2008

TEMENOS Group AG
Annual Report & Accounts

TEMENOS
The Banking Software Company

Global network

Headquartered in Geneva with 54 offices worldwide, Temenos serves over 700 customers in more than 120 countries. In 2008 Temenos had another year of solid revenue growth, up 23% to USD 407 million.

Americas

Brazil
São Paolo

Canada
Montreal
Vancouver

Costa Rica
San Jose

Ecuador
Quito

Mexico
Mexico City

USA
Houston
Miami
New York
Orlando

Europe

Bulgaria
Sofia

Czech Republic
Prague

France
Paris

Germany
Grosswallstadt
Frankfurt

Greece
Athens

Ireland
Dublin

Kazakhstan
Almaty

Luxembourg
Luxembourg

Netherlands
Amsterdam

Poland
Warsaw

Romania
Bucharest

Russia
Moscow

Spain
Madrid

Switzerland
Zurich
Geneva

United Kingdom
Bracknell
Birmingham
Hemel Hempstead
London
Newcastle Upon Tyne

54 offices worldwide

54

Founded in 1993 and listed on the Swiss Stock Exchange (SIX: TEMN) in 2001, TEMENOS Group AG is a global provider of banking software systems in the Retail, Corporate & Correspondent, Universal, Private, Islamic and Microfinance & Community banking markets.

Temenos' software products, such as TEMENOS T24 (T24) and TEMENOS Corebanking (TCB), provide advanced technology and rich functionality, incorporating best practice processes that leverage Temenos' experience in over 600 implementations around the globe.

Middle East

Lebanon
Beirut

Saudi Arabia
Riyadh

United Arab Emirates
Dubai

Africa

Egypt
Cairo

Kenya
Nairobi

Morocco
Casablanca

South Africa
Johannesburg

Asia Pacific

Australia
Sydney

China
Shanghai
Hong Kong, China (PRC)

India
Bangalore
Chennai
Mumbai

Indonesia
Jakarta

Japan
Tokyo

Malaysia
Kuala Lumpur

Singapore
Singapore

Taiwan
Taipei

Thailand
Bangkok

Vietnam
Hanoi

Serving clients in over 120 countries

120+

2,900 dedicated professionals

2,900

Over 700 customers worldwide

700

Temenos' advanced and automated implementation approach, provided by its strong Client Services organisation, ensures efficient and low-risk core banking platform migrations. Temenos annually invests around 20% in R&D, significantly more than its peers, into a single fully packaged, upgradeable software release, which ensures all Temenos customers benefit from modern technology and support indefinitely.

Temenos is top of the IBS Sales League Table 2008, winner of the Best Core Banking Product category in Banking Technology magazine's Readers' Choice Awards 2008, winner of the Financial-i Leaders in Innovation award for the most innovative core banking systems solution 2008 and is listed in the American Banker top 100 FinTech companies.

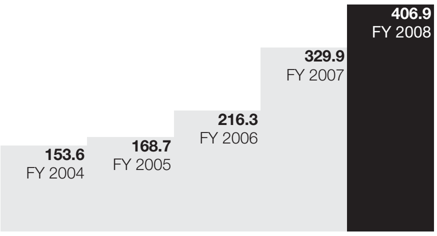
For more information please visit www.temenos.com

Financial & Operating Highlights

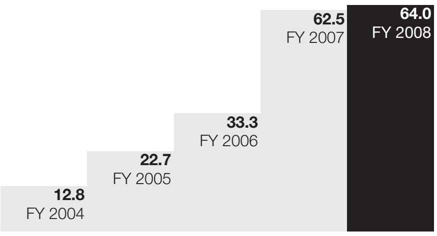
Solid growth

In 2008, T24 was again the world's best-selling integrated, mission-critical core banking solution. Revenue increased 23% to USD 407 million and the installed base rose to over 700 banks with 44 new go-lives, an increase of more than 20%.

