Annual Report 2005

TEMENOS

Corporate Profile

Whether providing 24/7 functionality to the wholesale, retail and private banking sectors, partnering with central banks on core system replacement, or working with world banks on solutions for emerging markets, TEMENOS knows banking. The company has a transparent approach to its operations and brings its experience, expertise, commitment and professionalism on every project.

Headquartered in Geneva, Switzerland, the company has 39 offices in 31 countries and had revenues of US$ 168.7 million for year ended 31 December 2005. In June 2001, TEMENOS became a public company listed on the main segment of the SWX Swiss Exchange (TEMN).

Trading details

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

Key Figures (December 31)

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

	2005	2004
Employees (including consultants)	1,373	1,179
Revenues	168,652	153,575
Operating profit	22,747	12,819
Operating margin	13.5%	8.3%
EBITDA	33,927	28,824
EBITDA margin	20.1%	18.8%
Net profit attributable to the Group	18,257	12,862
Cash generated from operating activities	3,665	15,934
Total assets	181,370	164,050
Shareholders' equity	100,630	83 460
Basic earnings per share	US$ 0.33	US$ 0.23
Diluted earnings per share	US$ 0.32	US$ 0.22

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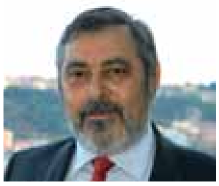
Financial Highlights

(in millions of US dollars except earnings per share)

	2005	2004	2003	2002	2001
Revenues	168.7	153.6	146.2	113.3	140.9
Operating costs	145.9	141.8	135.5	157.7	125.3
Other operating income	-	1.0	-	-	-
Operating profit (loss)	22.8	12.8	10.7	(44.4)	15.6
Profit (loss) before taxation	20.2	15.1	12.7	(47.1)	9.9
Net profit (loss) after tax	17.9	12.1	10.9	(49.5)	5.9
EBITDA	33.9	28.8	25.2	(31.6)	23.3
Diluted earnings (losses) per share (in US$)	0.32	0.22	0.19	(0.95)	0.12
Cash generated from operating activities	3.7	15.9	16.4	(4.8)	(0.3)
Current assets	127.8	114.5	108.2	69.4	132.7
Non-current assets	53.6	49.6	43.6	53.0	38.7
Total assets	181.4	164.1	151.8	122.4	171.4
Current liabilities (excluding deferred revenues)	40.9	36.8	49.5	32.3	24.6
Deferred revenues	33.6	34.6	35.9	22.2	16.6
Total current liabilities	74.5	71.4	85.4	54.5	41.2
Non-current liabilities	5.8	8.5	0.2	15.2	30.1
Total liabilities	80.3	79.9	85.6	69.7	71.3
Minority interest	0.4	0.7	-	-	2.5
Shareholders' equity	100.7	83.5	66.2	52.7	97.6
Total equity and liabilities	181.4	164.1	151.8	122.4	171.4

Chairman's Statement



I am delighted to report on one of the best years so far for TEMENOS as we confirmed our position as the preferred supplier to the world's leading banks, and delivered impressive financial results. We welcomed 34 new clients to the TEMENOS 'family'. Many of our existing clients also moved forward with us by upgrading to our T24 product, our flagship product which is technically the best product in the industry. We forged new partnerships with Unisystems, EFS Technology and FTI Interactive Data in order to improve and enhance the services we can offer our clients, and our products were demonstrated over a range of platforms and different banking environments.

TEMENOS continued to gain traction due to a strong business model, product superiority and distribution growing its initial licence fee (ILF's) signings by 47% over 2004 to US$ 91million. I had the opportunity to meet most of our clients at a number of TEMENOS events during the year, which included the TEMENOS CLIENT FORUM (TCF) in Monaco. Gaining new clients is the lifeline of any company in our industry as without new clients there is no growth and no investment in the product. A company that does not sell new licenses is doomed to fail within a short period of time or otherwise incur significant costs in order to correct the reasons for lack of sales which are normally outdated technology or lack of business functionality. In order to achieve growth on a worldwide basis the company needs to offer the client the "right" product, the "right" functionality and the "right" technology. The flexibility of our products makes them attractive to clients in all the continents as they operate efficiently in any language and in a variety of technical environments.

It is also gratifying to see our existing clients either upgrading or implementing newly acquired modules. Our policy to provide new releases of the software to all existing clients is one of the ways we return the loyalty we have received over the years from our clients: protecting their investment in computer systems by providing modern technology and enhanced business functionality.

TEMENOS has three principal assets: its products; its people; and its clients - all equally important. In the business report Andreas speaks of how we have the right products in place to meet the needs of our clients - and I would like to reiterate this. To make the investment in product strategy when we did was important and our clients are now reaping the benefits - just look at Industrial Bank of Korea (IBK) and the market success it has enjoyed, due in part to TCB;. I have always regarded our clients as an extension to the TEMENOS family and our aim has always been to provide the highest level of service and support to keep them in the family forever. Our reason for existence is to protect the client against product obsolescence.

The consolidation process in our industry is gathering pace: it started with FNF acquiring Sanchez and Alltel, however, the activity that created the most interest was the Oracle acquisition of Siebel and I-flex. We believe that we compete effectively against all competitors and we will continue to do well in the next few years because of our product superiority, our culture and our way of doing business. The companies that will survive economic or geopolitical adversities will be the ones to cultivate a culture that is based on celebrating the strengths of its people - a company with an ethical way of life will inevitably attract good people and good people always produce excellent products. I am convinced that the foundations we have put in place will propel us to our next level of growth and I am confident of success in 2006 and in the years beyond. The growth we achieved in 2005 is exceptional for any player in our industry, especially one of our size. I would like to take this opportunity to extend my thanks and gratitude to all our employees, the management and Directors for making TEMENOS a success. The relentless TEMENOS pursuit of success, dedication, loyalty, integrity and commitment are what makes the company so special and different from others. I expect that 2006 will be another fantastic year for us all.

George Koukis Chairman

TEMENOS Children's Foundation

«To create a Temenos community which spans continents and cultures and share a common vision»

Andreas Andreades, CEO

TEMENOS Children's Foundation - Paintings exhibition organized in June 2005 in association with Dominique Wavre, the Swiss skipper, sponsored by TEMENOS.

Emily Arnott

Anna Mandikova

Ronak Pradeep

Business Report

Our financial results

2005 was an outstanding year for TEMENOS. Our revenues reached USD 168.7 million, up 9% compared to 2004. Over the past 3 years revenues have grown from USD 113.3 million in 2002 to USD 168.7 million in 2005, a compound annual growth rate exceeding 14%.

Maintenance revenues, a measure of our long term success and profitability, continued to grow at significant double digit numbers at 18% compared to 2004, and professional services grew at 13% compared to 2004. Licence revenues are reported at USD 64.4 million, up 1% compared to a 2004 figure which includes legacy percentage of completion revenues from contracts signed in prior years. When adjusted for this licence revenues are growing by 15% year on year. Cost leverage continues to be excellent, with costs growing at 4% compared to 2004.

ILF signings, a key performance indicator, grew by 47% compared to 2004. This was achieved by signing deals with a record number of new customers, 68 in total, confirming our leadership position in the industry.

Management is committed to further organic growth of the business and remains focused on continuing to improve profitability and on creation of shareholder value. As we further develop our target markets, our maintenance revenues will continue to grow improving both net margins and net profitability, and driving enhanced shareholder value. We remain as positive as ever towards taking advantage of the business model to conclude corporate transactions that leverage our core assets and are accretive to shareholders.

Client update

As at the end of 2005 TEMENOS has in excess of 500 clients. During the year we have added 68 new clients, 34 through licence agreements, our core business model, and 34 through Synchronet, our ASP facility in Mexico. Our experience gained from operating this facility has provided us with excellent experience for the applicability of an ASP model in other countries.

I am delighted to be able to welcome each and every one of our new clients. Amongst others, these include notable names such as Royal Bank of Trinidad and Tobago, the largest retail bank in the Caribbean, Bank of East Asia, Credit Suisse, Bank Centre Credit, South East Asia Bank, Bank Thai and Meezan Bank Limited. New clients are using our products in a variety of areas ranging from universal, retail, lending or treasury operations and private banking. During 2005 we have entered into a number of new countries with client additions such as Banco Credicoop Cooperativo Limitado in Argentina, bringing the total number of countries in which we operate to 110.

More than 60 clients are now using T24, taking advantage of the most technologically advanced banking software in the world. We are happy with the maturity that this product is now achieving. We have been able to package the upgrade process from GLOBUS to T24 to as little as 8 weeks from start to finish which is excellent news for our GLOBUS user community.

We are particularly happy to see our eMerge product, a pre configured T24 solution for the micro lending market, become the product of choice in key geographies including Mexico, Africa and Indonesia. As micro finance is gaining ground as the established model for distributing aid to emerging economies we are proud to be able to offer eMerge as a value for money solution that can be afforded by local institutions, enabling commencement of operations after just a few weeks of implementation time.

TEMENOS is committed to pursuing growth through aggressive client addition as well as continuing to improve its service model to support our existing clients. Our client philosophy and value system, core to our success and business model, is clearly set out in our Chairman's report.

The Banking Software market

During 2005 banks continued to invest significantly in software replacement. Many banks' systems do not cater for the competitive needs of the 21st century; the pressure to innovate and launch products quickly, cross sell to customers, as well as cut costs and establish efficient operations, is as high as ever. In some cases existing products lack basic robustness and ability to handle day-to-day operations in a secure manner. We expect that regulation and further competitive pressures will keep the issue of core system replacement at the top of banks' priorities. We anticipate that this, together with the vendor's ability to provide solutions which can be implemented efficiently, will drive increasing market spend over the next few years.

Our products

During the year we invested in excess of $31m in research and development, consistently following on our tradition of significant product investment and innovation.
We believe that our history of high investment is a key factor in delivering product superiority both at a functionality level and also at a technology and architecture level. I believe that with both T24 and TCB we enjoy a significant advantage compared to our competition, and we intend to maintain this through continued aggressive investment in the future.

Organisation

During the year we continued to strengthen our organisation at all levels, and have attracted key talent from the banking software industry.
In March 2005, Alex Groenendyk and Greg Green joined TEMENOS from Fiserv CBS Worldwide, a division of Fiserv, Inc., where they held the positions of President and Chief Operating Officer respectively, bringing a collective 35 years of experience. Greg has recently been promoted to Managing Director of our TCB business while Alex continues as President of our Americas region.

After an excellent 18 months as Regional Director for the Asia Pacific region, Mark Cullinane, who joined TEMENOS in 2004, has recently been appointed Chief Operations Officer of the Group. Mark's responsibilities include running global operations covering sales, services and support, and product development. Mark brings with him more than 20 years of experience with strong operating skills combined with excellent commercial acumen.

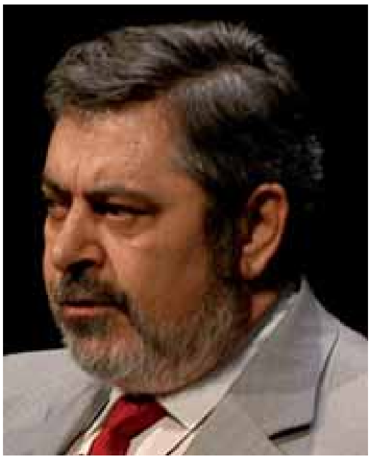
In addition, Costa Christodoulou, with 22 years experience holding key executive positions with a number of leading industry players, has recently joined TEMENOS to run our Northern European and C.I.S. business.

