attached notes form part of these consolidated financial statements.

TEMENOS GROUP AG

consolidated statement of cash flows

The amounts are expressed in thousands of US dollars

for the year ended 31 December 2003

	2003	2002
Cash flows from operating activities		
Profit (loss) before taxation	**12,688**	*(47,083)*
Adjustments:		
Depreciation and amortisation *(note 19)*	**14,473**	*12,801*
Losses (gains) on disposal of assets	**183**	*(279)*
Cost of employee share option scheme *(note 15)*	**(79)**	*565*
Interest expense – net	**277**	*347*
Income from financial instruments *(note 20)*	**(892)**	*–*
Financial instrument related expenses *(note 20)*	**449**	*770*
Impairment of investment *(note 21)*	**–**	*2,500*
Changes in net working capital		
(Increase) decrease in receivables, accrued revenues and prepayments	**(30,789)**	*15,058*
Increase in accounts payable and accrued expenses	**8,587**	*4,878*
Increase in deferred revenues	**12,940**	*6,410*
Cash generated from (used in) operations	**17,837**	*(4,033)*
Income taxes paid	**(1,415)**	*(769)*
Net cash generated from (used in) operating activities	**16,422**	*(4,802)*
Cash flows from investing activities		
Purchase of tangible fixed assets	**(758)**	*(4,187)*
Disposal of tangible fixed assets *(note 7)*	**435**	*–*
Purchase of intangible assets	**(1,227)**	*(4,937)*
Disposal of intangible assets *(note 8)*	**433**	*–*
Capitalised development costs *(note 9)*	**(2,897)**	*(4,440)*
Acquisitions *(note 4)*	**(2,050)**	*(2,500)*
Allocation of cash to minority interest	**–**	*(1,004)*
Interest received	**306**	*729*
Net cash used in investing activities	**(5,758)**	*(16,339)*
Cash flows from financing activities		
Proceeds of issuance of shares, net of related expenses	**630**	*219*
Repayment of bank loans	**–**	*(9,774)*
Repayment of short-term borrowings	**(5,000)**	*–*
Restricted cash deposited with a banking institution	**–**	*(10,000)*
Interest payments	**(580)**	*(1,076)*
Proceeds from financial instruments	**913**	*–*
Payment of financial instrument related expenses	**(366)**	*(80)*
Payment of finance lease liabilities	**(96)**	*(170)*
Net cash used in financing activities	**(4,499)**	*(20,881)*
Effect of exchange rate changes	**1,578**	*756*
Increase (decrease) in cash and cash equivalents in the year	**7,743**	*(41,266)*
Cash and cash equivalents at the beginning of the year	**23,993**	*65,259*
Cash and cash equivalents at the end of the year	**31,736**	*23,993*

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated statement of changes in shareholders' equity

for the year ended 31 December 2003

	Share capital (note 13)	Treasury shares (note 13)	Share premium (note 14)	Fair value and other reserves	Retained earnings	Total
Balance at 31 December 2001	**146,714**	**–**	**(62,578)**	**(1,029)**	**14,490**	**97,597**
Loss for the year	–	–	–		(49,487)	**(49,487)**
Cost of employee share option scheme *(note 15)*	–	–	565	–	–	**565**
Issuance of treasury shares *(note 13)*	6,424	(6,424)	–	–	–	–
Exercise of share options *(note 15)*	–	938	(880)	–	–	**58**
Shares issued in relation to acquisitions	1,052	–	64	–	–	**1,116**
Cumulative translation adjustment	–	–	–	2,879	–	**2,879**
Balance at 31 December 2002	**154,190**	**(5,486)**	**(62,829)**	**1,850**	**(34,997)**	**52,728**
Profit for the year	–	–	–	–	10,887	**10,887**
Cost of employee share option scheme *(note 15)*	–	–	(79)	–	–	**(79)**
Exercise of share options *(note 15)*	1,337	5,453	(6,072)	–	–	**718**
Shares issued in relation to acquisitions	33	–	(28)	–	–	**5**
Share issuance costs	–	–	(113)	–	–	**(113)**
Cumulative translation adjustment	–	–	–	614	–	
Net fair value gain on cash flow hedge, net of tax *(note 20)*	–	–	–	1,397	–	
Net gains not recognised in the income statement				2,011		**2,011**
Balance at 31 December 2003	**155,560**	**(33)**	**(69,121)**	**3,861**	**(24,110)**	**66,157**

The attached notes form part of these consolidated financial statements.

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). Since 26 June 2001 the shares of TEMENOS Group AG have been publicly traded on the SWX Swiss Exchange. On incorporation, TEMENOS Group AG succeeded TEMENOS Holdings NV in the role of the ultimate holding company of the Group.

The Company and its subsidiaries (the “TEMENOS GROUP” or “the Group”) are engaged in the development and marketing of integrated banking software systems. The Group is also involved in supporting the implementation of the systems at various client locations around the world as well as in offering help desk support services to existing users of TEMENOS software systems. The client base consists of mostly banking and other financial services institutions.

2. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial instruments.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Certain prior year items have been reclassified to conform with current year presentation. The presentation of the income statement has changed as a result of the Group now separately identifying "maintenance" revenues within “total revenues”, and “cost of licences” within “operating costs and expenses”. The presentation of the cash flow statement has changed from the direct method to the indirect method, and in addition the disclosure contained within the consolidated statement of changes in shareholders’ equity has been amended.

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 as supplementary information.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of TEMENOS Group AG as well as its subsidiaries. Subsidiaries are those entities in which the Group has an interest of more than 50% of the voting rights or otherwise has power to govern the financial and operating policies. All assets and liabilities as well as expenses and earnings of the Group companies are included effective from the date of acquisition. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless they cannot be recovered. The Group accounts for acquisitions using the purchase method.

Investments in associates are accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights or over which the Group has significant influence, but which it does not control. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

The Group’s interest in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures’ individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group’s financial statements.

(c) Foreign currency

The consolidated financial statements are presented in US dollars because the dollar is the currency of reference in terms of market pricing, and the majority of the Group’s sales transactions and net assets are denominated in US dollars.

All Group companies report based on the currency that best reflects the economic substance of its underlying events and circumstances relevant to that entity (its measurement currency).

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 consolidation) are translated, on a monthly basis, at the average exchange rates of each monthly period. The resulting translation gains or losses are taken directly to shareholders’ equity as cumulative translation adjustments and are included within “fair value and other reserves”.

Foreign currency transactions are translated into the measurement 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, except when deferred in equity as cash flow hedges. Gains or losses resulting from long term intragroup balances for which settlement is neither planned nor likely to occur in the foreseeable future are taken directly to shareholders' equity as cumulative translation adjustments and are included within "fair value and other reserves".

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the Group, which are already expressed in the reporting currency.

(d) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks or maturing within 90 days.

(e) Accounts receivable

Accounts receivable are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows discounted at the market rate of interest for similar borrowers.

(f) Tangible fixed assets

Tangible fixed assets are stated at historical 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.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(g) Intangible assets

Intangible 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; purchased copyrights relating to software; and 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.

