TEMENOS

Interim Report 2005

TEMENOS™

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Contents

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated income statement
for the period ended 30 June 2005

	Six months to 30 June 2005	Six months to 30 June 2004
Revenues		
Software licensing	**21,279**	*32,666*
Maintenance	**22,678**	*18,300*
Services	**28,153**	*26,001*
Total revenues	**72,110**	*76,967*
Operating costs and expenses		
Cost of sales	**2,130**	*2,861*
Services	**28,256**	*23,459*
Software development and maintenance	**12,272**	*15,859*
Sales and marketing	**13,672**	*13,431*
General and administrative	**13,210**	*14,769*
Amortisation of goodwill	-	*884*
Total operating costs and expenses	**69,540**	*71,263*
Other operating income	-	*1,020*
Operating profit	**2,570**	*6,724*
Other income (expenses)		
Interest expense	**(404)**	*(168)*
Interest income	**145**	*140*
Loss from financial instruments	-	*(20)*
Financial instrument related expenses	**(93)**	*(254)*
Foreign exchange losses - net	**(537)**	*(190)*
Total other income (expenses)	**(889)**	*(492)*
Profit before taxation	**1,681**	*6,232*
Taxation	**(269)**	*(1,135)*
Net income for the period	**1,412**	*5,097*
Attributable to:		
Equity holders of the parent	**1,620**	*5,760*
Minority interest	**(208)**	*(663)*
Earnings per share for profit attributable to the equity holders of the Group (in US$):		
basic	**0.03**	0.11
diluted	**0.03**	0.10

Note: the operating expenses for 2004 have been increased by US$ 1,418 thousand in respect of the requirements of International Financial Reporting Standard 2 (Share Based Payment) which is effective for accounting periods after 1 January 2005. See note 1.

TEMENOS GROUP AG

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consolidated balance sheet
as at 30 June 2005

	30 June 2005	31 December 2004
Assets		
Current assets		
Cash and cash equivalents	**17,312**	*30,788*
Accounts receivable	**56,732**	*52,252*
Available-for-sale investment	-	*2,100*
Accrued revenues	**23,035**	*22,614*
Prepayments and other assets	**5,360**	*6,751*
Total current assets	**102,439**	*114,505*
Non-current assets		
Tangible fixed assets	**9,235**	*10,394*
Intangible assets	**17,425**	*20,651*
Capitalised development costs	**14,428**	*12,482*
Long-term receivables	**1,112**	*2,637*
Guarantees and restricted bank deposits	**1,124**	*1,207*
Deferred tax asset	**1,938**	*2,174*
Total non-current assets	**45,262**	*49,545*
Total assets	**147,701**	*164,050*
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	**17,509**	*18,449*
Accrued expenses	**12,812**	*15,897*
Deferred revenues	**26,517**	*34,626*
Income taxes payable	**1,670**	*2,397*
Total current liabilities	**58,508**	*71,369*
Non-current liabilities		
Long-term payables	**8,431**	*8,274*
Liabilities under finance leases	**254**	*224*
Total liabilities	**67,193**	*79,867*
Shareholders' equity		
Share capital	**157,878**	*157,454*
Treasury shares	**(609)**	*(124)*
Share premium	**(65,723)**	*(66,914)*
Minority interest	**539**	*723*
Fair value and other reserves	**(1,250)**	*4,991*
Retained earnings	**(10,327)**	*(11,947)*
Total shareholders' equity	**80,508**	*84,183*
Total equity and liabilities	**147,701**	*164,050*

Note: shareholders' equity for 31 December 2004 has been restated for the impact of International Financial Reporting Standard 2 (Share Based Payment) and for the impact of International Accounting Standard 1 (Presentation of Financial Statements) (revised) which are effective for accounting periods after 1 January 2005. See note 1.