We remain committed to attracting the best executives in the industry as we build the future TEMENOS. Our successful strategy and business model, our entrepreneurialism, as well as our pre-eminence in the industry and state of the art products are what differentiates TEMENOS and attracts talent. Our objective is to continue to build a world-class organisation that will serve the company and its shareholders for the years to come.

Our partners

We continue our critical and strategic relationships with the leading industry technology providers such as IBM, Microsoft, Oracle, Sun Microsystemsand HP, and now work with more than 20 service providers that complement our capability to deliver first rate service to our clients.

A. Andreades


Product Summary

2005 was year a year of important progress for both our main products, TEMENOS T24™ (T24) and TEMENOS™ COREBANKING (TCB).

T24 experienced excellent new business growth, being selected by 66 new customers during the year. Overall this represented a substantial growth in initial licence fees, an exceptional achievement when many of our traditional competitors in this market experienced difficulties. We continued to invest significantly in the product delivering a range of improvements. Some were driven by market and customer requirements with the EU Savings Directive enhancement being well received and successfully implemented during the period. We also made a number of strategic improvements to the product, most noticeably in its securities processing and asset management capabilities.

In September, T24 was selected as the processing platform for Bank of East Asia in London replacing Misys' legacy Equation system. We have used this opportunity to create a new T24 model and migration offering designed specifically to target Equation users and this will be made available in early 2006.

In the last quarter we also launched the new T24 Model Bank for Universal and Retail banks. This is a pre-configured version of the T24 system and a new, unique and automated implementation process. The Model Bank will shorten, simplify and reduce the risk involved in migrating to a new core banking platform ensuring that our new clients can realise the return on their investment much earlier than traditional implementations.

As well as new clients we are pleased to report the successful completion of 20 implementation projects including Schroders and Co. Bank, and Banco Sabadell. Satisfied live clients will always be the major driver to new business growth in the software industry.

We will be making further investment in T24 during 2006 including a new mutual funds offering, enhanced CRM and workflow capabilities and a new branch processing capability.

TCB had a strong year and we were particularly pleased that it was selected by HSBC as their core overseas platform replacing their in-house HUB system. This decision was seen as pivotal in our industry and HSBC's endorsement of TCB is an important milestone in its progress.

Elsewhere TCB continues to prove its capacity to provide a competitive edge. In a three month period in 2005, Industrial Bank of Korea (live on TCB since 2004) was able to introduce 168 new products, including introducing the first 'Dok-do' savings product, in only ten hours. This single product launch allowed them to achieve $1 billion in extra deposits in just less than one month.

The ongoing enhancements to TCB mean that the product will continue to lead this market- in technology as well as functionality.

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 summarised 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 2005.

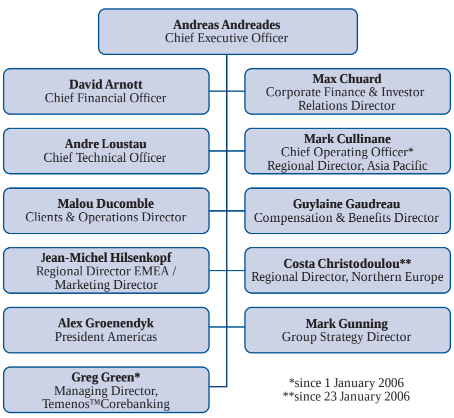
Group structure and shareholders

1.1 Group structure

The ultimate holding company, TEMENOS Group AG, has been registered in Glarus since 7 June 2001 and its shares have been listed on the SWX Swiss Exchange since 26 June 2001 (Symbol: TEMN; Swiss Security Number: 1245391; ISIN: CH0012453913). TEMENOS is headquartered in Geneva.

1.1.1 Operational Group structure

The TEMENOS Group is organised and managed by the CEO who is the head of the Executive Board as shown on the organisation chart below:



1.1.2 TEMENOS Group AG is the sole listed company and owns all companies belonging to the TEMENOS Group.

1.1.3 Under the direction of the CEO, the Executive Board is responsible for managing, coordinating and executing the Company's business operations.

The Executive Board includes directors of the Group's software products and services businesses, its main regional sales and services organisations and the principal corporate functions.

In particular and without limitation, the Executive Board has the following responsibilities:

- Implementation of the strategy and policies agreed upon by the Board of Directors;
- Management of the Company on a day to day basis;
- Managing the performance of the Company;
- Ensuring efficient operational performance and attainment of the business targets.

The Group is managed using a matrix of global business functions supported by regional sales and service operations, incorporating activities of product development, product and services marketing, key customer relationship management and product support functions.

Operationally, the Group's product sales and services operations are divided into four main geographic regions: EMEA (Continental and Eastern Europe, Middle East and Africa), Northern Europe (UK and Ireland, the Netherlands, the Nordic countries, Russia, CIS and the Baltic States), Asia Pacific and Americas.

India (Chennai), Spain (Madrid) and United Kingdom (Hemel Hempstead) are the Group Product Support and Development centres, where the Help Desk and Development departments are located.

With the exception of FOMENTO EMPRESARIAL DE SERVICIOS INFORMATICOS SA de CV (a 51% owned Mexican joint-venture) all the subsidiaries are, either directly or indirectly, wholly owned by TEMENOS Group AG, as the ultimate parent company of the Group.

Please refer to note 4 of the consolidated financial statements for the list of the principal group companies belonging to the Group.

Please refer to the Information for Investors section for statistics on TEMENOS shares.

As of 31 December 2005, the market capitalisation amounts to CHF 708'482'458.

1.2 Significant shareholders

Please find below the list of major shareholders (who hold more than 5% of the voting rights) as at 31 December 2005.

George Koukis:	25,2%
Global Capital Investors:	10,0%
Schroders*:	5,8%

*deposited shares (art. 689d CO)

Please also refer to note 3 of the unconsolidated financial statements of TEMENOS Group AG.

In 2005, the following publications were made in the Swiss Commercial Gazette (SHAB):

Publication of 31 October 2005

- Admerex (Ireland) Limited (Royal Marine House, Strand Road, Bray-Co Wicklow-Republic of Ireland; beneficial owner: Mr. Kim Goodall) holds less than 5% of the voting rights in TEMENOS Group AG.

Material changes since the balance sheet date:

On 1 March 2006, George Koukis, Executive Chairman of TEMENOS Group AG, along with funds managed by Global Finance SA (Global Capital Investors), a private equity firm, sold a total of 7 million TEMENOS shares (the "Share Offering"). This Share Offering was launched simultaneously with a CHF 115 million convertible bond offering by Temenos Luxembourg SA, guaranteed by and convertible into ordinary shares of TEMENOS Group AG.

As of 1 March 2006, the shareholding of George Koukis in TEMENOS is therefore reduced to 17,5% and the shareholding of Global Capital Investors to less than 5%.

1.3 There are no cross-shareholdings to report.

Capital structure

2.1 Capital

On 31 December 2005 the ordinary capital amounted to CHF 276'750'960, consisting of 55'350'192 registered shares, each with a par 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 134'756'635 and a conditional capital totalling CHF 61'547'185 for shares that may be issued on the exercising of share options granted to employees of the Group. Additional conditional capital totalling CHF 69'653'400 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 (article 3ter), the Board of Directors is authorised to increase the share capital to a maximum aggregate amount of CHF 134'756'635 through the issuance of a maximum of 26'951'327 fully paid-in registered shares with a par value of CHF 5 per share. An increase in partial amounts is permitted. This power expires on 27 June 2006.

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 or 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 (article 3quater (1)), the company's share capital shall be increased by a maximum aggregate amount of CHF 61'547'185, through the issuance

of a maximum of 12'309'437 registered shares, which shall be fully paid-in, with a par value of CHF 5 each, through TEMENOS Holdings N.V., a subsidiary of the Company (the” Subsidiary") or through the Company itself, 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 or through the Company, 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 or to the Company for purposes of distribution to directors, officers or employees of the Company and group companies; (ii) new shares to be issued through the Subsidiary or through the Company, to employees of the Company or group companies shall be issued against payment of the par value of CHF 5 per each share in cash.

Conditional capital for financial instruments

Pursuant to the Articles of Association (article 3 quarter (2)), the share capital may be increased by an amount not exceeding CHF 69'653'400 by issuing up to 13'930'680 registered shares - to be fully paid-in with a par value of CHF 5 each - through the 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 conditions of the option rights, including the exercise period and the 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 is the ultimate holding company of the Group.

Statutory accounts

in thousands of CHF	31.12.2005	31.12.2004	31.12.2003
Share capital	276,751	274,762	272,362
Share premium and reserve for treasury shares	175,534	175,034	174,852
Profit (loss) carried forward	(168)	(19)	51
Total equity	452,117	449,777	447,265

2.4 Shares

All equity securities of TEMENOS are in the form of registered shares, each with a par 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 Company did not pay any dividend in 2005. TEMENOS does not currently anticipate paying any dividends, as it intends to retain future earnings to finance the development and growth of its business.

2.5 Profit sharing certificates

As above-mentioned, the Company does not currently 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 Company 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 18 of the consolidated financial statements and to section 5.6 below.

Board of Directors

The Board of Directors is elected by the shareholders and holds the ultimate decision-making authority of the Company for all matters except those reserved by law to the shareholders. The Board of Directors shall manage the business of the Company insofar as it has not been delegated to the CEO, who chairs the Executive Board of the Company.
The Board of Directors exercises inalienable and non-transferable functions as provided by law, by the Company's Articles of Association and by its Charter.

3.1 Members of the Board of Directors

As at 31 December 2005 the Board of Directors comprises five members, three 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 2005

George Koukis (59) - *Chairman, executive director*
Mr. George Koukis has been active in the software industry for more than 20 years, having begun at Qantas where he was heavily involved with the computerisation of the company's management accounting department. He then spent six years with Management Science America (MSA) in Australia where he held various management positions, including that of the managing director. Mr. Koukis holds a degree in commerce from the University of Technology in Sydney, Australia and is a registered CPA.
As Chairman and founder of TEMENOS, Mr. Koukis 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 a small number of operating companies within the Group.
Mr. Koukis remains the largest shareholder in TEMENOS Group AG as mentioned in section 1.2. Mr. Koukis was elected in 2001, re-elected in 2002 and in 2005 for a three-year term of office.

Paul Selway-Swift (61) - *Vice-Chairman, non-executive and independent director*
Mr. Paul Selway-Swift has many years of 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 Chairman of SVB Holdings PLC and a non-executive director of Alba PLC; both of which 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.
Mr. Selway-Swift was educated in England and subsequently attended Massachusetts Institute of Technology Program for Senior Executives.
Mr. Selway-Swift is a British national. He is interested in a small number of shares in TEMENOS but does not hold TEMENOS share options; he has never held a management position in the TEMENOS Group nor does he have any other business connections with the Group.
Mr. Selway-Swift chairs the Compensation Committee and is a member of the Audit and Nomination Committees. He was first elected in 2001, re-elected in 2003 and is due for re-election at the forthcoming Annual General meeting of Shareholders. He was appointed Vice-Chairman of the Board of Directors in 2005 for a period of one year.

Andreas Andreades (40) - *Chief Executive Officer, executive director*
Mr. Andreas Andreades joined TEMENOS in 1999, initially in the position of Chief Financial Officer, before assuming the responsibilities of the Deputy Chief Executive Officer in 2001 and then the Chief Executive's role in July 2003. Mr. 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.
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 re-elected in 2004 for a three-year term of office.
Mr. Andreades is a member of the Nomination Committee.

Chris Pavlou (60) - *non-executive and independent director*
Mr. Chris Pavlou has formerly 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.
Mr. Pavlou is a British national and does not hold TEMENOS share options.
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, re-elected in 2002 and 2005 for a three-year term of office.
Mr. Pavlou chairs the Nomination Committee and is a member of the Audit and Compensation Committees.