(h) Impairment of long lived assets

At each balance sheet date the Group assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of the respective assets is fully recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(i) Capitalisation of development costs

The Group follows a policy of investing a substantial part of its revenues in research and development work, which is directed towards the enhancement of its two primary product platforms, TEMENOS T24 and TEMENOS CoreBanking, for the enhancement of revenues in future years.

The costs associated with the development of new or substantially improved products or modules are capitalised when a project has achieved the stage of technical feasibility, the likelihood of success is probable, costs can be reliably measured and a future revenue stream can be justified. In contrast, the cost of the enhancements effected to TEMENOS T24 or TEMENOS 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.

The capitalised development costs are amortised, using the straight-line method, over a three-year period commencing one month after the product is available for distribution.

(j) Taxation

Current taxation is provided based on the taxable income reported for fiscal purposes in the various tax jurisdictions in which the Group operates. The nominal and effective tax rates applicable vary substantially between jurisdictions.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries, as such amounts are considered to be permanently reinvested.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group incurs withholding tax in various jurisdictions. An assessment is made of the ability to recover these withholding taxes against the normal tax liabilities occurring within the Group, and a provision is made to the extent that withholding tax is considered irrecoverable.

(k) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included as liabilities in the balance sheet. The interest elements of the lease obligations are charged to the profit and loss account over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Fixed assets held under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(m) Employee share options

For share options granted with exercise prices below the market value at the date of grant, the cost is quantified as being the difference between the exercise price and the market price. This cost is charged to personnel costs over the period during which these options vest, with a corresponding credit made to “share premium”. Options are exercisable beginning three or five years from the date of grant and expire after ten years. When the options are exercised the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium. In the event that options are cancelled before they are exercised, the cumulative cost is reversed in the period in which the option is cancelled.

(n) Revenue recognition

The Group derives revenues from three primary sources: (1) software licences and the provision of software development services specifically commissioned by clients, which are collectively reflected in the income statement as “software licensing”; (2) software maintenance (help desk services and rights to future product enhancements), which is shown as “maintenance”; and (3) software implementation and support services, which are shown as “services”.

While the Group’s required basis for revenue recognition is defined under IAS 18 “Revenue”, the Group applies the requirements outlined in Statement of Position 97-2, “Software Revenue Recognition” (SOP 97-2), issued by the American Institute of Certified Public Accountants, as amended by SOP 98-9, “Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions”. This US accounting standard offers more detailed guidance for companies in the software industry and corresponds to the general requirements outlined in IAS 18.

The Group recognises revenues when the following conditions exist: (1) there is persuasive evidence that an arrangement exists; (2) delivery of the software or services has occurred; (3) customer payment is deemed fixed or determinable; and (4) collection is probable. Revenue from contracts that include acceptance conditions is only recognised when the conditions have been met, except if the conditions imposed can be met with reasonable certainty.

Software licensing
Software licence revenues represent all fees earned from granting customers licences to use our banking applications software, either through an initial licence or through the purchase of additional modules or user rights, but excludes any amounts that are related to maintenance. For software licence arrangements that do not require significant modification or customisation of the underlying software, revenue is recognised when the base criteria have been met.

If the software licence arrangement requires significant modification or customisation of the underlying software, the initial software licence revenue is generally recognised together with the services based on percentage-of-completion as defined in IAS 11, "Construction Contracts", and as explained in the description of services below.

Software development services represent fees charged to clients for developing requested additional functionality and is recognised on a percentage-of-completion basis.

Maintenance
Optional software maintenance is included in most software licence arrangements and is generally priced as a percentage of the initial software licence fees. Maintenance provides customers with rights to unspecified software product upgrades and maintenance enhancements during the term of the support period and is recognised ratably on a straight-line basis over the term of the arrangement.

Services
Software implementation and support services represents income from consulting and implementation services sold separately under services contracts. Service contracts are accounted for on a percentage-of-completion basis in accordance with the rules applicable to long-term contract revenue recognition as defined in IAS 11, "Construction Contracts", whereby revenue and profit recognised during the year is based on estimated total projected contract costs. These estimates are continually re-evaluated and revised, when necessary, throughout the life of the contract. Any adjustments to revenue and profit due to changes in estimates are accounted for in the period in which the change in estimates occurs. When estimates indicate that a loss will be incurred on a contract upon completion, a provision for the expected loss is recorded in the period in which the loss becomes evident.

Multiple element arrangements
In many cases, the Group enters into transactions with customers that include both software licence and services revenues. The revenues from these arrangements are generally accounted for separately in accordance with SOP 97-2. The factors considered in determining whether the revenue should be accounted for separately include the nature of the services (i.e. whether they are essential to the functionality of the software licence), availability of services from other vendors, timing of payments and acceptance criteria on the realisability of the software licence fee.

For arrangements with multiple elements, revenue is allocated to each element of a transaction based upon its fair value as determined by vendor specific objective evidence. Vendor specific objective evidence of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately. Revenue is deferred for any undelivered elements, and recognised when the product is delivered or over the period in which the service is performed. To the extent that the initial licensing fee incorporates the provision of unspecified upgrades and help desk support services for an agreed period, the value of these services is recognised ratably over the period.

If fair value cannot be objectively determined for any undelivered element included in bundled software and service arrangements, revenue is deferred until all elements are delivered and services have been performed. When the fair value of a delivered element has not been established, the Group uses the residual method to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognised as revenue.

Payment terms
Payment terms vary according to the individual contracts and may include extended or upfront payments. Management reviews the nature of all extended payment terms to assess whether the fee is considered fixed or determinable.

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".

(o) Cost of licence and services

The direct costs associated with sales contracts, such as sales commissions and third-party licensing costs, are expensed as a "cost of licence" on an accrual basis in accordance with the obligations of the agreement. Service costs are recognised as incurred and primarily represent payroll costs for implementation support consultants and fees paid to third party consultants. Payments received in respect of out of pocket expenses are netted against the associated cost.

(p) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

(q) Pensions

The Group maintains defined contribution plans for its employees around the world under which the relevant contributions are expensed as they accrue. Once the contributions have been paid, the Group has no further payment obligations.

In addition, employees of certain of the Group's subsidiaries participate in funded contributory defined benefit pension plans. The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for actuarial gains/losses and past service cost. The defined benefit obligation is calculated annually by actuaries using the projected unit credit method. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to income over the average remaining service lives of the related employees.

(r) Financial instruments and financial risk management

The Group's main financial instruments are cash, short-term receivables and payables, currency hedging instruments, debt and certain other forms of financing, such as finance leases. Currency hedging instruments are carried at fair value. Management believes that the carrying amounts of other 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.

Credit risk
Concentration of credit risk is principally associated with accounts receivable and accrued (unbilled) revenue generated by licensees. The licensee base is not large and receivables are limited to fewer than one hundred 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 security guarantees 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.

Foreign exchange risk
As a result of the diverse nature of the business, foreign currency exchange rate fluctuations affect the Group significantly. A significant portion of our revenue and cash in-flows are in US dollars, whereas a large part of the cost base is in Europe. To mitigate this mismatch more focus is being made to migrate the revenue stream to currencies that match the cost base and through the use of derivative financial instruments such as foreign exchange contracts. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units and operates under written guidelines approved by the Board.