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated statement of cash flows

for the period ended 30 June 2005

	Six months to 30 June 2005	Six months to 30 June 2004
Cash flows from operating activities		
Profit before taxation	**1,681**	*6,232*
Adjustments:		
Depreciation and amortisation	**6,740**	*6,815*
Losses on disposal of assets	**57**	*43*
Cost of employee share option scheme	**1,608**	*1,524*
Financial instrument related expenses	**93**	*254*
Interest expense - net	**260**	*28*
Expense from financial instruments	**-**	*20*
(Increase) decrease in receivables, accrued revenues and prepayments	**(4,582)**	*4,770*
Decrease in accounts payable and accrued expenses	**(2,060)**	*(10,482)*
Decrease in deferred revenues	**(8,302)**	*(10,229)*
Cash used in operations	**(4,505)**	*(1,025)*
Income taxes paid	**(384)**	*(23)*
Net cash used in operating activities	**(4,889)**	*(1,048)*
Cash flows from investing activities		
Purchase of tangible fixed assets	**(1,514)**	*(835)*
Disposal of tangible fixed assets	**29**	*154*
Purchase of intangible assets	**(1,328)**	*(97)*
Disposal of intangible assets	**-**	*433*
Capitalised development costs	**(3,764)**	*(1,884)*
Disposal of available-for-sale investment	**900**	*-*
Acquisitions from prior periods	**(1,250)**	*-*
Impact of full consolidation of entity previously under proportionate consolidation	**-**	*864*
Contribution of cash to minority interest	**-**	*980*
Interest received	**145**	*130*
Net cash used in investing activities	**(6,782)**	*(255)*
Cash flows from financing activities		
Proceeds from issuance of shares, net of related expenses	**35**	*685*
Acquisition of treasury shares	**(485)**	*-*
Repayment of bank loans	**-**	*(15,000)*
Restricted cash deposited with a banking institution	**-**	*10,000*
Interest payments	**(173)**	*(159)*
Settlement of financial instruments	**-**	*(20)*
Payment of financial instrument related expenses	**(461)**	*(250)*
Payment of finance lease liabilities	**(60)**	*(43)*
Net cash used in financing activities	**(1,144)**	*(4,787)*
Effect of exchange rate changes	**(661)**	*(391)*
Decrease in cash and cash equivalents in the period	**(13,476)**	*(6,481)*
Cash and cash equivalents at the beginning of the period	**30,788**	*31,736*
Cash and cash equivalents at the end of the period	**17,312**	*25,255*

TEMENOS GROUP AG

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consolidated statement of changes in shareholders' equity

for the period ended 30 June 2005

	Share capital	**Treasury shares**	**Share premium**	**Minority interest**	**Fair value and other reserves**	**Retained earnings**	**Total**
Balance at 30 June 2004	**157,200**	**(256)**	**(67,994)**	**2,836**	**2,721**	**(18,721)**	**75,786**
Profit for the period	-	-	-	-	-	6,774	6,774
Cost of employee share option scheme	-	-	1,433	-	-	-	1,433
Issuance of treasury shares	(256)	256	-	-	-	-	-
Exercise of share options	221	-	(102)	-	-	-	119
Shares issued in relation to acquisitions	289	-	(198)	-	-	-	91
Share issuance costs	-	-	(53)	-	-	-	(53)
Acquisition of treasury shares	-	(124)	-	-	-	-	(124)
Changes in minorities	-	-	-	(2,113)	-	-	(2,113)
Cumulative translation adjustment	-	-	-	-	1,134	-	1,134
Net fair value gain on cash flow hedge, net of tax	-	-	-	-	1,136	-	1,136
Balance at 31 December 2004	**157,454**	**(124)**	**(66,914)**	**723**	**4,991**	**(11,947)**	**84,183**
Profit for the period	-	-	-	-	-	1,620	1,620
Cost of employee share option scheme	-	-	1,608	-	-	-	1,608
Exercise of share options	424	-	(393)	-	-	-	31
Share issuance costs	-	-	(24)	-	-	-	(24)
Acquisition of treasury shares	-	(485)	-	-	-	-	(485)
Changes in minorities	-	-	-	(184)	-		(184)
Cumulative translation adjustment	-	-	-	-	(2,219)	-	(2,219)
Net fair value gain on cash flow hedge, net of tax	-	-	-	-	(4,022)	-	(4,022)
Balance at 30 June 2005	**157,878**	**(609)**	**(65,723)**	**539**	**(1,250)**	**(10,327)**	**80,508**

Note: shareholders' equity for 31 December 2004 has been restated for the impact of International Financial Reporting Standard 2 (Share Based Payment) and for the impact of International Accounting Standard 1 (Presentation of Financial Statements) (revised) which are effective for accounting periods after 1 January 2005. See note 1.