Lewis Polk Rutherfurd (61) - *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 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 TEMENOS share options.

Mr. Rutherfurd has never had a managing position in the TEMENOS Group and has no business connections with the Group.

Mr. Rutherfurd was elected in 2001, re-elected in 2003 and is due for re-election at the forthcoming Annual General meeting of Shareholders.

Mr. Rutherfurd chairs the Audit Committee and is a member of the Nomination Committee.

b) Proposed changes in the course of 2006

At the forthcoming Annual General Meeting of Shareholders, the Board of Directors will recommend the election for a term of office of three years of **Mr. Mark E. Austen** as non-executive member of the Board of Directors. In case of election, Mr. Austen will become a member of the Audit Committee.

Mr. Mark Austen (56), a qualified accountant has had considerable experience at an executive level in international financial markets and financial services consulting. Up to early 2005, he served as an executive in IBM's Business Consulting Services, following a 20-year career with PricewaterhouseCoopers (PwC). There, he was Managing Partner of the Global Financial Services consulting practice, and from 2000 to 2002 was an elected member of PwC's Global Board. He was also a member of the transaction group that oversaw the sale of the consulting business to IBM. Mr. Mark Austen is also a non-executive director of Standard Bank PLC, Smartstream Technologies Group Ltd and a director of The Philharmonia Trust Ltd. Mr. Austen is a British national.

3.2 Other activities and vested interests

Please refer to the information provided in section 3.1.

3.3 Cross-involvement

There are no other 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 term 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 one. Upon the expiration of their terms of office the members may be re-elected immediately and without limitations. 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. Members newly appointed during a term of office shall complete the term of office of their predecessor. At the Annual General Meeting of Shareholders, the Board members are individually (re)-elected.

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, Compensation and Nomination Committees, exercises inalienable and non-transferable functions as provided by law, by the Company's Articles of Association and by its Charter. The Board of Directors of TEMENOS decides in particular on significant acquisition, disposal, strategic alliances, share repurchase program and change in the Group's structure and organisation, though is not limited to this.

Once a year, the Board reviews its conformity to corporate governance rules and evaluates its own performance as a whole. During this exercise the non-executive directors evaluate the performance of each executive director and vice versa.

Five members currently compose the Board of Directors of TEMENOS Group AG, three being non-executive and independent.

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

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 or the Organisation By-laws 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, Compensation and Nomination Committees are governed by terms of reference defining their duties and compositions. As mentioned in section 3.1, these Committees comprise mainly 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 a 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 Group reviews on an ongoing basis, the compensation of its employees worldwide, by reference to the prevailing market norms, at each of the locations in which it operates.

At least twice a year, the Compensation Committee reviews, approves and makes recommendations on compensation practices and policies designed to develop a competitive, equitable and performance based package allowing TEMENOS to attract and retain top talent within the Group. The Compensation Committee also reviews, approves and makes recommendations on compensation packages concerning the executive members of the Board of Directors and members of the Executive Board and seeks to confirm that such compensation is in line with market norms.

Nomination Committee

A Nomination Committee of three members has been set up by the Board of Directors. The main duties of this Committee are (i) to annually review the structure, size and composition required of the Board of Directors and make recommendations to the Board of Directors with regard to any changes, (ii) to establish qualification criteria for Board of Directors'membership and (iii) to give full consideration to succession planning for both members of the Board of Directors and members of the Executive Board.

3.5.3 Work methods of the Board of Directors and its Committees

During 2005 the following numbers of meetings were held:

Board of Directors	4
Audit Committee	5
Compensation Committee	4
Nomination Committee	3

The attendance at the meetings of the Board of Directors was 100%. Each Board and Audit Committee meeting lasted between 3 and 4 hours; Compensation and Nomination Committees meetings lasted approximately 2 hours each. The attendance at the Audit and Compensation Committees meetings was 100% and an average of 92% for the Nomination Committee; Mr. Lewis Rutherfurd was excused from one Nomination Committee meeting.

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. An external legal counsel was present at each of the Board of Directors meetings.

At the meetings of the Board of Directors and of its Committees, those members of the Executive Board who have the 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.

Furthermore, and during each Board of Directors meeting, a business report is systematically presented by the Chief Executive Officer. Together with the Financial Report presented by the Chief Financial Officer, this information enables the Board members to assess the course of the Company's business activities on a 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.

Moreover, the Executive Board delegates some of its responsibilities to the Operating, Development and Technology&Research Boards.

3.7 Information and control instruments

The Board of Directors is responsible for the Group's system of internal control, which covers, among others, objectives to ensure effective and efficient operation, accurate financial reporting, compliance with laws and regulations and safeguarding of assets.

The Internal Auditor reports directly to the Audit Committee and administratively to the Chief Executive Officer.

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

Financial results are monitored by the Board of Directors on a quarterly basis. The 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 and approved by the Board of Directors. Responsibilities for financial performance against plans and for capital expenditure are delegated, with limits, to line management. A 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 ensures that measures continue to be taken to reinforce internal controls and to deal with necessary improvements that come to managements' and Board's attention. This is a goal which is pursued on an on-going basis while ensuring that equilibrium is maintained between the minimisation of risk and of the costs associated with controls.

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 (36) - *Chief Financial Officer*
Mr. Arnott has served as the Chief Financial Officer of TEMENOS since April 2001. Prior to joining the Group, he had worked as Chief Financial Officer of Société Européenne 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 a Masters Degree from the University of Freiburg. Mr. Arnott spent then three years with Touche Ross where he qualified as a chartered accountant.
Mr. Arnott is a British national and holds positions on the Board of Directors of a number of operating companies within the Group.

Max Chuard (32) - *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, at JP Morgan first and then at SWICORP a Swiss merchant bank. Mr. Chuard holds a BA from the University of Lausanne. Mr. Chuard is a Swiss national and holds positions on the Board of Directors of a number of operating companies within the Group.

Malou Ducomble (50) - *Clients and Operations*
Mrs. Ducomble, prior to joining TEMENOS in 1995, held a number of operating and managerial positions in MPCT Solutions Limited (now Aleri Inc.), Winter Partners, First Chicago International Corp. (now BankOne) and Commerzbank. Mrs. Ducomble has wide ranging experience in large projects management and multinational account relationships. Mrs. Ducomble is an American national and holds a Business degree and a Financial Management diploma from New York University.

Guylaine Gaudreau (36) - *Compensation & Benefits Director*
Mrs. Gaudreau joined TEMENOS as the worldwide Compensation & Benefits Director in 2002. Prior to joining the Group, she has held various positions as consultant and manager for Towers Perrin in Canada, France and Geneva.

Mrs. Gaudreau is an actuary, qualified both in Canada (FCIA) and USA (FSA). Mrs. Gaudreau is a Canadian national.

Jean-Michel Hilsenkopf (42) *Regional Director, EMEA Region / Marketing Director*
Mr. Hilsenkopf 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 of 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 holds an engineering degree from a French Grande Ecole and has an MBA (International Marketing) from Geneva University. Mr. Hilsenkopf is a French national.

Costa Christodoulou (47) - *Regional Director, Northern Europe*
Mr. Christodoulou joined TEMENOS in January 2006 as Regional Director for Northern Europe region including UK, Ireland, Netherlands, the Nordic countries, Russia, CIS and the Baltic States. Mr. Christodoulou brings with him 22 years of sales and general management experience in the banking software and financial services IT industry. Prior to joining TEMENOS, Mr. Christodoulou was CEO of City Networks Ltd and prior to this, he carried P/L responsibility for major business units in Misys, Unisys and Alltel Information Services Ltd. Mr. Christodoulou is a British national and holds a degree in Chemical Engineering (BSc Honours) from the University of Salford.

Andre Loustau (47) - *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 Project Manager prior to assuming the responsibilities of the Chief Technical Officer. Mr. Loustau is a British national.

Mark Cullinane (41) - *Chief Operating Officer*
Mr. Cullinane has over 18 years of experience in the provision of banking solutions internationally. For the past 12 years he has lived and worked in Asia where he has been responsible for the sales, implementation and support of numerous banking solutions. He joined TEMENOS as Regional Manager for Asia Pacific in February 2004 before assuming the role of Chief Operating Officer for the Group in January 2006, based in Geneva. Mr. Cullinane is a British national and holds a degree in Business Studies (BA Hons.).

Mark Gunning (43) - *Group Strategy Director*
Mr. Gunning was educated at the London School of Economics before beginning his employment with Kapiti, a predecessor of the Misys group and the developer of the Equation banking system. He then worked for 9 years for HSBC Bank in various capacities involving international IT. These included long term assignments in New York, Paris and Jersey. He joined TEMENOS in 1993 and has worked in Development, Client Services and Sales before assuming the responsibilities of General Manager for North America and of Group Strategy Director in 2005. Mr. Gunning is a British national.

Alex Groenendyk (49) - *President Americas*
Mr. Groenendyk joined TEMENOS in May 2005 as President for Americas. Prior to joining TEMENOS, Mr Groenendyk served as President of Fiserv CBS Worldwide, a supplier of financial solutions to mid and large tier banking organizations. Mr. Groenendyk was also responsible for both the delivery of these solutions on a license and outsourcing basis. Mr. Groenendyk is a Dutch national.

Greg Green (45) - *Managing Director, Temenos™Corebanking (TCB)*
Mr. Green joined TEMENOS in May 2005 as SVP of Operations in the Americas before assuming the responsibilities of Managing Director TCB in January 2006. Mr. Green has 20 years experience in the Information Systems industry. Prior to joining TEMENOS, he was Chief Operating Officer for Fiserv CBS Worldwide, directly responsible for all aspects of domestic operations, as well as operations around the globe. Mr. Green is an American national.

4.2 Other activities and vested interests

Not applicable to the members of the Executive Board.

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

As member of the Executive Board in 2005, Mr. Marc Vernet's compensation is included in this section.

5.1 Content and method of determining the compensations

Please refer also to section 3.5.2.
TEMENOS' compensation programs are designed to attract, motivate and retain top talent who can lead the business towards achievement of TEMENOS strategic plan and create shareholder value. The on-target variable element applicable to the members of the Executive Board represents approximately 55% of their total compensation. For the other employees this variable target varies depending on the job position and achievement of specific key performance objectives. Annual bonuses and long-term incentive programmes (e.g. stock option plan) are all conditional upon achievement of key financial performance targets (EPS, profits, signings, revenue) and strategic individual business objectives.

No severance payments were made to the members of the Board of Directors or to the members of the Executive Board during 2005.

5.2 Compensation for acting members of governing bodies

(exchange rates: USD/GBP: 0.5499; USD/CHF: 1.2454)

The total 2005 compensation granted to members of the Board of Directors and members of the Executive Board amounted to USD 5,506,289. Out of this total USD 5,326,289 was paid to executive members of the Board of Directors and members of the Executive Board, and USD 180,000 to the non-executive directors. The emoluments of the non-executive directors are quantified by reference to the time spent on Board and Committees matters. No severance payments were made to persons whose duties on the governing bodies had come to an end during the financial year 2005.

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 members of the Board of Directors in 2005 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 2005 by executive members of the Board: 13,972,678.
- Less than 1% outstanding shares held on 31 December 2005 by non-executive members of the Board of Directors.
- No shares held on 31 December 2005 by members of the Executive Board.

5.6 Options

- Options held on 31 December 2005 by executive members of the Board of Directors and by members of the Executive Board:

Grant Year	Options outstanding
1999	7,000
2000	124,000
2001	12,300
2002	26,500
2003	1,102,500
2004	864,000
2005	3,759,800

Total	
Number of options	5'896'100
Lowest exercise price	CHF 1.30
Highest exercise price	USD 15
Earliest exercise date	01 December 2002
Latest exercise date	11 October 2015

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 granted prior to 2004 have vesting periods of 3 to 5 years and exercise periods from 5 to 7 years. Options granted in 2004 and 2005 have vesting periods of 0 to 4 years and exercise periods from 6 to 10 years.