Accounting for derivative, financial instruments and hedging contracts
The Group enters into forward foreign currency exchange contracts and options for hedging a portion of the Group's payroll costs. Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at each balance sheet date to their fair value. Changes in the fair value of financial instruments that qualify as cash flow hedges and that are highly effective are recorded in the associated income statement line when the expense is incurred. Changes in the fair value of derivatives that are designated and qualify as hedges but for which the cost has not yet been incurred are recognised in equity in the line "net fair value gain on cash flow hedge".

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify as hedges under IAS 39, "Financial instruments: Recognition and Measurement". Changes in the fair value of these derivatives are recognised immediately in the income statement in the line "income from financial instruments" and disclosed separately.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The estimated fair value of the derivatives entered into by the Group are provided by an independent third party.

Interest rate risk
The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets or liabilities other than restricted cash and loans.

Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securitites, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

(s) Earnings per share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding during the period. The weighted average shares used to compute diluted earnings per share include the incremental shares of common stock relating to outstanding options to the extent such incremental shares are dilutive.

The amounts are expressed in thousands of US dollars

3. Principal group companies

Company Name	Country of Incorporation	Ownership Interest
TEMENOS Headquarters SA	Switzerland	100%
TEMENOS Suisse SA	Switzerland	100%
TEMENOS Luxembourg SA	Luxembourg	100%
Integrated Core Technologies Participations 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 Hispania SA	Spain	100%
TEMENOS UK 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 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 (Malaysia) Sdn Bhd	Malaysia	100%
TEMENOS Philippines, Inc.	Philippines	100%
TEMENOS Mexico SA de CV	Mexico	100%
TEMENOS Ecuador SA	Ecuador	100%
TEMENOS Korea Limited	Korea	100%
TEMENOS Australia Pty Limited	Australia	100%
TEMENOS Africa Pty Limited	South Africa	100%
TEMENOS Holdings NV	Netherlands Antilles	100%
TEMENOS Eastern Europe Limited*	Cyprus	51%
TEMENOS Polska Sp. Zoo	Poland	51%
TEMENOS Romania SA	Romania	26.3%
TEMENOS Egypt SAE	Egypt	25.8%

In addition to the group companies listed above, TEMENOS GROUP subsidiaries maintain branches or offices at the following locations: Beirut (Lebanon); Dubai (United Arab Emirates); Moscow (Russia); Tokyo (Japan) and Beijing (China).

(*) TEMENOS Eastern Europe Limited (TEE) is jointly managed by the TEMENOS GROUP and by persons nominated by the minority shareholder, a TEMENOS 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 of TEE. The price of the shares being transferred shall be determined on the basis of applying the price/earnings ratio of the TEMENOS Group AG shares to the net earnings before taxes of TEE. As TEE had net losses in 2003 this obligation is not considered onerous and no provision has been recorded in repect of this. TEE has been accounted for as a joint venture on the basis that the minority shareholder has the right to appoint half of the members of the board of directors of this company and neither party has the ability to excercise unilateral control.

The amounts are expressed in thousands of US dollars

4. Acquisitions and disposals

There were no acquisitions during the current year. Cash paid during 2003 in respect of acquisitions of US$ 2,050 thousand relates to the purchase of the GLOBUS related business of the PKTech Group during 2002 for US$ 3,500 thousand. The cash paid during 2002 in respect of acquisitions of US$ 2,500 thousand relates to the purchase of a 20% equity investment in a private Italian company.

On 31 March 2003 the Group disposed of its assets in Saraburi, Thailand. The Group acquired these assets as part of the purchase of Alphametrics in April 2001, along with Treasury related intellectual property and staff in the UK. Having replicated the required functionality within TEMENOS' existing product portfolio, and absorbed the UK staff into the TEMENOS UK operations, the intellectual property and the Saraburi assets and operations were sold back to the former owner at their net book value, which equates to fair value. The revenues of the operations disposed in the three months ended 31 March 2003 were US$ 603 thousand, with related costs of US$ 186 thousand.

The elements of the transaction are shown below:

Assets disposed:	
Purchased copyrights	967
Goodwill	333
Tangible fixed assets	104
Receivables	503
	1,907
Consideration:	
Cash received in 2003	1,040
Cash due in 2004	867
	1,907

5. Cash and cash equivalents

The balance in respect of cash and cash equivalents consists of:	**2003**	2002
Cash at bank	28,539	13,991
Short term deposits with banks	3,197	10,002
	31,736	23,993

6. Accounts receivable

	2003	2002
Trade receivables	37,505	22,897
VAT and other taxation recoverable	2,198	2,408
Other receivables	1,806	312
Provision for doubtful debts	(1,840)	(5,143)
	39,669	20,474

The expense for doubtful debts charged to "sales and marketing" is US$ 446 thousand (2002: US$ 11,709 thousand).

7. Tangible fixed assets

Tangible fixed assets consist of:

	Furniture & fixtures	Office equipment	Leasehold improvements	Computer equipment	Motor vehicles	Total
Cost						
At 1 January 2003	4,343	1,582	6,605	7,427	833	20,790
Exchange differences[1]	464	143	817	705	85	2,214
Additions [2]	95	58	36	607	228	1,024
Disposals [2][3]	(391)	(333)	(439)	(1,460)	(286)	(2,909)
31 December 2003	4,511	1,450	7,019	7,279	860	21,119
Depreciation						
At 1 January 2003	1,011	701	2,305	4,954	346	9,317
Exchange differences[1]	117	64	226	471	27	905
Charge for the year[2][4]	444	253	1,186	1,560	162	3,605
Disposals [2][3]	(124)	(165)	(206)	(1,216)	(186)	(1,897)
31 December 2003	1,448	853	3,511	5,769	349	11,930
Net book value						
31 December 2003	3,063	597	3,508	1,510	511	9,189
31 December 2002	3,332	881	4,300	2,473	487	11,473

(1) The amounts 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.

(2) Leased assets included in the table above, where the Group is a lessee, comprise mainly of motor vehicles and some office equipment.

	Cost	Depreciation	Net book value
At 1 January 2003	804	(569)	235
Additions	212	(67)	145
Disposals	(359)	202	(157)
31 December 2003	657	(434)	223

(3) The loss on the disposals charged to the income statement in 2003 amounted to US$ 145 thousand (2002: US$ 617 thousand). Cash proceeds were US$ 435 thousand.