1. Accounting policies

These consolidated interim financial statements are prepared in accordance with IAS 34 (Interim Financial Reporting). The accounting policies used in the preparation of these interim financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2004 except that the Group has adopted the following new IFRS rules from 1 January 2005:

Employee share options
IFRS 2 (Share Based Payment) requires the fair value of any equity instruments granted to employees to be recognised as an expense. Temenos calculates the fair value of the granted options using the Black Scholes method. The amounts for options are charged to income over the relevant vesting period, adjusted to reflect actual and expected levels of vesting. IFRS 2 requires retrospective application for all options granted after 7 November 2002 and the comparative numbers have also been restated in this respect.

Business combinations
Under IFRS 3 (Business Combinations) with effect from 1 January 2005 all goodwill is considered to have an indefinite life and is not amortised, but is subject to annual impairment testing. This new accounting policy was also applied in 2004 for transactions occuring after 31 March 2004.

Minority interests
IAS 1 (Presentation of Financial Statements) (revised) requires minority interests to be included in the Group's equity in the consolidated balance sheet instead of as a separate category in the balance sheet and is no longer deducted in arriving at the Group's net income.

Costs that occur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

2. 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.

3. Share capital

As at 30 June 2005, the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, comprised 54,955,890 common shares of a nominal value of CHF 5 each.

		Nominal value (in thousands)	
	number	in CHF	in US$
Issued, as at 31 December 2004	54,952,435	274,762	157,454
Shares issued on exercise of employee share options	101,834	509	424
Issued, as at 30 June 2005	55,054,269	275,271	157,878

As at 30 June 2005 the number of treasury shares held by the Group amounted to 98,379. 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	12,605,360
conditional shares that may be issued in conjunction with financial instruments	13,930,680

4. Employee share options scheme

The changes in the number of issued and outstanding options on shares, in the six-month period under review, are summarised below:

	number
Options outstanding as at 31 December 2004	6,757,736
Options granted during the period	1,998,850
Options cancelled during the period	(252,918)
Options exercised during the period	(101,834)
Options outstanding as at 30 June 2005	8,401,834

The options on shares granted in the period to 30 June 2005 have a vesting period of 1 or 2 years and a weighted average exercise price of USD 6.71.

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5. Segmental analysis

The Group is organised into two main business segments and these are the primary basis of segment reporting:
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

Six months ended 30 June 2005	Software licensing	Services	Total
Segment revenues	43,957	28,153	72,110
Segment operating result	29,555	(103)	29,452
Unallocated operating costs			(26,882)
Operating profit			2,570

Six months ended 30 June 2004	Software licensing	Services	Total
Segment revenues	50,966	26,001	76,967
Segment operating result	33,266	2,542	35,808
Unallocated operating costs			(29,084)
Operating profit			6,724

6. Employees by location

	30 June 2005	30 June 2004
Europe, Middle East and Africa	435	601
Asia	582	557
Americas	150	62
	1,167	1,220

7. Earnings per share

The basic earnings per share are calculated by dividing the net income attributable to the equity holders of the Group by the weighted average number of issued and outstanding shares in that period, excluding Treasury shares.

The diluted earnings per share is the basic earnings per share adjusted for dilutive potential ordinary shares.

8. Related party transactions

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

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

There were no other large or significant transactions with related parties during the period to 30 June 2004 or 30 June 2005 and all transactions with related parties were carried out at arms length rates. There were no amounts due to or from related parties at 30 June 2005 or 30 June 2004.