Please also refer to note 18 of the consolidated financial statements.

5.7 Additional fees and remunerations

Nothing to report.

5.8 Loans granted to members of governing bodies

As of 31 December 2005 the Company has outstanding loans of a total amount of CHF 94,882 to two members of the Executive Board. These loans bear a 1% interest and will be fully repaid in 2006. No additional loans have been provided in 2005 to members of the Board of Directors or members of the Executive Board or members of their families.

5.9 Highest total compensation

Total 2005 base and variable compensation of the highest paid member of the Board of Directors, Chairman George Koukis, amounted to USD 1,093,175.

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 meeting, 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, Feuille Officielle Suisse du Commerce). 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 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 §1 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.

In order to attend and vote at the Annual General Meeting of Shareholders, proxy holders of deposited shares (according to article 689d CO) are requested to inform the Company of the number of shares represented by them as early as possible, but not later than 4 business days before the Annual General Meeting of Shareholders.

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 Fifth Annual General Meeting of Shareholders of the Company will be held in Geneva on **23 May 2006**. The agenda of the Annual General Meeting of Shareholders is published and sent to each shareholder in German, French and English. All shareholders recorded in the share register on 24 April 2006 are entitled to vote.

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 re-elected as statutory and group auditors at the Annual General Meeting of Shareholders held on 25 May 2005, 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 USD 636,000 representing audit fees charged to the TEMENOS Group by PricewaterhouseCoopers (these fees are inclusive of the statutory audit fees).

8.3 Additional fees

In addition, other fees of approximately USD 268,000 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, approving their annual work plan and fees, and reviewing their findings on quality control procedures as well as steps taken by the auditors to respond to changes in regulatory and other requirements. At the end of almost all Audit Committee meetings, the Audit Committee members spent time with the external auditors without the presence of management.

Information policy

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

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

For more information, please contact either Max Chuard, Corporate Finance & Investor Relations Director at mchuard@temenos.com or Ariel Boussiba, Company Secretary at aboussiba@temenos.com.

TEMENOS GROUP AG

Consolidated Financial Statements

31 December 2005

and Report of the Group Auditors thereon

PRICEWATERHOUSECOOPERS

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REPORT OF THE GROUP AUDITORS TO THE GENERAL MEETING OF TEMENOS GROUP AG

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 23 to 54 of TEMENOS Group AG for the year ended 31 December 2005.

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.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, 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 give a true and fair view of 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.

PricewaterhouseCoopers SA

M. Foley S. Harvey

Geneva, 1 March 2006

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated income statement

for the year ended 31 December

	2005	2004 restated
Revenues		
Software licensing	**64,374**	62,829
Maintenance	**46,776**	39,806
Services	**57,502**	50,940
Total revenues (note 19)	**168,652**	153,575
Operating costs and expenses		
Cost of sales	3,978	6,091
Services	61,557	47,958
Software development and maintenance	23,923	28,249
Sales and marketing	29,381	27,455
General and administrative	27,066	32,023
Total operating costs and expenses	145,905	141,776
Other operating income	-	1,020
Operating profit	**22,747**	12,819
Other income (expenses)		
Profit on disposal of available-for-sale investment (note 8)	-	2,100
Interest expense	**(805)**	(350)
Interest income	**238**	254
Fair value loss from financial instruments, net (note 23)	**(736)**	(20)
Financial instrument related expenses (note 23)	**(260)**	(406)
Foreign exchange (losses) gains, net	**(948)**	694
Total other income (expenses)	**(2,511)**	2,272
Profit before taxation	**20,236**	15,091
Taxation (note 11)	**(2,328)**	(3,041)
Profit for the year	**17,908**	12,050
Attributable to:		
Equity holders of the Company	**18,257**	12,862
Minority interest	**(349)**	(812)
	17,908	12,050
***Earnings per share* (in US$)** (note 24):		
basic	**0.33**	0.23
diluted	**0.32**	0.22

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

	2005	2004 restated
Assets		
Current assets		
Cash and cash equivalents (note 6)	**15,584**	30,788
Trade and other receivables (note 7)	**107,730**	76,966
Prepayments and other assets	**4,492**	6,751
Total current assets	**127,806**	114,505
Non–current assets		
Property, plant and equipment (note 9)	**9,402**	10,394
Intangible assets (note 10)	**36,937**	33,133
Trade and other receivables (note 7)	**3,565**	2,637
Guarantees and restricted bank deposits	**1,160**	1,207
Deferred tax assets (note 11)	**2,500**	2,174
Total non-current assets	**53,564**	49,545
Total assets	**181,370**	164,050
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables (note 12)	**37,542**	34,346
Deferred revenues	**33,596**	34,626
Income taxes payable	**3,357**	2,397
Total current liabilities	**74,495**	71,369
Non–current liabilities		
Long-term payables	**5,568**	8,274
Liabilities under finance leases (note 14)	**280**	224
Total liabilities	**80,343**	79,867
Capital and reserves attributable to the Company's equity holders		
Share capital (note 15)	**159,009**	157,454
Treasury shares (note 15)	**(196)**	(124)
Share premium and capital reserves (note 16)	**(63,973)**	(67,357)
Fair value and other reserves (note 17)	**(963)**	4,991
Retained earnings	**6,753**	(11,504)
	100,630	83,460
Minority interest	**397**	723
Total equity	**101,027**	84,183
Total liabilities and equity	**181,370**	164,050

The attached notes form part of these consolidated financial statements.

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated cash flow statement

for the year ended 31 December

	2005	2004 restated
Cash flows from operating activities		
Profit before taxation	**20,236**	15,091
Adjustments:		
Depreciation and amortisation (note 22)	**11,180**	13,904
Profit on disposal of available-for-sale investment (note 8)	**-**	(2,100)
Losses on disposal of assets (note 9)	**39**	102
Cost of employee share option scheme (note 18)	**3,843**	2,629
Interest expense - net	**567**	96
Fair value loss from financial instruments (note 23)	**736**	20
Financial instrument related expenses (note 23)	**260**	406
Changes in net working capital		
Increase in receivables, accrued revenues and prepayments	**(32,728)**	(10,837)
Increase in accounts payable and accrued expenses	**2,034**	1,065
Decrease in deferred revenues	**(1,032)**	(3,652)
Cash generated from operations	**5,135**	16,724
Income taxes paid	**(1,470)**	(790)
Net cash generated from operating activities	**3,665**	15,934
Cash flows from investing activities		
Purchase of tangible fixed assets	**(3,361)**	(3,327)
Disposal of tangible fixed assets	**159**	304
Purchase of intangible assets	**(1,534)**	(2,070)
Disposal of intangible assets	**-**	864
Capitalised development costs (note 10)	**(10,841)**	(6,558)
Disposal of available-for-sale investment (note 8)	**1,800**	-
Acquisitions (note 5)	**(1,250)**	(3,511)
Impact of full consolidation of entity previously under proportionate consolidation	**-**	864
Contribution of cash from minority interest	**-**	980
Interest received	**247**	244
Net cash used in investing activities	**(14,780)**	(12,210)
Cash flows from financing activities		
Proceeds from issuance of shares, net of related expenses	**1,169**	833
Acquisition of treasury shares	**(88)**	(91)
Repayment of short-term borrowings	**-**	(15,000)
Restricted cash released from a banking institution	**-**	10,000
Payment of promissory notes	**(3,020)**	-
Interest payments	**(500)**	(325)
Settlement of financial instruments (note 23)	**-**	(20)
Payment of financial instrument related expenses	**(666)**	(406)
Payment of finance lease liabilities	**(169)**	(107)
Net cash used in financing activities	**(3,274)**	(5,116)
Effect of exchange rate changes	**(815)**	444
Decrease in cash and cash equivalents in the year	**(15,204)**	(948)
Cash and cash equivalents at the beginning of the year	**30,788**	31,736
Cash and cash equivalents at the end of the year	**15,584**	30,788

The attached notes form part of these consolidated financial statements.

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated statement of changes in equity

for the year ended 31 December

	Share capital (note 15)	Treasury shares (note 15)	Share premium and capital reserves (note 16)	Fair value and other reserves (note 17)	Retained earnings	Minority interest	Total
Balance at 31 December 2003 as previously reported	**155,560**	**(33)**	**(69,121)**	**3,861**	**(24,110)**	**38**	**66,195**
Restrospective impact of IFRS 2	–	–	256	–	(256)	–	–
Balance at 31 December 2003 as restated	**155,560**	**(33)**	**(68,865)**	**3,861**	**(24,366)**	**38**	**66,195**
Cumulative translation adjustment	-	-	-	322	-	-	322
Cash flow hedges, net of tax (note 17)	-	-	-	808	-	-	808
Net income (expense) recognised directly in equity	-	-	-	1,130	-	-	1,130
Profit for the year	-	-	-	-	12,862	(812)	12,050
Total recognised income	-	-	-	1,130	12,862	(812)	13,180
Cost of employee share option scheme	-	-	2,629	-	-	-	2,629
Exercise of share options (note 18)	1,436	-	(633)	-	-	-	803
Shares issued in relation to acquisitions	458	-	(374)	-	-	-	84
Share issuance costs	-	-	(114)	-	-	-	(114)
Acquisition of treasury shares	-	(91)	-	-	-	-	(91)
Business combinations	-	-	-	-	-	1,497	1,497
	1,894	(91)	1,508	1,130	12,862	685	17,988
Balance at 31 December 2004	**157,454**	**(124)**	**(67,357)**	**4,991**	**(11,504)**	**723**	**84,183**
Cumulative translation adjustment	-	-	-	(2,402)	-	23	(2,379)
Cash flow hedges, net of tax (note 17)	-	-	-	(3,552)	-	-	(3,552)
Net income (expense) recognised directly in equity	-	-	-	(5,954)	-	23	(5,931)
Profit for the year	-	-	-	-	18,257	(349)	17,908
Total recognised income	-	-	-	(5,954)	18,257	(326)	11,977
Cost of employee share option scheme	-	-	3,843	-	-	-	3,843
Exercise of share options (note 18)	1,555	-	(421)	-	-	-	1,134
Shares issued in relation to acquisitions	-	16	(14)	-	-	-	2
Share issuance costs	-	-	(24)	-	-	-	(24)
Acquisition of treasury shares	-	(88)	-	-	-	-	(88)
	1,555	(72)	3,384	(5,954)	18,257	(326)	16,844
Balance at 31 December 2005	**159,009**	**(196)**	**(63,973)**	**(963)**	**6,753**	**397**	**101,027**

1. General information

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.
These consolidated financial statements have been approved for issue by the Board of Directors on 21 February 2006.

2. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial instruments at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

In 2005 the Group adopted the IFRS below, which are relevant to its operations. The 2004 financial statements have been amended as required, in accordance with the relevant requirements.

IAS 1 (revised 2003) Presentation of Financial Statements
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003) Events after the Balance Sheet Date
IAS 16 (revised 2003) Property, Plant and Equipment
IAS 17 (revised 2003) Leases
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003) Related Party Disclosures
IAS 27 (revised 2003) Consolidated and Separate Financial Statements
IAS 31 (revised 2003) Interests in Joint Ventures
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003) Earnings per Share
IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
IFRS 2 (issued 2004) Share-based Payments
IFRS 3 (issued 2004) Business Combinations
IFRS 5 (issued 2005) Non-current Assets Held for Sale and Discontinued Operations
IAS 36 (revised 2004) Impairment of Assets
IAS 38 (revised 2004) Intangible Assets

The changes to IAS 1, 8, 10, 16, 17, 21, 24, 27, 28, 32, 33 and 39 and the adoption of IFRS 5 did not result in substantial changes to the Group's accounting policies.