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

	Charge for the year	Currency translation adjustments	Total
Year ended:			
31 December 2003	3,684	(79)	3,605
31 December 2002	3,921	436	4,357

8. Intangible assets

Intangible 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					
At 1 January 2003	6,824	1,264	22,403	2,230	32,721
Exchange differences[1]	–	–	–	188	188
Additions	–	–	–	1,277	1,277
Disposals[2]	(476)	–	(2,270)	(120)	(2,866)
Reclassification/write off	(100)	71	(1,470)	–	(1,499)
31 December 2003	6,248	1,335	18,663	3,575	29,821
Amortisation					
At 1 January 2003	2,139	145	7,881	1,434	11,599
Exchange differences[1]	–	–	–	131	131
Charge for year[3]	1,228	467	5,943	650	8,288
Disposals[2]	(143)	–	(1,303)	(82)	(1,528)
Reclassification/write off	–	(29)	(1,470)	–	(1,499)
31 December 2003	3,224	583	11,051	2,133	16,991
Net book value					
31 December 2003	3,024	752	7,612	1,442	12,830
31 December 2002	4,685	1,119	14,522	796	21,122

(1) The amounts 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.

(2) The loss on disposals charged to the income statement in 2003 was US$ 38 thousand. The cash proceeds for the year were US$ 433 thousand.

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

	Charge for the year	Currency translation adjustments	Total
Year ended:			
31 December 2003	8,283	5	8,288
31 December 2002	7,282	(91)	7,191

The amounts are expressed in thousands of US dollars

9. Capitalised development costs

	Total
Cost	
At 1 January 2003	17,359
Additions	2,897
Deletions	(30)
31 December 2003	20,226
Amortisation	
At 1 January 2003	9,111
Charge for the year	2,506
Deletions	(30)
31 December 2003	11,587
Net book value	
31 December 2003	8,639
31 December 2002	8,248

10. Taxation

Tax expense:

	2003	2002
Domestic current income taxes	191	192
Overseas current income taxes, including non-recoverable withholding tax	2,632	1,385
Total current taxes	2,823	1,577
Deferred income taxes	(1,060)	827
Total tax expense	1,763	2,404

TEMENOS Group AG is incorporated in Switzerland but the Group operates in various countries with differing tax laws and rates. Consequently, the effective tax rate may vary from period to period to reflect the generation of taxable income in tax jurisdictions. A reconciliation between the reported income tax expense and the amount computed using a basic Swiss statutory corporate tax rate of 25%, is as follows:

	2003	2002
Profit (loss) before tax	12,688	(47,083)
Tax at the domestic rate of 25%	3,172	(11,771)
Effects of different tax rates	(2,927)	3,612
Tax holiday	(914)	(440)
Utilisation of tax losses brought forward	(1,274)	(61)
Current year's losses not utilised	4,862	8,318
Changes in valuation allowance	(1,060)	827
Effect of current period adjustment for tax of prior period	(900)	83
Non deductible expenses	708	1,403
Other tax and credits	96	433
Total tax expense	1,763	2,404

The amounts are expressed in thousands of US dollars

Deferred tax assets and liabilities are offset when the deferred income taxes relate to the same fiscal authority. Deferred tax assets and liabilities shown in the consolidated balance sheet are as follows:

	2003	2002
Deferred tax assets	1,515	–
Deferred tax liabilities	–	–
Net deferred tax assets	1,515	–

An assessment of the realisability of deferred tax assets is made on a country by country basis, based on the weight of available evidence including factors such as recent earnings history and expected future taxable income. Deferred tax assets are recognised to the extent that realisation of the related tax benefit through the future taxable profits is probable.

In addition to the deferred tax assets recognised above, the Group has unrecognised deferred tax assets relating to losses carried forward of US$ 19,217 thousand, of which US$ 2,365 thousand will expire in the period from 2004 to 2008 and the remaining amount thereafter. There are no unrecognised deferred tax liabilities.

The movement in deferred tax assets is as follows:

At 1 January 2003	–
Income statement credit	1,060
Foreign exchange movement on deferred tax assets held in local currencies	455
31 December 2003	1,515

11. Bank loans

In February 2003 an arrangement signed with a major international bank provided for the following facility:

A loan of US$ 10 million, attracting interest at a nominal annual rate of LIBOR+2.5%, compounded on a quarterly basis, of which US$ 5 million was outstanding at 31 December 2003. This will be repaid on 30 January 2004 and 13 February 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, which has never been utilised, expires on 29 January 2004.

A revolving overdraft facility of US $5 million, attracting interest at a nominal rate of LIBOR+5%, payable at the end of each utilisation period. This facility, which has never been utilised, expires on 29 January 2004.

A loan of US $10 million which was required to be deposited with the lender as security for the other facilities granted. This was repaid on 30 January 2004. The amount deposited is shown under “Guarantees and restricted deposits” as at 31 December 2003. The spread between the borrowing and the lending rates, resulted in a cost to the Group of 0.875% per annum.

Management 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.

Subsequent to the year end this facility was replaced with a bilateral revolving medium term working capital facility (see note 26).

The security given to the lender for the above facilities is a pledge over the intellectual property rights in the software owned by the Group, including the benefit of present and future royalties arising from these property rights. Under the arrangements entered into, the Group is restricted from becoming further indebted to financial institutions. The facilities granted are subject to various financial covenants.

12. Liabilities under finance leases

	2003	2002
Obligations under finance leases:		
repayable within one year	82	118
repayable between two and five years	157	169
	239	287
Finance charges allocated to future accounting periods	(23)	(32)
	216	255
Included in accounts payable within one year	(60)	(75)
	156	180

13. Share capital

As at 31 December 2003, the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, comprised 54,472,469 common shares of a nominal value of CHF 5 each.

The changes in the number of issued and outstanding shares, in the year ended 31 December 2003, are summarised below:

		Nominal value (in thousands)	
	number	in CHF	in US$
Issued, as at 31 December 2001	51,797,163	258,986	146,714
Shares issued as part of the consideration paid for the acquisition of Quetzal Informatique SA	117,640	588	351
Shares issued as part of the consideration paid for the acquisition of Integrated Core Technologies Participations SA	218,414	1,092	701
Treasury shares issued	2,000,000	10,000	6,424
Issued, as at 31 December 2002	54,133,217	270,666	154,190
Shares issued as part of the consideration paid for the acquisition of Intergrated Core Technologies Participations SA	8,276	41	33
Shares issued on exercise of employee share options	330,976	1,655	1,337
Total number of shares issued, as at 31 December 2003	54,472,469	272,362	155,560
Treasury shares	(8,276)	(41)	(33)
Total number of shares outstanding, as at 31 December 2003	54,464,193	272,321	155,527

As at 31 December 2003 the number of treasury shares held by the Group amounted to 8,276 (2002: 1,708,000). Treasury shares are allotted to members of the TEMENOS Employee Share Option Scheme at the time that they exercise their options.

TEMENOS Group AG also has authorised and conditional capital, comprising:

authorised shares that may be issued in the context of acquisitions (available to the Board until 27 June 2005).	9,569,463
conditional shares that may be issued on the exercise of employee share options.	7,669,024
conditional shares that may be issued in conjunction with financial instruments.	13,680

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

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. As at 31 December 2003, 118,136 of these share options were outstanding (2002: 126,412) of which 43,511 were vested, but not yet exercised, and the remaining options will vest over a period from 1 July 2004 to 1 July 2005.