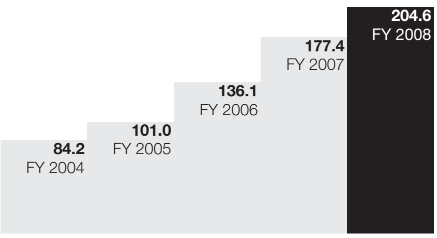
Total Revenue (USD 000) **+23.3%**



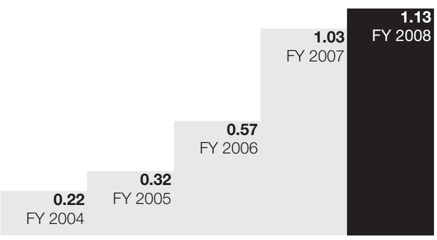
Operating Profit **+2.4%**



Total Net Assets (USD 000) **+15.3%**



Adjusted EPS* (USD) **+9.7%**



*Adjusted for amortisation of acquired intangibles and non-cash restructuring charges; metric introduced in 2007, before that diluted EPS is used.

Financial Highlights

- Another year of solid revenue growth, up 23% to USD 407m (USD 330m in 2007)
- 10% increase in adjusted* earnings per share, to USD 1.13 (USD 1.03 in 2007)
- Operating income of USD 64m, giving a margin of 16%
- Continued strong cash generation, with operating cash of USD 56.2m
- Recurring maintenance revenues exceeded USD 100m (USD 76.3m in 2007)
- Cash R&D** investment held at 20% of sales, at USD 82.5m (USD 65.7m in 2007)

*Adjusted for amortisation of acquired intangibles and non-cash restructuring costs
**Adjusted for the difference between capitalisation and amortisation of development costs

Operating Highlights

- 48 new clients signed (49 in 2007), taking the installed base to over 700 banks
- 44 new client go-lives, an increase of more than 20% (36 in 2007)
- Further independent recognition of product quality:
  - T24 promoted to "leader" in the Forrester Wave™: 'Global Banking Platforms, Q1 '09'
  - T24 won for the second year in a row the Banking Technology Readers' award for Best Core Banking Product
- The successful conclusion and integration of three strategic acquisitions
- Strengthening of the management team with key appointments in the areas of Product Strategy, Marketing, Retail Business Development, Regional Management and Partners
- Success in the US for T24

49%

The compound annual growth rate in EBIT over the last 5 years.

"In the current economic climate banks are focused on cutting costs like never before. Temenos has been responsive to these needs with a single platform to cover all the banks' requirements, reducing integration points and therefore cost. Temenos Model Bank reduces implementation time and cost, bringing forward the R in ROI of a core banking replacement."

Bart Narter
Senior Vice President
Celent Banking Group

Growth drivers

The growth of third-party core banking software reflects long-term and sustainable drivers: namely, the need to reduce IT costs at the same time as increase product innovation, grow revenues and improve risk management. The case of one client, Schroders Private Bank demonstrates how Temenos software is helping clients meet these needs.

The Market Drivers
The growth in the core banking software market is structural, the result of a movement away from expensive to maintain, inflexible and silo-based proprietary systems to modern, integrated third-party solutions. Although likely to be slower in the near term, it is estimated that spending on third-party banking applications is growing at eight times the rate of in-house spending (at a CAGR of 8% vs. 1% for in-house spending) and that still more than 70% of banks run in-house developed systems.* In 2008, it was estimated that the market for third-party core banking software and services was worth USD 3.5 – 3.8bn.**

The growth of third-party core banking software reflects long-term and sustainable drivers: namely, the need to reduce IT costs at the same time as increase product innovation, grow revenues and improve risk management.

Project background
In 2006, Schroders Private Bank undertook a transformational project to centralise into one Shared Service Centre (SSC) in Zurich all of its IT and operational infrastructure using T24 as the core banking software.

Reduce IT costs
The move to the SSC has enabled Schroders Private Bank to reduce its infrastructure costs substantially, by around a third.

Schroders Private Bank now operates with one back-office, one securities master, one client static data administration team and one dealing desk (as opposed to three or more in each case before the IT centralisation project). Schroders Private Bank has also reduced from 6 to 2 the number of of data centres it uses since centralisation.