In summary:

- IAS 1 (revised 2003) has affected the presentation of minority interests and the profit attributable to equity holders of the Company.
- IAS 8, 10, 16, 17, 24, 27, 32, 33, 39 and IFRS 5 had no material effect on the Group's policies.
- IAS 21 (revised 2005) had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. As a result of this reevaluation the functional currency of TEMENOS (NL) BV has been changed from Euro to US$ with effect from 1 January 2005. The Group has early adopted the amendment to IAS 21 (Amendment to International Accounting Standard 21 - December 2005).

The amounts are expressed in thousands of US dollars

The adoption of IFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004 the provision of share options to employees only resulted in a charge in the income statement if the options were granted at a price lower than the share price. Subsequently the Group charges the fair value as a cost of share options to the income statement (note 2m).

The adoption of IFRS 3, which required simultaneous adoption of IAS 36 (revised 2004) and IAS 38 (revised 2004), resulted in a change in the accounting policy for goodwill. Until 31 December 2004 goodwill was amortised on a straight line basis over a 3 or 5 year period and assessed for an indication of impairment at each balance sheet date. In accordance with IFRS 3 the Group ceased amortisation of goodwill from 1 January 2005 and goodwill is tested annually for impairment as well as when there are indications of impairment. In addition, acquisitions made after 31 March 2004 were not subject to amortisation from the date of acquisition but are instead subject to annual tests for impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- IFRS 2 - restrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2004.
- IFRS 3 - prospectively after 31 March 2004.

During the year the Group changed its accounting policy in respect of available-for-sale investments to account for the disposal of available-for-sale investments on trade date rather than settlement date (note 2u). This change in accounting policy is applied retrospectively but has no impact on the net profit for the year as previously reported or opening retained earnings.

The adoption of IFRS 2 impacted on the financial statements as follows:

	2005	**2004**
Increase in share premium and capital reserves	6,605	2,762
Decrease in retained earnings at 31 December	6,605	2,762
Decrease in opening retained earnings at 1 January	2,762	256
Increase in operating expenses	3,843	2,506
Decrease in basic earnings per share	$0.07	$0.05
Decrease in diluted earnings per share	$0.07	$0.04

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 but which the Group has not early adopted:

IAS 19 (revised 2004) Employee Benefits
IAS 39 (revised 2005) Financial Instruments: Recognition and Measurement
IFRS 1 (revised 2005) First-time Adoption of International Financial Reporting Standards
IFRS 6 (issued 2005) Exploration for and Evaluation of Mineral Resources
IFRS 7 (issued 2005) Financial Instruments: Disclosures
IFRIC 4 (issued 2004) Determining whether an Arrangement contains a Lease
IFRIC 5 (issued 2004) Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6 (issued 2005) Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IFRIC 7 (issued 2005) Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8 (issued 2006) Scope of IFRS
2IFRIC 9 (issued 2006) Reassessment of Embedded Derivatives

The changes to, and adoption of, IAS 19, IFRS 1, IFRS 6, IFRIC 4, IFRIC 5, IFRIC 6, IFRIC 7, IFRIC 8 and IFRIC 9 are not expected to result in substantial changes to the Group's accounting policies. The impact of IAS 39 and IFRS 7 is as follows:

- IAS 39 (revised 2005), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). This amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. The Group will apply this amendment from annual periods beginning 1 January 2006.

- IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of TEMENOS Group AG as well as its subsidiaries.

Subsidiaries are all 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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. 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 the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement as other operating income.

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. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. 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. 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 associate.

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

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars, which is the Group's presentation currency. The Company's functional currency is Swiss Francs.

Foreign currency transactions are translated into the functional currency using the exchange rates prevaling at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment 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”.

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented (excluding intragroup balances which are denominated in US dollars and are eliminated on consolidation) are translated at the closing rate at the date of that balance sheet.
- 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 where this represents a reasonable approximation of the exchange rate applicable on the date of the transaction.
- the resulting exchange differences are recognised in shareholders' equity 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 foreign entity and translated at the closing rate.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held with banks with original maturities of three months or less.

(e) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables 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. Impairments are recorded against revenue when a credit note will be granted for a disputed receivable and in "sales and marketing" expense when it relates to a collection risk. The amount of the provision is the difference between the carrying amount and the recoverable amount calculated as the difference between the asset’s carrying amount and the present value of estimated future cash flows.

(f) Property, plant and equipment

Property, plant and equipment is 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	4-5
Vehicles	4

Leasehold improvements are depreciated over the shorter of the lease term and useful life (ten years).

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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 and accumulated impairment losses.

For goodwill arising on acquisitions prior to the adoption of International Financial Reporting Standards No. 3 Business Combination (IFRS 3) on 31 March 2004 amortisation was calculated and recorded 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 personnel-related purchased goodwill. Following the introduction of IFRS 3, goodwill amortisation ceased at 31 December 2004 and in future accounting periods goodwill will instead be tested annually for impairment.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Amortisation in the case of other intangible assets is calculated using the straight-line method over a period of three, four or five years.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be 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 strategy 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.

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, commencing one month after the product is available for distribution. Development costs related to architecture developments are amortised over a five-year period and development costs related to functional developments are amortised over a three-year period.

(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 base of assets and liabilities and their carrying amounts in the financial statements. Currently enacted or substantially 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 occuring 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. Payments made 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 more likely than not 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

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value is determined at grant date. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. The impact of the revision of original estimates is recognised in the income statement over the remaining vesting period. The proceeds received are credited to share capital (nominal value) and share premium when the options are exercised.

(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 ease and 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 revenue represents 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, maintenance enhancements and access to the help desk 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 project hours incurred as a proportion of total projected hours to complete. 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. When significant amounts are due outside of normal business practices the revenue is recorded as the amounts become due.

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 “trade and other receivables”.

(o) Cost of sales

The direct costs associated with sales contracts, such as sales commissions and third-party licensing costs, are expensed as a "cost of sales" on an accrual basis. 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

A business segment is a group of assets and operations engaged in providing licences or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing licences 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

Group companies operate various pension schemes including both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirment. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Under defined contribution plans the relevant contributions are expensed as they accrue. Once the contributions have been paid, the Group has no further payment obligations.

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, however salary increase rates are not applicable to these defined benefit plans. 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, available-for-sale investments, 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. This credit risk is, however, mitigated by the fact that the Group’s licensees are highly rated financial institutions and the amounts due are spread over a large number of 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 impairment 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 the Group's revenue and cash in-flows are in US dollars, whereas a large part of the cost base is denominated in

Sterling and other currencies. To mitigate this mismatch the Group is making efforts to migrate the revenue streams to currencies that match the cost base and also enters into contracts for 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.

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.

Accounting for derivative financial instruments and hedging contracts
Derivative financial instruments are initially recognised in the balance sheet at fair value 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 hedged item affects profit or loss. Until the hedged item affects profit or loss the changes in the fair value of these financial instruments 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 derivative instruments entered into by the Group are provided by an independent third party.

(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.

(t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(u) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. Loans and receivables are classified as ‘trade and other receivables’ in the balance sheet (note 2e).

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to

purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates may differ from the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Critical accounting estimates and assumptions
Estimated impairment of goodwill
The Group tests annually whether goodwill and other intangible assets have suffered any impairment in accordance with the accounting policy stated in note 2h. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 10).

If the future sales of the Group's products and the size of the market opportunities are significantly lower than management's estimates the carrying value of goodwill and other intangible assets may need to be reduced accordingly. However, unless any downturn is particularly severe it is unlikely to have a material impact on the carrying value of goodwill and other intangible assets.

Income taxes
The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Were the actual final outcome (on the judgement areas) to differ by 10% from management’s estimates, the Group would need to:

- decrease the income tax liability by $137 thousand and increase the deferred tax asset by $70 thousand, if favourable; or
- increase the income tax liability by $137 thousand and decrease the deferred tax asset by $70 thousand, if unfavourable

Employee share option scheme
The fair value of the employee services received in exchange for the grant of share options is recognised as an expense, whereby the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. Were the actual number of options exercised to differ by 10% from management's estimates, the Group would need to:

- increase retained earnings and decrease share premium by $56 thousand, if favourable; or
- decrease retained earnings and increase share premium by $46 thousand, if unfavourable.

Critical judgements in applying the entity's accounting policies
Revenue recognition

As detailed in note 2n the Group is required to make an assessment for each new software licence contract as to whether the underlying software requires significant modification or customisation by the Group in order to meet the customer's requirements. If significant modification or customisation is required the software licence revenue is recognised based on percentage-of-completion. This assessment is made at the outset of the contract.

The amounts are expressed in thousands of US dollars

4. Principal group companies

The consolidated financial statements include the accounts of TEMENOS GROUP AG and the following entities as of 31 December 2005:

Company name	Country of incorporation	Ownership interest
TEMENOS Headquarters SA	Switzerland	100%
TEMENOS Suisse SA	Switzerland	100%
TEMENOS Luxembourg SA	Luxembourg	100%
TEMENOS (NL) BV	Netherlands	100%
TEMENOS Holland BV	Netherlands	100%
TEMENOS France SAS	France	100%
Quetzal Informatique SA	France	100%
TEMENOS Deutschland GmbH	Germany	100%
TEMENOS 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 Software Shanghai Co. Limited	China	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%
Fomento Empresarial de Servicios Informaticos S.A. de C.V.	Mexico	51%
TEMENOS Ecuador SA	Ecuador	100%
TEMENOS Japan KK	Japan	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 Hellas SA	Greece	100%
TEMENOS Eastern Europe Limited	Cyprus	100%
TEMENOS Polska Sp. Zoo	Poland	100%
TEMENOS Vietnam Co. Limited	Vietnam	100%
TEMENOS Software Canada Limited	Canada	100%

In addition to the group companies listed above, some Group subsidiaries maintain branches or representative offices at the following locations: Beirut (Lebanon); Dubai (United Arab Emirates); Moscow (Russia); Kiev (Ukraine); Copenhagen (Denmark); Taipei (Taiwan); and Djakarta (Indonesia).

5. Business combinations

Cash paid during 2005 in respect of acquisitions of US$ 1,250 thousand relates to the purchase of the GLOBUS related business of the PKTech Group during 2002 for total consideration of US$ 3,500 thousand.

The amounts are expressed in thousands of US dollars

6. Cash and cash equivalents

The balance in respect of cash and cash equivalents consists of:	2005	2004
Cash at bank	12,975	18,347
Short term deposits with banks	2,609	12,441
	15,584	30,788

The effective interest rate on short-term bank deposits was 1.87% (2004: 2.28%); these deposits have a weighted average maturity of 8 days (2004: 11 days).

7. Trade and other receivables

	2005	2004
Trade receivables	73,126	52,459
Accrued revenues	34,605	22,614
VAT and other taxation recoverable	2,424	2,070
Other receivables	2,694	3,679
Provision for doubtful debts	(1,554)	(1,219)
	111,295	79,603
Less non-current portion: trade receivables	(3,565)	(2,637)
	107,730	76,966

The fair value of trade and other receivables, based on discounted cash flows, equates to the values given above.

The expense for doubtful debts is recorded in "sales and marketing" and amounts to US$ 905 thousand (2004: US$ 1,082 thousand).

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers which are internationally dispersed.

8. Available-for-sale financial assets

In December 2004 TEMENOS Holdings NV entered into an agreement to sell its 20% equity interest in a private Italian company to the original shareholders for an arms length value of US$ 2.1 million resulting in the recording of a gain in the 2004 consolidated statement of income. Proceeds of US$ 1.8 million were received during 2005.