Based on the vested portion of the total share options which were outstanding, as at 31 December 2003 and 2002, 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 2003	7,912
31 December 2002	10,869

Based on the average market value of the shares of TEMENOS Group AG for each quarter, and the vested portion of the potentially dilutive options as at 31 December 2003, the dilution effect of the latter has been quantified as follows (the number of shares 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 2003	54,464	53,254	5,791	118	3,025
31 December 2002	52,425	52,026	4,957	126	2,394

14. Share premium

The share premium account reflects the premium on issuance of new shares at a price above their par value or negative premium when issued at a discount. The movement in this account, in the year ended 31 December 2003, is reflected in the Consolidated Statement of Changes of Shareholders' Equity. Also included within share premium are the following:

Warranted share subscription reserve
As at 31 December 2003 and 2002 the balance 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. Share premium was credited with the approximate fair value of the options on issuance.

Negative premium arising on creation of TEMENOS Group AG
TEMENOS Group AG was incorporated on 7 June 2001. The issued and outstanding shares of TEMENOS Holdings NV were exchanged, shortly before the initial public offering for TEMENOS Group AG shares, thus rendering TEMENOS Holdings NV a wholly owned subsidiary of TEMENOS Group AG. The number of shares acquired was 40,104,336 which prior to the exchange had a nominal value of US$ 0.001 shares, totalling US$ 39 thousand. The new shares in TEMENOS Group AG were issued at nominal value of CHF 5 which resulted in a negative premium of US$ 113,538 thousand.

Employee share options reserve
As detailed in note 15, the Group operates an employee share options scheme. The cost of the share options granted is charged to personnel costs over the period during which the options vest, with a corresponding credit made to the employee share options reserve.

Discount on shares issued to employees on exercise of share options
Under the terms of the employee share options scheme, the Group issues shares to employees at option prices ranging from US$ 0.005 to US$ 15 per share. To the extent that shares are issued at a value that is different to the nominal value of CHF 5 per share, this difference is allocated to discount on shares issued to employees.

Deficit on cancellation of repurchased shares
A deficit of US$ 62,277 thousand was recorded to share premium on the cancellation of shares repurchased in 2000.

The amounts are expressed in thousands of US dollars

15. Employee share options

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. Following the corporate restructuring of the Group during the year ended 31 December 2001, this authorisation was retained by TEMENOS Holdings NV under an arrangement whereby the share options granted are 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.

The cumulative options granted under this plan as at 31 December 2003 was 8,313,344 shares (as at 31 December 2002: 5,449,001) the option price ranging from US$ 0.005 to US$ 15.00 per share. The vesting period ranges from 3 to 5 years and the options expire ten years after the grant date. The cumulative options exercised under the plan as at 31 December 2003 amounted to 2,522,700 shares (period ended 31 December 2002: 492,000). The cost of the scheme is charged to operations over the vesting period of the option. US$ 79 thousand was credited to operations in respect of this during 2003 (2002: cost of US$ 565 thousand).

A summary of the movements on the stock option plan for the two years ended 31 December, 2003 is set out below:

	2003		2002	
	Number of shares	**Weighted average exercise price**	**Number of shares**	**Weighted average exercise price**
Options outstanding at the beginning of the year	4,957,001	$ 3.50	4,748,489	$ 2.77
Options granted during the year	3,099,800	$ 1.99	682,288	$ 8.80
Options cancelled during the year	(235,456)	$ 7.91	(181,776)	$ 9.62
Options exercised during the year	(2,030,700)	$ 0.38	(292,000)	$ 0.19
Options outstanding at the end of the year	5,790,645	$ 3.61	4,957,001	$ 3.50

As at 31 December 2003, 614,200 (2002: 1,364,300) of these outstanding share options were held by 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. During 2003 executive members of the Board of Directors of the holding company were granted 465,000 options at exercise prices ranging from US$ 0.87 to US$ 1.33 per share (2002: 10,000 options at an exercise price of US$ 10.05 per share).

16. Segmental reporting

Segment information of the TEMENOS Group is based on two segment formats. The first is the two distinct business activities, namely software licensing and services, selected as primary format. The second is the major geographical regions in which the Group operates. The Group's internal organisational structure and internal financial reporting address both segments.

The amounts are expressed in thousands of US dollars

(a) Primary reporting format – business segments

The Group is organised into two main business segments:
Software licensing – comprising of licensing, development and maintenance of the Group's software
Services – comprising of consultancy services related to implementation of the Group's software

	2003			2002		
	Software licensing	**Services**	**Total**	**Software licensing**	**Services**	**Total**
Segment revenues	91,968	54,223	146,191	64,591	48,747	113,338
Segment operating result	55,161	5,393	60,554	26,485	(4,430)	22,055
Unallocated operating costs			(49,832)			(66,466)
Operating profit (loss)			10,722			(44,411)
Other income (expenses)						
Interest expense			(583)			(1,076)
Interest income			306			729
Income from financial instruments			892			–
Financial instrument related expenses			(449)			(770)
Foreign exchange gains - net			1,800			945
Impairment of investment			–			(2,500)
Total other income (expenses)			1,966			(2,672)
Profit (loss) before taxation			12,688			(47,083)
Taxation			(1,763)			(2,404)
Profit (loss) for the year after taxation			10,925			(49,487)
Minority interest			(38)			–
Net profit (loss) for the year			10,887			(49,487)

	2003			2002		
	Software licensing	**Services**	**Total**	**Software licensing**	**Services**	**Total**
Assets						
Segment assets	68,739	14,176	82,915	49,253	16,402	65,655
Unallocated assets			68,875			56,730
Total assets			151,790			122,385
Liabilities						
Segment liabilities	(33,743)	(2,154)	(35,897)	(20,266)	(1,943)	(22,209)
Unallocated liabilities			(49,698)			(47,448)
Total liabilities			(85,595)			(69,657)

The amounts are expressed in thousands of US dollars

Other segment items (not including unallocated items)

	2003			2002		
	Software licensing	**Services**	**Total**	**Software licensing**	**Services**	**Total**
Capital expenditure	2,897	–	2,897	10,337	1,264	11,601
Depreciation and amortisation	9,677	467	10,144	7,675	145	7,820

There are no transactions between the segments. However, revenues for software licensing and services from multi-element contracts are reallocated between the segments based on the fair value of the contract elements as a result of the application of SOP 97-2.

Unallocated operating costs represent sales and marketing expenses, administrative expenses and goodwill amortisation as these are not separately identifiable to either business segment.

Segment assets consist primarily of receivables, accrued revenue and intangible assets. Management do not consider it appropriate to allocate cash, deferred expenses and tangible fixed assets to business segments.

Segment liabilities comprise of deferred revenues. Management do not consider it appropriate to allocate accounts payable, accrued expenses and loans to business segments.

(b) Secondary reporting format - geographical segments

Revenue by region of destination of product or service

	Europe	**Asia**	**Americas**	**Middle East, Gulf and Africa**	**Total**
Year ended 31 December 2003	96,884	20,478	11,321	17,508	146,191
Year ended 31 December 2002	75,114	19,187	11,765	7,272	113,338
Assets					
Segment assets	39,206	11,232	7,560	6,270	64,268
Unallocated assets					87,522
Total assets					151,790

Segment assets consist primarily of receivables and accrued revenue. The majority of intellectual property is considered a corporate asset. Management do not consider it appropriate to allocate cash, deferred expenses and tangible fixed assets by geographical segment.