End-to-end processing has been achieved across many processes, such as securities dealing, FX and funds transfer, cutting the amount of errors, improving compliance and the cost of compliance, and reducing the cost of transactions. Information errors and late processing have been reduced significantly and the costs per transactions decreased sharply.

Moving to the single platform has also resulted in a significant reduction in the complexity of the overall architecture (the number of applications used has fallen by over 60%) making it possible to manage the environment with a smaller team (now just 15 people) and to keep that team focused on activities that help differentiate the business. IT now accounts for less than 10% of Schroders Private Bank's total costs and less than 5% of the total workforce.

Improve operational efficiency
Moving to the SSC has given management access to better quality information that, in turn, allows it to make better-informed decisions about the business, optimise resource allocation between competing priorities and mitigate risks.

Information has improved in three keys ways:

1) Profitability measurement: using consolidated data from all three banks and applying the same level of analysis to all three entities has enabled Schroders to compare financial data more easily and more accurately across the different banks, but also at the individual customer level.

2) Cost allocation: more granular and consolidated data has afforded a move away from arbitrary cost allocation between the different banks and profit centres. Instead, costs are now allocated on the basis of 90 different cost drivers, which reinforce the accuracy of profit measurement.

3) Timeliness: as a result of moving to the SSC, the quality of information has improved, but so has its timeliness. Higher levels of automation coupled with the absence of reconciliation between different data sources means that Schroders can now perform the monthly consolidation for the entire bank within a few days after month end.

Product innovation/customer service
Client reporting is another area that has improved significantly since operations were centralised and an area where Schroders has been able to differentiate itself from competitors. Since moving to the SSC, Schroders is able to send out client statements about a week earlier than before. Furthermore, while all statements have a similar format (that allows the bank to leverage its branding more strongly than before), the flexibility of the integrated system allows the content of the client reports to be tailored to individual client specifications. As general options for all reports, clients can choose:

- Frequency of reports
- Base currency
- Whether periods are shown with rolling horizon or year-to-date performance
- Whether performance is calculated using time-weighted or money-weighted method
- Whether benchmarks are shown

Manage risks
Since moving to the SSC, the cost of monitoring activities like compliance has been decreasing. Only having one processing location means that Schroders is in a position to deliver any requested information in these areas in a short period of time as many of the underlying data delivery processes have been simplified.

Source
*Celent – "IT Spending in Financial Services: A Global Perspective"; Temenos estimates.
**IDC; Temenos estimates.

A full copy of the Schroders case study can be obtained from www.temenos.com or by emailing marketing@temenos.com

"For me, the transition to the Shared Service Centre has brought a more focused approach to private banking, reflected in improved efficiency and the realised cost synergies, but also in much better levels of service for our clients."

Heinz Scheiwiller
Chief Operating Officer
Schroders Private Banking

"The improvement in aggregated management information has been a huge advantage during the subprime crisis. For example, when we wanted to understand our exposure on the client and nostro side to Lehman Brothers, the exercise took about half an hour to understand we had no exposure. In contrast, at the time of the Barings collapse, we spent significantly more time retrieving this information."

Pierre-Louis Favre
Chief Financial Officer
Schroder & Co Bank AG

Schroders
Private Banking

Winning formula

2008 was another year of robust performance with revenues up over 20% and the company topping the league of leading core banking software vendors for the second year in a row. Chairman George Koukis discusses Temenos' winning proposition and explains why it will serve the company well in the current banking crisis.

My view is that the resilience of demand for our products stems from our winning proposition:

we sell software that creates real and significant value for our customers;

we invest 20% of revenues into this software every year to make sure that it stays best-in-class;

and we act with integrity in all of our relationships.

Awards

The strength of our products was recognised in 2008, as in previous years, by several industry awards. Among the awards we won last year was for Best Core Banking Product in Banking Technology magazine's Readers' Choice Award. We were also delighted to win the Financial-i Leaders in Innovation award for the most innovative core banking systems solution.