The amounts are expressed in thousands of US dollars

9. Property, plant and equipment

Tangible fixed assets consist of:

	Leasehold improvements	Vehicles	Fixtures fittings & equipment	Total
Cost				
At 1 January 2005	9,401	882	14,209	24,492
Foreign currency exchange differences (1)	(1,102)	(90)	(1,345)	(2,537)
Additions (2)	807	1,053	1,345	3,205
Disposals (2) (3)	(417)	(25)	(1,924)	(2,366)
31 December 2005	8,689	1,820	12,285	22,794
Depreciation				
At 1 January 2005	4,885	397	8,816	14,098
Foreign currency exchange differences (1)	(583)	(34)	(857)	(1,474)
Charge for the year (2) (4)	1,236	197	1,437	2,870
Disposals (2) (3)	(406)	(24)	(1,672)	(2,102)
31 December 2005	5,132	536	7,724	13,392
Net book value				
31 December 2005	3,557	1,284	4,561	9,402

Year ended 31 December 2004

	Leasehold improvements	Vehicles	Fixtures fittings & equipment	Total
Cost				
At 1 January 2004	7,019	860	13,240	21,119
Foreign currency exchange differences (1)	552	56	866	1,474
Additions (2)	2,019	328	1,635	3,982
Full consolidation of entity previously under proportionate consolidation	38	36	149	223
Disposals (2) (3)	(227)	(398)	(1,681)	(2,306)
31 December 2004	9,401	882	14,209	24,492
Depreciation				
At 1 January 2004	3,511	349	8,070	11,930
Foreign currency exchange differences (1)	247	20	535	802
Charge for the year (2) (4)	1,258	197	1,606	3,061
Full consolidation of entity previously under proportionate consolidation	37	13	98	148
Disposals (2) (3)	(168)	(182)	(1,493)	(1,843)
31 December 2004	4,885	397	8,816	14,098
Net book value				
31 December 2004	4,516	485	5,393	10,394

(1) The amounts have been restated to reflect the changes in the parity of the functional currencies of the operating entities owning the assets with the US dollar.

The amounts are expressed in thousands of US dollars

(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 2005	784	(484)	300
Additions	184	(149)	35
Foreign currency exchange differences (1)	(96)	61	(35)
31 December 2005	872	(572)	300

In most cases the assets leased are pledged as collateral against the lease liability.

(3) The loss on the disposals charged to the income statement in 2005 amounted to US$ 39 thousand (2004: US$ 14 thousand).

(4) The depreciation charge reported above has been quantified as follows:

	Charge for the year	Currency translation adjustments	Total
Year ended:			
31 December 2005	2,998	(128)	2,870
31 December 2004	2,958	103	3,061

At the balance sheet date the Group was in course of construction of a boat to be used for marketing purposes (included within vehicles). US$ 1,010 thousand was incurred during 2005 and there is a commitment to incur an additional US$ 1,430 thousand during 2006.

10. Intangible assets

	Capitalised development costs	Purchased business related goodwill	Purchased personnel related goodwill	Purchased copyrights	Computer software	Purchased maintenance agreements	Total
Cost							
At 1 January 2005	26,784	16,747	1,108	20,783	4,261	2,498	72,181
Foreign currency exchange differences (1)	-	-	-	-	(445)	-	(445)
Additions	10,873	-	-	784	531	-	12,188
Disposals (2)	-	-	-	-	(533)	-	(533)
31 December 2005	37,657	16,747	1,108	21,567	3,814	2,498	83,391
Amortisation							
At 1 January 2005	14,302	4,443	863	16,806	2,390	244	39,048
Foreign currency exchange differences (1)	-	-	-	-	(209)	-	(209)
Charge for year (3)	3,871	-	-	3,073	559	645	8,148
Disposals (2)	-	-	-	-	(533)	-	(533)
31 December 2005	18,173	4,443	863	19,879	2,207	889	46,454
Net book value							
31 December 2005	19,484	12,304	245	1,688	1,607	1,609	36,937

The amounts are expressed in thousands of US dollars 31 December 2005

	Capitalised development costs	Purchased business related goodwill	Purchased personnel related goodwill	Purchased copyrights	Computer software	Purchased maintenance agreements	Total
Year ended 31 December 2004							
Cost							
At 1 January 2004	20,226	6,248	1,335	18,663	3,575	-	50,047
Foreign currency exchange differences (1)	-	-	-	-	293	-	293
Additions	6,558	10,499	-	2,120	905	2,498	22,580
Full consolidation of entity previously under proportionate consolidation	-	-	219	-	-	-	219
Disposals (2)	-	-	(446)	-	(512)	-	(958)
31 December 2004	26,784	16,747	1,108	20,783	4,261	2,498	72,181
Amortisation							
At 1 January 2004	11,587	3,224	583	11,051	2,133	-	28,578
Foreign currency exchange differences (1)	-	-	-	-	184	-	184
Charge for year (3)	2,715	1,219	468	5,755	545	244	10,946
Full consolidation of entity previously under proportionate consolidation	-	-	86	-	-	-	86
Disposals (2)	-	-	(274)	-	(472)	-	(746)
31 December 2004	14,302	4,443	863	16,806	2,390	244	39,048
Net book value							
31 December 2004	12,482	12,304	245	3,977	1,871	2,254	33,133

(1) The amounts have been restated to reflect the changes in the parity of the functional currencies of the operating entities owning the assets with the US dollar.

(2) The loss on disposals charged to the income statement in 2005 was US$ nil (2004: US$ 88 thousand).

(3) The amortisation charge reported above has been quantified as follows:

	Charge for the year	**Currency translation adjustments**	**Total**
Year ended:			
31 December 2005	8,182	(34)	8,148
31 December 2004	10,946	5	10,946

Impairment tests for goodwill
Goodwill is allocated to the Group's cash-generating units identified according to country of operation or business segment. A segment-level summary of the goodwill allocation is presented below:

	2005			**2004**		
	Software licensing	Services	Total	Software licensing	Services	Total
Europe, Middle East and Africa	11,011	84	11,095	11,011	84	11,095
Asia	1,293	122	1,415	1,293	122	1,415
Americas	-	39	39	-	39	39
Corporate	-	-	-	-	-	-
	12,304	245	12,549	12,304	245	12,549

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations over the next two to four years.

The amounts are expressed in thousands of US dollars

These calculations use forecasts of contract signings and/or estimates of growth rates related to specific business segments. Forecasts of contract signings are based on an evaluation of the Group's current pipeline. The growth rates used in the calculations for specific business segments are 5%. If a nil growth rate had been used in the calculations this would not have a material impact on the carrying value of goodwill. The discount rate used in the calculations is 15%.

11. Taxation

Tax expense:	**2005**	**2004**
Domestic current income taxes	273	350
Overseas current income taxes, including non-recoverable withholding tax	2,775	2,994
Total current taxes	3,048	3,344
Deferred income taxes	(720)	(303)
Total tax expense	2,328	3,041

TEMENOS Group AG is incorporated in Switzerland but the Group operates in various countries with various 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:

	2005	**2004**
Profit before tax	20,236	15,091
Tax at the domestic rate of 25%	5,059	3,773
Effects of different tax rates	(4,826)	(11,629)
Tax holiday	(1,402)	(671)
Utilisation of previously unrecognised losses	(3,079)	(124)
Current year's losses not utilised	7,152	9,426
Recognition of deferred tax assets on net operating losses brought forward	(1,300)	(303)
Effect of current period adjustment for tax of prior period	(781)	67
Non deductible expenses	865	2,366
Other tax and credits	640	136
Total tax expense	2,328	3,041

Deferred tax assets and liabilities are offset when there is a legally enforeable right to offset current tax assets against current tax liabilities and 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:

	2005	**2004**
Deferred tax assets	2,500	2,174
Deferred tax liabilities	-	-
Net deferred tax assets	2,500	2,174

The deferred tax assets recognised in the financial statements relate to losses carried forward in certain of the Group's operating subsidiaries. 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. The majority of the deferred tax assets are expected to be utilised after more than twelve months.

In addition to the deferred tax assets recognised above, the Group has unrecognised deferred tax assets relating to losses carried forward of US$ 32,582 thousand (2004: US$ 25,566 thousand), of which US$ 1,893 thousand (2004: US$ 2,006 thousand) will expire within five years and the remaining amount thereafter. There are no unrecognised deferred tax liabilities.

The amounts are expressed in thousands of US dollars

The movement in deferred tax assets is as follows:

At 1 January 2005	2,174
Income statement credit	720
Foreign exchange movement on deferred tax assets held in local currencies	(432)
Other	38
At 31 December 2005	2,500

12. Trade and other payables

	2005	2004
Trade payables	16,098	16,810
Accrued expenses	16,665	15,897
Other payables	4,779	1,639
	37,542	34,346

13. Bank loans

On 21 March 2005 the group negotiated financing facilities with two large financial institutions which replace existing financing facilities. The pertinent details of the new facilities are as follows:

Facilities available for general working capital needs:

US$ 30 million bearing interest at LIBOR/EURIBOR (depending on drawing currency) + 1.5%. This is repayable as follows:
US$ 10 million repayable in full on 20 March 2008
US$ 10 million repayable in full on 20 March 2007
US$ 10 million repayable in full on 20 March 2006
Commitment fees are due at 0.75 % of the margin on the above facilities.

Facility available for issuing guarantees (e.g. performance bonds, rent deposits):

US$ 10 million repayable in full on 20 March 2008. No commitment fees are due on this facility. Instead, industry standard guarantee setup fees are applied to any usage of this facility.

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.

As at 31 December 2005 and 31 December 2004 the facilities were not drawn upon.

14. Liabilities under finance leases

	2005	2004
Obligations under finance leases:		
repayable within one year	172	136
repayable between two and five years	120	161
	292	297
Finance charges allocated to future accounting periods	(12)	(21)
	280	276

The amounts are expressed in thousands of US dollars 31 December 2005

15. Share capital

As at 31 December 2005, the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, comprised 55,305,850 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 2005, are summarised below:

	number	Nominal value in CHF	in US$
Issued, as at 31 December 2003	54,472,469	272,362	155,560
Shares issued as part of the consideration paid for the acquisition of Integrated Core Technologies Participations SA in 2001	118,136	591	458
Shares issued on exercise of employee share options	361,830	1,809	1,436
Total number of shares issued, as at 31 December 2004	54,952,435	274,762	157,454
Shares issued on exercise of employee share options	397,757	1,989	1,555
Total number of shares issued, as at 31 December 2005	55,350,192	276,751	159,009
Treasury shares	(44,342)	(208)	(196)
Total number of shares outstanding, as at 31 December 2005	55,305,850	276,543	158,813

As at 31 December 2005 the number of treasury shares held by the Group amounted to 44,342 (2004: 19,647). Treasury shares include shares held for resale and other shares alloted to members of the TEMENOS Employee Share Option Scheme or other option holders 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 2006).	26,951,327
conditional shares that may be issued on the exercise of employee share options.	12,309,437
conditional shares that may be issued in conjunction with financial instruments.	13,930,680

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 2005, 4,258 of these share options were outstanding (2004: 8,295). These options are fully vested. A warranted share subscription reserve was established at the time of the transaction, and the exercise of these share options will reduce this reserve accordingly (note 16).