Capital expenditure, depreciation and amortisation are not allocated to segments.

17. 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 2003 and 2002, by the region in which the employees are permanently based, are set out below (in thousands of US dollars except for staff numbers):

By region where employees are based
Number of persons employed

	average for year **2003**	31 December **2003**	31 December 2002
Europe	525	530	550
Asia	552	557	551
Americas	49	48	45
Middle East, Gulf and Africa	85	89	33
	1,211	1,224	1,179

Personnel costs

	2003	2002
Salary, bonuses and commissions	58,824	62,557
Social charges	5,428	6,996
Pension costs	3,042	3,444
Cost of employee share option scheme	(79)	565
Other personnel costs	2,171	4,252
	69,386	77,814

Included in the personnel costs shown above, are the following amounts in respect of directors' remuneration:

	2003	2002
Executive directors of TEMENOS Group AG	1,207	1,383
Non-executive directors	100	100

18. Pensions

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 2003, amounted to US$ 3.0 million (2001: US$ 3.4 million). Generally, the Group does not maintain, nor is it committed to support, any defined benefit plans for its current or former employees.

TEMENOS Headquarters SA and TEMENOS Suisse SA each have a funded contributory defined benefit pension plan covering their employees. The pertinent details relating to these pension plans are set out below (in thousands of US dollars):

The amounts are expressed in thousands of US dollars

The amounts recognised in the balance sheet at 31 December are as follows:

	2003	2002
Present value of funded obligations	5,587	4,665
Fair value of plan assets	(5,646)	(4,860)
Present value of unfunded obligations	(59)	(195)
Unrecognised actuarial gains (losses)	–	195
Net asset in the balance sheet	(59)	–

Amounts in the balance sheet:		
liabilities	–	–
prepaid asset	(59)	–
Net asset in the balance sheet	(59)	–

The amounts recognised in the income statement as of 31 December are as follows:

	2003	2002
Current service cost	566	819
Interest on obligation	122	163
Expected return on plan assets	(136)	(174)
Total costs included in personnel costs	552	808
Actual return on plan assets	480	(323)

Movements in the net liability recognised in the balance sheet at 31 December are as follows:

	2003	2002
Net liability at beginning of the year	–	–
Net expense recognised in the income statement	552	808
Contributions	(608)	(807)
Benefits paid	–	–
Exchange differences	(3)	(1)
Net asset at end of the year	(59)	–

Principal weighted average actuarial assumptions at the balance sheet date:

	2003	2002
Discount rate at 31 December	3.25%	2.75%
Expected return on plan assets at 31 December	3.25%	2.75%

19. Depreciation and amortisation

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

	Depreciation of tangible fixed assets (note 7)	Amortisation of purchased business-related goodwill (note 8)	Amortisation of purchased personnel-related goodwill (note 8)	Amortisation of other intangible assets (note 8)	Amortisation of capitalised development costs (note 9)	Aggregate amount charged to operations
Year ended:						
31 December 2003	3,684	1,228	467	6,588	2,506	14,473
31 December 2002	3,921	1,064	145	6,073	1,598	12,801

The amortisation charge for purchased goodwill is included on a separate line on the face of the income statement. The amortisation charge for purchased copyrights and capitalised development costs is included in the income statement in the line "software development". The depreciation charge for tangible fixed assets and the amortisation charge for computer software is allocated to the respective operating costs in the income statement based on headcount.

20. Financial instruments

Derivative financial instruments
The Group entered into forward foreign currency exchange contracts and options during the year to hedge a portion of the Group's payroll costs. The profit on contracts that qualified as cash flow hedges under IAS 39 generated profits for the year of US$ 817 thousand. This profit has been offset against operating expenses. The profit on contracts that did not qualify as hedges under IAS 39 has been recorded as "income from financial instruments" and amounts to US$ 892 thousand.

The fair value contracts outstanding at 31 December 2003 are as follows:

	Assets	Liabilities
Forward foreign currency exchange contracts for 2004 (included within prepayments and other assets)	1,397	–
Foreign currency exchange option (included within accrued expenses) (*)	–	22
	1,397	22

The net fair value gain on open forward foreign exchange contracts which hedge anticipated future foreign currency payroll costs will be transferred from reserves to the income statement in the period these costs are incurred on a monthly basis between January and December 2004.

(*) subsequently settled for US$ 20 thousand on 5 January 2004.

Financial instrument related expenses
In February 2003 an arrangement was signed with a major international bank for a loan facility (as described in note 11). Costs relating to the negotiation of these arrangements amounting to US$ 449 thousand have been fully amortised in 2003.

In November 2000, TEMENOS Holdings NV proceeded with the implementation of a capital restructuring scheme. The costs associated with the implementation and subsequent renegotiation of this scheme amounted to US$ 6,015 thousand which were amortised over the term of the loan. There was no associated cost in 2003 (2002: US$ 770 thousand).

21. Impairment of investment

In January 2002, TEMENOS Holdings NV acquired a 20% equity interest and an option to acquire the remaining interest in a private Italian company specialising in serving the financial services industry by providing wealth management software tools. This equity interest was acquired through the injection of new capital into the investee company, amounting to US$ 2.5 million. Due to significant losses incurred in 2002 and the limited visibility of improving conditions, the Group did not exercise its option to purchase the remaining interest. The investment was fully provided for during the financial year ended 31 December 2002.

22. Interest in joint venture

The Group has a 51% interest in a joint venture, TEMENOS Eastern Europe Limited, which acts as a distributor. The following amounts represent the Group's 51% share of the assets and liabilities and sales and results of the joint venture and are included in the consolidated balance sheet and income statement:

	2003	2002
Current assets	10,308	7,469
Non-current assets	246	354
	10,554	7,823
Current liabilities	(8,672)	(5,669)
Non-current liabilities	(38)	(5)
	(8,710)	(5,674)
Net assets	1,844	2,149
Revenues	3,623	3,021
Loss for the year after taxation and dividends	(305)	(473)

There are no contingent liabilities relating to the Group's interest in the joint venture.

The average number of employees in the joint venture in 2003 was 44 (2002: 33).

23. Earnings (losses) per share calculations

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

	2003	2002
Net profit (loss) for the year	10,887	(49,487)
Weighted average of common shares outstanding during the year (in thousands)	53,254	52,026
Equivalent common shares relating to outstanding share options and share warrants (in thousands)	3,025	–
Aggregate number of equivalent common shares for purposes of calculating the diluted earnings per share (in thousands)*	56,279	52,026
Earnings (losses) per share (in US$ per share)		
– basic	0.20	(0.95)
– diluted*	0.19	(0.95)

(*) In the year ended 31 December 2002, the potential common shares relating to outstanding share options and share warrants were 2,394 thousand. These potential common shares were anti-dilutive and have therefore been excluded for the purposes of calculating the diluted losses per share.