Resilience and sustainability

As I wrote in last year's annual report, the start of the subprime crisis in September 2007 gave warning that 2008 would be a more challenging operating environment. However, I think few would have predicted the precipitous decline in confidence and economic activity that occurred at the end of 2008. Even though we had begun to take some precautionary action on costs (which have been accelerated since), the dramatic nature of the slowdown caught Temenos somewhat by surprise and our results for the final quarter fell short of expectations. Nonetheless, taking the year as a whole, the organisation produced a robust set of results, which showed solid business growth. Revenues, for example, were up by over 20% compared to 2007 and we once again topped the league of leading core banking software vendors.*

There were also a number of key operating milestones – such as completing three strategic and value-creating acquisitions that made 2008 another highly successful year for Temenos. In 2008, we continued to cement our position as the leading vendor of modern, integrated core banking solutions.

My view is that the resilience of demand for our products stems from our winning proposition: we sell software that creates real and significant value for our customers; we invest 20% of revenues into this software every year to make sure it stays best-in-class; and, we act with integrity in all of our relationships: with customers, staff, suppliers and shareholders. And this formula will not change in 2009, it is a sustainable winning formula.

Furthermore, I believe that any lengthening of the sales cycle will prove to be a temporary phenomenon – banks have no choice but to invest in their systems if they are to face up to the future of the industry – and we have taken some difficult, but necessary, steps to protect profitability in the short term.

Therefore, I predict that, while 2009 will undoubtedly be a challenging year for economies in general and for our clients specifically, Temenos will deliver another year of solid performance.

How the future will be different for banks

There is little doubt that the banking crisis will change the industry in the future. For one thing, the appetite among banks and banking clients alike for complex derivatives will greatly diminish, as will the penchant (and option) for large amounts of leverage. Instead, what we are likely to see is a return to more old-fashioned banking, where a bank makes profits by writing high-quality loans to high-quality customers. And this means that banks will have to improve and tailor customer service to be able to attract and retain the most profitable customers, to be able to sell them multiple products (which is the key to client profitability) and to attract the necessary deposits in the absence of high leverage and wholesale funding. Banks will also have to lower infrastructure costs in order to make profits in the high volume, low margin parts of the business like payments. Lastly, banks are likely to experience a much higher level of (cross-border) regulatory scrutiny in the future, which will involve significant costs in terms of compliance and risk management.

Therefore, I believe that banks will need to improve customer service, cuts costs and enhance risk management to survive and, since this is what our software helps them to do, we should be very well placed for the future.

Creating value for our clients

Our products deliver value to our customers by allowing them to operate a much leaner and more flexible IT infrastructure, cutting operating costs at the same time as improving customer service and risk management. Schroders Private Bank, a case study featured in this annual report, reduced infrastructure by around a third in the year after implementing our software at the same time as growing assets under management and significantly improving management information.**

Our products continue to deliver value because we continue to invest in them. In 2008, we again spent 20% of sales on R&D, significantly more than any of our competitors.*** With this spending, we are able to deliver the hundreds of functional enhancements that our clients request and roll these into the annual product release, which is made available to all clients. This ensures clients remain on modern, functional-rich technology and therefore, by extension, that the software continues to deliver value in perpetuity.

Source
*International Banking Systems Journal, a UK publication, publishes an annual league table of the top-selling core banking systems.
**See pages 04 – 05.
***In cash terms, that is, adjusting for the difference between capitalised and amortised development costs, Temenos spends approximately 20% of revenues on R&D each year.

80%

We are the market leader in core banking software with a business model that remains unique. We achieve the highest sales in the core banking market with a win rate of over 80%.

Integrity in everything we do

At Temenos, we endeavour to act with integrity in everything we do. This philosophy influences all of our stakeholder relationships.

For our people, we try to invest in them and foster the entrepreneurial and meritocratic culture that makes Temenos a unique place to work. Even though our people now number over 2,900 and comprise 75 nationalities across more than 120 countries, Temenos continues to feel like a small company, with a flat structure and plenty of individual autonomy, and this remains very important in attracting and retaining top talent.

For our investors, we try to remain as open as possible in sharing information and communicating our plans for the business. At a time when the economic slowdown is exposing cracks in company corporate governance procedures and processes, it is worth pointing out that our governance procedures remain highly robust and have been recognised as such by independent bodies – the Ethos Investment Foundation (representing 77 Swiss pension funds), for example, awarded Temenos an A+ for governance in its latest report.