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 2005, the dilution effect of the latter has been quantified as follows:

	Common shares outstanding	Weighted average number of outstanding common shares	Employee share options outstanding	Share warrants outstanding	Equivalent potentially dilutive common shares
31 December 2005	55,305,850	55,024,848	11,628,353	4,258	2,774,271
31 December 2004	54,932,788	54,736,636	6,757,736	8,295	3,129,750

The amounts are expressed in thousands of US dollars

16. Share premium and capital reserves

	Share premium	Warranted share subscription reserve	Employee share options reserve	Discount on shares issued to employees	Negative premium arising on creation of Temenos Group AG	Total
Balance at 31 December 2003 as previously reported	3,719	402	2,166	(6,952)	(68,456)	(69,121)
Retrospective impact of IFRS 2	-	-	256	-	-	256
Balance at 31 December 2003 as restated	3,719	402	2,422	(6,952)	(68,456)	(68,865)
Cost of employee share option scheme	-	-	2,629	-	-	2,629
Exercise of share options (note 18)	258	-	-	(891)	-	(633)
Shares issued in relation to acquisitions	-	(374)	-	-	-	(374)
Share issuance costs	(114)	-	-	-	-	(114)
Balance at 31 December 2004	3,863	28	5,051	(7,843)	(68,456)	(67,357)
Cost of employee share option scheme	-	-	3,843	-	-	3,843
Exercise of share options (note 18)	404	-	-	(825)	-	(421)
Shares issued in relation to acquisitions	-	(14)	-	-	-	(14)
Share issuance costs	(24)	-	-	-	-	(24)
Balance at 31 December 2005	4,243	14	8,894	(8,668)	(68,456)	(63,973)

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.

Reserve for treasury shares
Under Swiss law a legal reserve must be established for an amount equal to the cost of treasury shares held by the Group. This reserve is included within share premium. As at 31 December 2005 the cost of treasury shares held by the Group was US$ 196 thousand (2004: US$ 124 thousand).

Warranted share subscription reserve
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. The warranted share subscription reserve was credited with the approximate fair value of the options on issuance.

Employee share options reserve
As detailed in note 18, the Group operates an employee share options scheme. The excess of the market price over the grant price 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
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 lower than the nominal value of CHF 5 per share, this amount is allocated to discount on shares issued to employees.

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 per share, 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. Expenses related to the initial public offering of TEMENOS Group AG, and share premium items arising prior to the creation of TEMENOS Group AG, were recorded against this account.

The amounts are expressed in thousands of US dollars

A deficit of US$ 62,277 thousand was recorded to share premium on the cancellation of shares repurchased in 2000. This was transferred into "negative premium arising on creation of TEMENOS Group AG" during the period ended 31 December 2001.

17. Fair value and other reserves

Included within fair value and other reserves are the following:

Cumulative translation adjustment
The cumulative translation adjustment represents the foreign exchange gains and losses resulting from the translation of the subsidiaries' assets, liabilities and results of operations from their functional currency into the Group's reporting currency (US$).

Fair value gains on cash flow hedges
The fair value reserve on cash flow hedges represents the fair value gain on forward foreign currency exchange contracts that were outstanding at the end of the reporting period that qualify as cash flow hedges.

	Cumulative translation adjustment	Fair value gains (losses) on qualifying cash flow hedges	Total
Balance at 31 December 2003	2,463	1,398	3,861
Currency translation differences	322	-	322
Transfers to net profit	-	(2,325)	(2,325)
Net fair value gain on cash flow hedge, net of tax (note 23)	-	3,133	3,133
Balance at 31 December 2004	2,785	2,206	4,991
Currency translation differences	(2,402)	-	(2,402)
Transfers to net profit	-	(205)	(205)
Net fair value gain on cash flow hedge, net of tax (note 23)	-	(3,347)	(3,347)
Balance at 31 December 2005	383	(1,346)	(963)

18. 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 its subsidiary companies. 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 2005, net of cancellations, were 14,918,915 shares (as at 31 December 2004: 9,650,541) with option prices ranging from US$ 0.005 to US$ 15.00 per share. The vesting period ranges from one to five years and the options expire ten years after the grant date. The cumulative options exercised under the plan as at 31 December 2005 amounted to 3,290,563 shares (period ended 31 December 2004: 2,892,806).

The amounts are expressed in thousands of US dollars

A summary of the movements on the stock option plan for the two years ended 31 December 2005 is set out below:

	2005		2004	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding at the beginning of the year	6,757,736	$ 4.63	5,790,645	$ 3.61
Options granted during the year	5,724,550	$ 7.87	1,500,000	$ 6.94
Options cancelled during the year	(456,176)	$ 4.60	(162,803)	$ 5.62
Options exercised during the year	(397,757)	$ 2.97	(370,106)	$ 2.25
Options outstanding at the end of the year	11,628,353	$ 6.21	6,757,736	$ 4.63

Of the 11,628,353 outstanding options (2004: 6,757,736), 2,851,543 options (2004: 1,988,714) were exercisable at the balance sheet date. The options exercised during the year had a weighted average share price at the time of exercise of US$ 8.23 (2004: US$ 8.56). Share options outstanding at the end of the year have the following expiry date and exercise prices:

Exercise price	Number of shares 2005	Number of shares 2004	Weighted average remaining contractual life (years) 2005	Weighted average remaining contractual life (years) 2004
$0.01-$0.35	623,300	795,134	2.47	3.59
$0.99-$1.37	1,815,400	1,917,700	7.05	8.00
$2.28-$2.50	29,500	52,100	4.31	4.96
$4.10-$6.09	1,498,476	1,736,299	6.03	6.95
$6.47-$7.96	3,250,550	1,482,600	8.66	9.01
$8.25-$9.33	3,861,051	190,076	9.50	5.67
$10.00-$15.00	550,076	583,827	5.93	6.95
	11,628,353	6,757,736		

As at 31 December 2005 2,004,200 (2004: 1,014,200) of these outstanding share options were held by executive members of the Board of Directors of TEMENOS Group AG, at exercise prices ranging from US$ 0.93 to US$ 15.00 per share. During 2005 executive members of the Board of Directors of TEMENOS Group AG of the holding Company were granted 1,000,000 options at a weighted average exercise price of US$ 8.05 per share (2004: 400,000 options at an exercise price of US$ 6.80 per share).

Fair value of stock options

The fair value of options granted during the period determined using the Black-Scholes valuation model was US$ 12,835 thousand (2004: US$ 3,021 thousand). The significant inputs into the model were weighted average share price at grant date of US$ 7.80 (2004: US$ 7.15), weighted average exercise price of US$ 7.87 (2004: US$ 6.94), standard deviation of expected share price returns of 37% - 38% (2004: 40%), weighted average option lives of 3.52 years (2004: 2.56 years) and weighted average annual risk-free interest rate of 0.87% (2004: 0.35%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the relevant historical period. Where there is no relevant historical period the standard deviation of expected share price returns is based on calculations derived from a relevant peer group.

The cost of employee share options, including the amount in respect of key management, is disclosed in note 20.

Prior to the adoption of IFRS 2 the cost of the scheme was calculated as the difference between the exercise price and the market price at the time of grant, and was charged to operations over the vesting period. US$ 123 thousand was charged to operations in respect of this during 2004.

19. Segmental reporting

Segment information of the TEMENOS GROUP is based on two segment formats. The primary reporting segment format consists of the two distinct business activities: software licensing; and services. The secondary reporting segment format consists of the major geographical regions in which the Group operates. The company'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

	2005			2004		
	Software licensing	Services	Total	Software licensing	Services	Total
Segment revenues	111,150	57,502	168,652	102,635	50,940	153,575
Segment operating result	83,249	(4,055)	79,194	69,315	2,982	72,297
Unallocated operating costs			(56,447)			(59,478)
Operating profit			22,747			12,819
Other income (expenses)						
Profit on disposal of available-for-sale investment			-			2,100
Interest expense			(805)			(350)
Interest income			238			254
Fair value loss from financial instruments			(736)			(20)
Financial instrument related expenses			(260)			(406)
Foreign exchange (losses) gains, net			(948)			694
Total other income (expenses)			(2,511)			2,272
Profit before taxation			20,236			15,091
Taxation			(2,328)			(3,041)
Profit for the year			17,908			12,050
Attributable to:						
Equity holders of the Company			18,257			12,862
Minority interest			(349)			(812)
			17,908			12,050
Assets						
Segment assets	114,427	24,449	138,876	86,523	21,140	107,663
Unallocated assets			42,494			56,387
Total assets			181,370			164,050
Liabilities						
Segment liabilities	(31,340)	(2,101)	(33,441)	(32,094)	(2,532)	(34,626)
Unallocated liabilities			(46,902)			(45,241)
Total liabilities			(80,343)			(79,867)

Other segment items (not including unallocated items)

	2005			2004		
	Software licensing	Services	Total	Software licensing	Services	Total
Capital expenditure	10,841	-	10,841	6,558	-	6,558
Depreciation and amortisation	11,180	-	11,180	9,710	469	10,179

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

	Asia	Americas	Europe, Middle East and Africa	Total
Year ended 31 December 2005	27,930	37,618	103,104	168,652
Year ended 31 December 2004	23,781	20,031	109,763	153,575

Assets by region

	Asia	Americas	Europe, Middle East and Africa	Total
Year ended 31 December 2005				
Segment assets	24,289	9,121	83,958	117,368
Unallocated assets				64,002
Total assets				181,370
Year ended 31 December 2004				
Segment assets	16,074	3,757	71,367	91,198
Unallocated assets				72,852
Total assets				164,050

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.

20. Personnel costs and numbers

Total personnel costs and the total number of the employees of the Group as at 31 December 2005 and 2004, are set out below (in thousands of US dollars except for staff numbers):

The amounts are expressed in thousands of US dollars

By region where employees are based

Number of persons employed (including external consultants):

	average for year **2005**	31 December **2005**	31 December **2004**
Europe, Middle East and Africa	581	585	551
Asia	600	661	555
Americas	100	127	73
	1,281	1,373	1,179

Personnel costs

	2005	**2004**
Salary, bonuses and commissions	64,878	58,514
Termination payments	681	582
Social charges	7,091	6,248
Defined contribution and defined benefit pension costs (note 21)	3,166	3,098
Cost of employee share option scheme	3,843	2,629
Other personnel costs	4,320	3,395
	83,979	74,466

Included in the personnel costs shown above, are the following amounts in respect of remuneration for key management personnel:

	2005	**2004**
Key management personnel of Temenos Group AG		
- short-term employee benefits	5,107	4,868
- post-employment benefits	219	218
- share-based payment	2,148	1,392
	7,474	6,478
Non-executive directors		
- short-term employee benefits	180	100

21. 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 2005, amounted to US$ 2.6 million (2004: US$ 2.4 million). Generally, the Group does not maintain, nor is it committed to support, any defined benefit plans for its current or former employees.

The amounts are expressed in thousands of US dollars

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:

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

	2005	2004
Present value of funded obligations	6,822	6,710
Fair value of plan assets	(7,737)	(6,820)
	(915)	(110)
Unrecognised actuarial gains	671	-
Assets not recognised	29	-
Net asset in the balance sheet	(215)	(110)
Amounts in the balance sheet:		
liabilities	-	-
prepaid asset	215	110
Net asset in the balance sheet	215	110

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

	2005	2004
Current service cost	632	703
Interest on obligation	197	176
Expected return on plan assets	(222)	(190)
Assets not recognised	29	-
Total costs included in personnel costs	636	689
Actual return on plan assets	662	235

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

	2005	2004
Net asset at the beginning of the year	(110)	(59)
Net expense recognised in the income statement	636	689
Contributions	(764)	(730)
Benefits paid	-	-
Exchange differences	23	(10)
Net asset at the end of the year, included within trade and other receivables	(215)	(110)

Principal weighted average actuarial assumptions at the balance sheet date:

	2005	2004
Discount rate at 31 December	3.25%	3.00%
Expected return on plan assets at 31 December	3.25%	3.00%

The amounts are expressed in thousands of US dollars

22. Expenses by nature

	2005	2004
Third party licences and commissions	3,978	6,091
Personnel costs and external consultants	99,818	82,981
Depreciation and amortisation	11,180	13,904
Travel expenses	17,669	16,355
Rent and other occupancy costs	9,175	11,976
Marketing and other professional costs	5,591	7,111
Other costs	9,335	9,916
Capitalised expenditure	(10,841)	(6,558)
	145,905	141,776

The depreciation and amortisation charge is analysed as follows:

	Depreciation of tangible fixed assets (note 9)	Amortisation of purchased business-related goodwill (note 10)	Amortisation of purchased personnel-related goodwill (note 10)	Amortisation of other intangible assets (note 10)	Amortisation of capitalised development costs (note 10)	Aggregate amount charged to operations
Year ended:						
31 December 2005	2,998	-	-	4,311	3,871	11,180
31 December 2004	2,958	1,219	468	6,544	2,715	13,904

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 profit and loss 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 profit and loss statement based on headcount.