The amounts are expressed in thousands of US dollars

24. Commitments and contingencies

The Group has obligations under operating leases relating to office premises and leased equipment. Operating lease expenses relating to office premises for the year ended 31 December 2003 amounted to US$ 8.8 million (2002: US$ 7.8 million) and operating lease expenses relating to leased equipment were US$ 1.7 million (2002: US$ 1.6 million).

As at 31 December 2003, the future minimum lease payments to which the Group was committed under non-cancellable operating leases were as follows:

	Office premises	Equipment	Total
2004	9,517	1,218	10,735
2005	6,889	977	7,866
2006	5,447	333	5,780
2007	4,475	2	4,477
2008	4,000	–	4,000
Thereafter	15,273	–	15,273
Total	45,601	2,530	48,131

The Group is also involved in various lawsuits, claims, investigations and proceedings incidental to the normal conduct of its operations. These matters mainly include the risks associated with personnel litigation, tax claims and contractual disputes. Management believes that these contingencies will not have a material adverse effect on the business, financial condition or results of the Group.

25. Related party transactions and balances

The Group formerly had related party relationships with the Global Technology Group of South Africa and PK Technology Sdn Bhd (a Malaysia based company that is publicly traded in Singapore). The Global Technology Group of South Africa ceased to be a related party from 1st February 2003 when all cross-directorships were removed. PK Technology Sdn Bhd ceased to be a related party during 2002 when the entity was acquired.

During the year ended 31 December 2003 the Group derived revenues of US$ 32 thousand from related parties (2002: US$ 2,894 thousand) and incurred expenses for services rendered of US$ 79 thousand (2002: US$ 1,816 thousand). As at 31 December 2003 there were no amounts due from related parties (2002: US$ 5,530 thousand) and no amounts due to related parties (2002: US$ 2,867 thousand).

Remuneration of executive and non-executive directors is described in note 17. Equity compensation for executive and non-executive directors granted in the form of stock options is described in note 15.

In December 2003, an office building that is leased by TEMENOS Headquarters SA was acquired by one of the directors and major shareholders of TEMENOS Group AG. The annual rent payable in respect of this lease is CHF 540 thousand, and the terms and conditions of the lease agreement conform to standard market practices.

Since December 1999, TEMENOS Suisse SA has leased an office building that is owned by a company which is managed and controlled by two of the major shareholders and directors of TEMENOS Group AG. The annual rent payable in respect of this lease is CHF 360 thousand, and the terms and conditions of the lease agreement conform to standard market practices.

There were no other large or significant transactions with related parties during the year ended 31 December 2003 and all transactions with related parties were carried out at arm's length rates.

The amounts are expressed in thousands of US dollars

26. Post balance sheet events

On 23 Febuary 2004, the group renegotiated existing financing facilities to replace short term debt instruments with medium term working capital facilities.

The remaining instalments due in April 2004 under the existing facility disclosed in note 11 for US$ 5m were repaid on 30 January 2004 and 13 February 2004 and replaced with the following bilateral revolving credit facility:

Facilities available for general working capital needs:
Tranche A: US$ 10 million repayable in full on 28 February 2007, bearing interest at LIBOR/EURIBOR (depending on drawing currency) +2.75%.
Tranche B: US$ 5 million repayable in full on 28 February 2006, bearing interest at LIBOR/EURIBOR (depending on drawing currency) +3.75%.
Tranche C: US$ 5 million repayable in full on 28 February 2005, bearing interest at LIBOR/EURIBOR (depending on drawing currency) +5.5%.

Commitment fees are due at 50% of the margin on Tranches A and B. There are no commitment fees on Tranche C.

Facility available for issuing guarantees (e.g. performance bonds, rent deposits)
Tranche D: US$ 5 million repayable in full on 28 February 2007. No commitment fees are due on this facility. Instead, industry standard guarantee setup fees are applied to any usage of this facility.

The security given to the lender for the above facilities is a pledge over the intellectual property rights in the software owned by the Group, including the benefit of present and future royalties arising from these property rights. Under the arrangements entered into, the Group is restricted from becoming further indebted to financial institutions. The facilities granted are subject to various financial covenants, which are based on conservative projections of the Group's results.

27. Reconciliation of consolidated net profit (loss) and consolidated shareholders' equity from International Financial Reporting Standards to 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). A description of the material differences for consolidated net profit (loss) and consolidated shareholders' equity are shown in the following tables:

Net profit (loss)	**2003**	Restated 2002
Net profit (loss) for the year per IFRS, as reported	10,887	(49,487)
Capitalised development costs [(1)]	(391)	(3,333)
Amortisation of goodwill less impairment charges [(2)]	1,227	1,209
Foreign exchange gains on intercompany balances [(3)]	(1,054)	–
Net profit (loss) for the year per US GAAP, as adjusted	10,669	(51,611)
Shareholders' equity		
Shareholders' equity per IFRS, as reported	66,157	52,728
Capitalised development costs [(1)]	(8,639)	(8,248)
Amortisation of goodwill less impairment charges [(2)]	2,436	1,209
Foreign exchange gains on capitalised development costs	–	119
Shareholders' equity per US GAAP, as adjusted	59,954	45,808
Earnings (losses) per share (in US$ per share)		
basic	0.20	(0.99)
diluted	0.19	(0.99)

These numbers are provided for information purposes only and omit the additional disclosures that would be required under US

The amounts are expressed in thousands of US dollars

GAAP. The Group has restated the comparative US GAAP presentation of net profit (loss) and shareholders' equity as no adjustment had been made in 2002 to correct for the non-reversal of goodwill amortisation and the capitalisation of some development costs. Our reported financial results for 2002 as prepared in accordance with IFRS are unaffected by these restatements. The effect of the restatement on the US GAAP numbers is shown below:

		2002	
	As previously reported	As restated	Change
Net loss	(49,487)	(51,611)	(2,124)
Shareholders' equity	52,728	45,808	(6,920)
Earnings (losses) per share – basic & diluted	(0.95)	(0.99)	(0.04)

The opening shareholders' equity in 2002 is also restated to reflect the additional US GAAP differences in 2001 and prior periods relating to capitalised development costs. The effect of these differences is a reduction in opening US GAAP shareholders' equity for 2002 of US$ 5,034 thousand. The corresponding decrease in the reported US GAAP net income for 2001 is US$ 3,054 thousand. Our reported financial results for 2001 as prepared in accordance with IFRS are unaffected by these restatements.

(1) Under IFRS the Group is required to capitalise the costs associated with the development of new or substantially improved products or modules when a project has achieved the stage of technical feasibility, the likelihood of success is probable, costs can be reliably measured and a future revenue stream can be justified. Under US GAAP the criteria for capitalising development costs are similar, however, technical feasibility as described by FAS 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed", is strictly defined and generally only arises very late in the development cycle. Therefore under US GAAP all of the costs incurred in developing software to date have been expensed as incurred.

(2) Under IFRS goodwill is required to be amortised over its useful life. Under US GAAP goodwill is not amortised, but is tested annually for impairment.