For our customers, this means putting them at the centre of everything we do, listening to them to make the enhancements that they want and continuing to invest in the products to protect clients' investments and ensure that their Total Cost of Ownership (TCO) always remains low.

As always, I would like to thank our shareholders for their ongoing support and our people for all of their commitment and hard work in delivering another good year for the company. I look forward to updating you on our progress next year.

George Koukis
Chairman

Business Review

A proven strategy

Against a tough macroeonomic backdrop Temenos delivered notable operating successes including continued growth in sales and profit, more client wins than any other core banking provider and a record number of client go lives. CEO Andreas Andreades explains why 2008's performance was so resilient.

Over the last 15 years, Temenos has grown from a company serving 19 banking clients and generating revenues of USD 0.25 million to the market leader in core banking software, with revenues of over USD 400 million and an installed base of over 700 banks using our systems.

Fundamental to this success has been an unwavering commitment, even in difficult times, to certain key strategic principals:

Single focus on banking
We are uniquely positioned as the only large core banking vendor to focus exclusively on the banking vertical. This allows us to bring to our clients and prospects unparalleled domain focus and expertise in what is a highly specialised industry.

High R&D
In relative terms, we spend almost twice as much on R&D as our peers (and in absolute terms, this is higher). This R&D is spent on enhancing the functionality and technology of our products. By sharing our development costs across our large customer base, we are able to offer unique value to our clients by making the running of modern core banking systems affordable no matter what size the organisation.

Packaged software
All of our customers run the same core software. This means our clients are able to upgrade regularly and inexpensively to the latest release of the software – and their installations never become legacy or obsolete. Through our single package principle we bring unparalleled and unique value to our customers, our customers remain on modern technology, protecting their initial investment and ensuring continued low Total Cost of Ownership (TCO).

Respect for our stakeholders
We put our customers at the centre of everything we do, responding to their needs to develop and deliver software that makes a profound impact on their businesses; we aim to invest in our people and foster the dynamic, entrepreneurial and meritocratic culture that makes Temenos a great place to work; and, we aim to stay in regular contact with our shareholders, keeping them informed of developments in the business, and endeavouring to maximise their long term returns.

2008 in focus
Against a very tough macroeconomic backdrop, which worsened throughout the year, Temenos was able to deliver results that showed robust growth and profitability and the Group recorded many notable operating successes.

Continued growth in sales and profit
In fact, Temenos recorded its best ever year in terms of both revenue (an increase of 23% compared to 2007) and profitability, with operating profits up 2% and adjusted earnings per share up 10% on 2007 levels. The Group also remained strongly cash generative, achieving cash from operations of USD 56.2 million.

The year, however was mixed: after three very strong quarters of growth, the issues faced by banks – compounded by the world recession – started to manifest themselves in our results, with revenue growth of 39% in the first three quarters giving way to revenue decline of 2% in Q4.

48 new clients signed
In 2008, we signed 48 new name clients, one fewer than in 2007, but again this was the highest number of any core banking provider. According to the International Banking Systems Journal, which publishes an annual core banking league sales table, Temenos has been the top-selling core banking vendor for the last two years and has held one of the top two positions for the last eleven years. As in previous years, new customers came from a broad cross-section of countries, across several different banking segments, and varied significantly in size, from microfinance institutions in Africa to tier one banks like JP Morgan.

Overall, the trend was towards smaller banks with larger banks having to deal with the impact of the credit dislocation and subprime credit crunch absorbing their energies for most of 2008. We were, however, able to sell more modules and at higher value delivering record licence revenues, albeit only marginally higher than in 2007.

In terms of the geographical split, our strongest performance was in the Americas, which grew its share of new licences by eight points, reflecting the excellent progress we are making in the region, particularly in Central and South America. The Europe and Middle East/Africa regions held up well, and Asia was the only region to report a licence decline, which stemmed chiefly from a number of one-offs in the prior year.