23. Financial instruments

Derivative financial instruments

The Group entered into forward foreign currency exchange contracts during the year to hedge a portion of the Group's operating costs. The profit on contracts that qualified as cash flow hedges under IAS 39 generated profits for the year of US$ 156 thousand (2004: US$ 2,325 thousand). This profit has been offset against operating expenses. The loss on contracts that did not qualify as hedges under IAS 39 is recorded as "fair value loss from financial instruments" and amounts to US$ 736 thousand (2004: US$ 20 thousand).

The fair value contracts outstanding at 31 December 2005 are as follows:

	Liabilities
Forward foreign currency exchange contracts for 2006	1,346

The net fair value gain on open forward foreign exchange contracts which mostly hedge anticipated future foreign currency operating 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 2006.

Financial instrument related expenses

In March 2005 an arrangement was signed with a major international bank for a loan facility (as described in note 13). Legal and set up fees relating to the arrangement of US$ 260 thousand have been expensed in 2005.

24. Earnings per share calculations

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares (share options). A calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the rights attached to outstanding share options.

The inputs into the earnings per share calculation are as follows:

	2005	**2004**
Profit attributable to equity holders of the Company	18,257	12,862
Weighted average of common shares outstanding during the year (in thousands) (note 15)	55,025	54,737
Equivalent common shares relating to outstanding share options and share warrants (in thousands) (note 15)	2,774	3,130
Aggregate number of equivalent common shares for purposes of calculating the diluted earnings per share (in thousands)	57,799	57,867

25. 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 2005 amounted to US$ 7.6 million (2004: US$ 10.8 million) and operating lease expenses relating to leased equipment were US$ 1.6 million (2004: US$ 1.1 million).
As at 31 December 2005, the future minimum lease payments to which the Group was committed under non-cancellable operating leases were as follows:

	Office premises	Equipment	Total
2006	7,242	1,012	8,254
2007	5,845	775	6,620
2008	4,246	167	4,413
2009	3,865	43	3,908
2010	3,740	5	3,745
Thereafter	8,349	-	8,349
Total	33,287	2,002	35,289

The Group has contingent liabilities in respect of bank and other guarantees and 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. Information relating to provisions recorded in the financial statements is included in note 26.

At the end of the year the Group was in the course of construction of certain assets. The commitments in respect of these assets are disclosed in note 9.

The amounts are expressed in thousands of US dollars

26. Provisions for liabilities and charges

	Legal claims	Onerous lease	Total
At 1 January 2005	268	1,068	1,336
Charged to income statement	148	(447)	(299)
Foreign currency exchange differences	(7)	(68)	(75)
Used during the year	(215)	(431)	(646)
31 December 2005	194	122	316

Provisions for liabilities and charges are included within trade and other payables.

Legal claims

The amounts represent provisions for certain legal claims brought against the Group. The outcome of the legal disputes, and the timing of any payments, is uncertain. In the directors' opinion the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2005.

Onerous lease

During 2004 one of the Group's subsidiaries sublet a property to a third party. The difference between the amount that will be received from the tenant, and the amount that will be paid to the landlord, has been fully provided. The provision will be utilised during the next 6 years.

27. Related party transactions and balances

Remuneration of executive and non-executive directors is described in note 20. Equity compensation for key management personnel granted in the form of stock options is described in note 18.

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 475 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 one 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 2005.

28. Post balance sheet events

Acquisition of business and assets of TLC Consulting Limited

On 13 January 2006 the Group acquired the business and assets of TLC Consulting Limited, a company specialising in risk management solutions. The initial consideration of £2.624 million is satisfied by the issue of shares in Temenos Group AG. Any further payments will be dependent and based on the future performance of the business during the course of the next two years.

As part of the assets of TLC Consulting Limited, TEMENOS acquired the rights to the Barracuda intellectual property.

The transaction will be accounted for using the provisions of International Financial Reporting Standard 3, Business Combinations (IFRS 3). As a result of the provisions of IFRS 3 goodwill under this transaction will not be amortised, but will be reviewed annually for impairments.

Group restructure

On 1 January 2006 the Group completed an internal restructuring to transfer the intellectual property of the Group's software to TEMENOS Headquarters SA and three newly created Swiss entities. As a consequence the functional currency of TEMENOS Headquarters has changed to US$ with effect from 1 January 2006.

Issue of convertible bond

The Group has announced on 1 March 2006 that it is issuing a convertible bond for up to CHF 132.25 million with a coupon rate of 1.50%.

TEMENOS GROUP AG

Unconsolidated Financial Statements

31 December 2005

and Report of the Statutory Auditors thereon

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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 (balance sheet, income statement and notes) of TEMENOS Group AG for the year ended 31 December 2005.

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 Swiss Auditing Standards, 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 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 S. Harvey

Geneva, 1 March 2006

TEMENOS GROUP AG

The amounts are expressed in thousands of Swiss Francs

balance sheet

as at 31 December

	2005	2004
Assets		
Current assets		
Other receivables	**14**	7
Treasury shares	**186**	105
Liquid funds	**62**	166
Total current assets	**262**	278
Non-current assets		
Investments in, and advances to, subsidiaries (note 2)	**458,248**	449,675
Receivable from other Group entities	**2,248**	-
Total non-current assets	**460,496**	449,675
Total assets	**460,758**	449,953
Liabilities and shareholders' equity		
Current liabilities		
Trade payables	**36**	-
Accrued expenses	**26**	26
Tax payable	**6**	-
Total current liabilities	**68**	26
Non-current liabilities		
Payable to other Group entities	**8,573**	150
Total non-current liabilities	**8,573**	150
Shareholders' equity		
Share capital (note 3)	**276,751**	274,762
Share premium (note 4)	**175,326**	174,888
Reserve for treasury shares (note 4)	**208**	146
Retained deficit	**(168)**	(19)
Total shareholders' equity	**452,117**	449,777
Total shareholders' equity and liabilities	**460,758**	449,953

income statement

for the year ended 31 December

	2005	2004
Expenses associated with the maintenance of the Register of Shareholders and other related costs	**(149)**	(70)
Net loss before and after taxation	**(149)**	(70)
Retained deficit at beginning of year	**(19)**	51
Retained deficit at end of year	**(168)**	(19)

The amounts are expressed in thousands of Swiss Francs 31 December 2005

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, TEMENOS Headquarters SA, TEMENOS Suisse SA and IT Services Limited.

2. Investments in, and advances to, subsidiaries

The investments of TEMENOS Group AG represent the shares of its four wholly owned subsidiary companies, as follows:

	2005	**2004**
TEMENOS Holdings NV, Netherlands Antilles (holding and licensing company)		
40,105 shares of a nominal value of US$ 1 each, at cost	200,522	200,522
Advances for the acquisition of new shares	249,052	249,052
TEMENOS Headquarters SA, Switzerland (management company)		
1,000 shares of a nominal value of CHF 100 each, at cost	5,625	-
TEMENOS Suisse SA, Switzerland (services company)		
15,000 shares of a nominal value of CHF 500 each, at cost	2,948	-
I.T. Services Limited, Cyprus (dormant)		
100 shares of a nominal value of CY£1 each, at cost	101	101
	458,248	449,675

3. Share capital

As at 31 December 2005 the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, comprised 55,350,192 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 2005, are summarised below:

	2005		**2004**	
	number	**Nominal value in CHF**	**number**	**Nominal value in CHF**
Authorised share capital issued	51,473,309	257,366	51,473,309	257,366
Conditional or contingent capital issued	3,876,883	19,385	3,479,126	17,396
Total number of TEMENOS Group AG shares issued, as at 31 December	55,350,192	276,751	54,952,435	274,762

The shares issued by the Company during the year are set out below:	**2005 number**	**2004 number**
Total number of TEMENOS Group AG shares issued, as at 1 January	54,952,435	54,472,469
Shares issued and alloted in relation to acquisitions	-	109,841
Shares issued and alloted on exercising of employee share options	397,757	361,830
Shares issued held as Treasury stock by Temenos Holdings NV	-	8,295
Total number of TEMENOS Group AG shares issued, as at 31 December	55,350,192	54,952,435

The amounts are expressed in thousands of Swiss Francs

It should be noted that the above tables includes treasury shares which had not been allotted to third parties. As at 31 December 2005 the number of treasury shares held by the Group amounted to 44,342 (2004: 19,647). 4,258 (2004: 8,295) of these treasury shares are held by TEMENOS Holdings NV (a wholly owned subsidiary of TEMENOS Group AG) and will be 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. 40,084 of the treasury shares are held for resale. During the year the company acquired 83,732 shares at market value and disposed of 55,000 shares at market value.

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 2006).	26,951,327
conditional shares that may be issued on the exercise of employee share options.	12,309,437
conditional shares that may be issued in conjunction with financial instruments.	13,930,680

The only holdings of 5% or more in the issued share capital of the Company are as follows:

George Koukis	25.2%
Global Capital Investors	10.0%
Schroders plc	5.8%

4. Share premium

The share premium is reported after:

- deduction of expenses, amounting to CHF 28 thousand (2004: CHF 146 thousand), which were incurred in conjunction with the issuance of new shares

- deduction for reserve for treasury shares of CHF 208 thousand (2004: CHF 146 thousand).

5. Treasury shares

TEMENOS Group AG holds 40,084 shares at 31 December 2005 intended for resale (2004: 11,352).

6. 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 for a total of US$ 40 million. Management believes that these guarantees are unlikely to be activated.

Information for Investors

CAPITAL STRUCTURE

The share capital is divided into 55.4 million registered shares of a par 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

23 May 2006

NEXT PUBLICATION

3 May 2006 Q1 Results

Development of the TEMENOS share price

STATISTICS ON TEMENOS SHARES

Registered shares of CHF 5 nominal	2005
Sector:	Technology/Software
Market Segment:	SWX Main Market
Index Member:	SPI
Swiss Security No:	124 5391
ISIN No:	CH0012453913
Symbol:	TEMN
Number of shares	55,350,192
Market price high/low (CHF)	12.80/6.35
Market price 31.12.2004 (CHF)	10.50
Market price 31.12.2005 (CHF)	12.80
Market capitalisation high/low (CHF m)	709/352
Share capital nominal value at 31.12.2005 (CHF m)	277

Key Figures per Share	
Basic earnings (losses) per share (in US$)	0.33
Diluted earnings (losses) per share (in US$)	0.32
Consolidated shareholders' equity (USD m)	100.6
Consolidated shareholders' equity per share (USD)	1.82

Major shareholders (>5%) of TEMENOS Group AG*	
George Koukis*	17.5%
Schroders**	5.8%

** as of 1 March 2006*

*** deposited shares (art. 689d CO) - as of 31 December 2005*

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