(3) Under IFRS foreign currency exchange gains or losses arising on intragroup balances for which settlement is neither planned nor likely to occur in the foreseeable future are recorded directly to shareholders' equity as a cumulative translation adjustment. Where settlement occurs or is probable the cumulative gains or losses previously recorded in shareholders' equity are recognised in the income statement. Under US GAAP it is not permitted to reverse the amounts relating to prior periods until the entity is liquidated.

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REPORT OF THE STATUTORY AUDITORS TO THE GENERAL MEETING OF TEMENOS GROUP AG, GLARUS

As statutory auditors, we have audited the accounting records and the financial statements on pages 53 to 55 of TEMENOS Group AG for the year ended December 31, 2003.

These financial statements are the responsibility of the Board of Directors.

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.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers SA

M. Foley **T. Vigne**

Geneva, 4 March 2004

TEMENOS GROUP AG

The amounts are expressed in thousands of Swiss Francs

balance sheet

31 December 2003

	2003	2002
Assets		
Investments	**447,608**	*445,913*
Less provision for impairment	**–**	*(341,063)*
	447,608	*104,850*
Receivable from other Group entities	**243**	–
Liquid funds	**51**	*1*
Total assets	**447,902**	*104,851*
Liabilities and shareholders' equity		
Current liabilities		
Payable to other Group entities	**577**	*47*
Accrued expenses	**60**	*46*
Taxes payable	**–**	*9*
Total liabilities	**637**	*102*
Shareholders' equity		
Share capital *(note 3)*	**272,362**	*270,666*
Share premium	**174,811**	*166,466*
Reserve for Treasury shares *(note 3)*	**41**	*8,540*
Retained earnings	**51**	*(340,923)*
Total shareholders' equity	**447,265**	*104,749*
Total equity and liabilities	**447,902**	*104,851*

income statement

for the year ended 31 December 2003

	2003	2002
Miscellaneous revenues	**–**	*67*
Expenses associated with the maintenance of the Register of Shareholders and other related costs	**(89)**	*(29)*
Operating (loss) profit before taxation	**(89)**	*38*
Other income (expenses)		
Revaluation of the investment in subsidiary companies (on the basis of the market value of the TEMENOS Group AG shares)	**341,063**	*(341,063)*
Net profit (loss) before and after taxation	**340,974**	*(341,025)*
Retained earnings at beginning of year	**(340,923)**	*102*
Retained earnings at end of year	**51**	*(340,923)*

TEMENOS GROUP AG

The amounts are expressed in thousands of Swiss Francs

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). Since 26 June 2001 the shares of TEMENOS Group AG have been publicly traded on the SWX Swiss Exchange.

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, investing activities, except as the holder of all the issued and outstanding shares of TEMENOS Holdings NV and IT Services Limited.

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):

	2003	2002
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	246,985	245,290
I.T. Services Limited, Cyprus		
100 shares of a nominal value of CY£ 1 each, at cost	101	101
	447,608	445,913
Less provision for impairment on the basis of the market value of the TEMENOS Group AG shares	–	(341,063)
	447,608	104,850

A provision was made in 2002 for the investment in TEMENOS Holdings NV as the economic conditions in 2002 had adversely affected the market price of equities, in particular, those of software companies. The provision has been reversed in 2003 in light of more positive economic conditions and a recovery of Group profitability and equity.

3. Share capital

As at 31 December 2003, the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS Group, comprised 54,472,469 common shares of a nominal value of CHF 5 each.

The changes in the number of issued and outstanding shares, in the year ended 31 December 2003, are summarised below:

	2003		2002	
		Nominal value		**Nominal value**
	number	**in CHF**	**number**	**in CHF**
Authorised share capital issued	51,355,173	256,775	51,346,897	256,734
Conditional or contingent capital issued	3,117,296	15,587	2,786,320	13,932
Total number of TEMENOS Group AG shares issued, as at 31 December 2003	54,472,469	272,362	54,133,217	270,666

The amounts are expressed in thousands of Swiss Francs

The shares issued by the Company in the year are set out below:

	2003 number	2002 **number**
Total number of TEMENOS Group AG shares issued, as at 1 January	54,133,217	51,797,163
Shares issued and allotted in relation to acquisitions	8,276	336,054
Shares issued and allotted on exercising of employee share options	322,700	292,000
Shares held as Treasury stock by TEMENOS Holdings NV	8,276	1,708,000
Total number of TEMENOS Group AG shares issued, as at 31 December 2003	54,472,469	54,133,217

It should be noted that the above tables include treasury shares which had not been allotted to third parties. As at 31 December 2003 the number of treasury shares held by the Group amounted to 8,276 (2002: 1,708,0000). These Treasury shares are held by TEMENOS Holdings NV (a wholly owned subsidiary of TEMENOS Group AG) and are allotted to members of the TEMENOS Employee Share Option Scheme at the time that they exercise their options. A reserve has been created for these Treasury shares.

TEMENOS Group AG also has authorised and conditional capital, comprising:

authorised shares that may be issued in the context of acquisitions (available to the Board until 27 June 2005).	9,569,463
conditional shares that may be issued on the exercise of employee share options.	7,669,024
conditional shares that may be issued in conjunction with financial instruments	13,680

So far as the Company is aware, the only holdings of 5% or more in the issued share capital of the Company are as follows:

Chairman and executive director	29.2%
Vice Chairman and non-executive director	10.8%
Global Finance SA (through its funds Global Capital Investors LP and Global Capital Investors (II) LP)	10.2%
Fidelity International Ltd	5.8%

4. Share premium

The share premium is reported after:

- deduction of expenses, amounting to CHF 154 thousand (2002: CHF 8 thousand), which were incurred in conjunction with the issuance of new shares.
- deduction for reserve for Treasury 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

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

Information for Investors

CAPITAL STRUCTURE

The share capital is divided into 54.4 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

25 June 2004

NEXT PUBLICATION

28 July 2004 Q2 Results Presentation

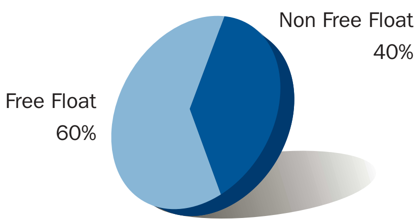
Development of the TEMENOS share price compared to the Swiss Performance Index

STATISTICS ON TEMENOS SHARES

Registered shares of CHF 5 nominal	2003
Sector:	Technology/Software
Market Segment:	SWX Market
Index Member:	SPI
Swiss Security No:	124 5391
ISIN No:	CH0012453913
Symbol:	TEMN
Number of shares	54,472,469
Market price high/low (CHF)	8.99/1.3
Market price 31.12.2003 (CHF)	8.9
Market price 29.02.2004 (CHF)	10.1
Market capitalization high/low (CHF m)	479/69
Share capital nominal value at 31.12.2003 (CHF m)	272

Key Figures per Share	
Basic earnings per share (in US$)	0.20
Diluted earnings per share (in US$)	0.19
Consolidated shareholders' equity (US$ m)	66.2
Consolidated shareholders' equity per share (US$)	1.21

Major shareholders of TEMENOS Group AG	
George Koukis	29.2%
Kim Goodall	10.8%
Global Capital Investors and related entities	10.2%
Fidelity International	5.8%



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