Progress on growth initiatives
In 2008, we saw continued strong traction with ARC, our suite of modules for the front office, and the Misys replacement programme. We also saw success in the US for T24.

In 2008, we sold 35 new ARC licences, a 21% increase compared to 2007, and ARC contributed around 5% to the total licence number. As predicted, take-up of ARC by existing customers has begun to accelerate, but the penetration is still below 4% and so the trend is far from exhausted. Broadly speaking, pricing levels were similar to 2007, but we expect these to rise as the product becomes more established, as more modules become available and as adoption of the CRM module increases.

In terms of the Misys replacement programme, this continues to grow both in number of banks and also size of banks, as we begin to attract the multi-site Misys to T24. The more Misys replacements that we undertake, the faster we are able to migrate the customers and, by extension, the faster these customers enjoy the security of a coherent and long-term product roadmap and lower TCO.

In the US, we enjoyed success with T24. In Q3, EverBank decided to take T24 to support its World Markets business, which should prove to be an important T24 reference site for the US market in general and, more specifically, for the segment offering complex, multi-currency products.

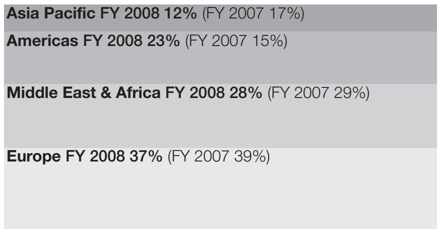
Record number of client go-lives
In 2008, Temenos achieved 44 new T24 go-lives, compared to 36 in 2007, representing an increase of more than 20%. And, despite implementing more modules per client, average implementation times continued to fall and now stand at below 12 months.

The record number of go-lives was made possible by the many services initiatives that have been put in place to de-risk and accelerate implementations, like T24 Model Bank and Temenos' Implementation Methodology.

Among the banks to go live was Bank of Shanghai, which, with 11 million accounts and approximately 2 million transactions per day, became the largest scale reference customer for T24.

100s of product enhancements
Spending on average 20% of sales a year on R&D means we can offer our clients a truly compelling product roadmap. Included in "R8", the 2008 releases of T24 and TCB, were over 150 enhancements, such as a retail product builder for T24, enabling faster configuration and launch of new products, and Enterprise Customer Information Management (ECIM) for TCB, which enables a single view of any customer relationship across all systems, not just TCB. In R9, the 2009 release, there will also be hundreds of enhancements and, with the Lydian acquisition, we also add an important and exciting new product to the Temenos portfolio: TEMENOS Insight (Insight).

Geographical split on new licences (%)



ARC sales

Business Review
continued

48

In 2008, we signed 48 new name clients, one fewer than in 2007, but again this was the highest number of any core banking provider. According to the International Banking Systems Journal, which publishes an annual core banking league table, Temenos has been the top-selling core banking vendor for the last two years and has held one of the top two positions for the last eleven years.

Strengthened management team
One of the manifestations of market leadership is the ability to attract the best talent in the industry and we capitalised on this in 2008 to make four senior appointments to bolster the management team and give impetus to certain strategic initiatives:

Koen Van den Brande
Koen joined as Group Strategy and Marketing Director. Koen brings to Temenos 25 years of financial technology experience, having previously held senior roles at Microsoft, Polaris and Misys.

Mike Head
Mike joined as Global Alliances Director. Mike has over 16 years of software industry experience, during which time he started up Pecaso, a leading HR IT consultancy sold to Accenture, and held several senior positions at SAP, such as Program Director responsible for growing the reseller channel.

Keith Stonell
Keith joined as Regional Director for Northern Europe and CIS. Keith also has extensive experience in the banking software arena, gained chiefly through time at Misys, where he was most recently Managing Director of EMEA for Treasury and Capital Markets business.

Gareth Jones
Gareth joined as Retail Business Development Director. Prior to Temenos, Gareth held senior positions at Misys and Fiserv and has been working in the industry for 17 years.

Acquisitions
In the second half of 2008, we closed three M&A transactions:

- the purchase of the banking assets of Informer Group, an authorised licensor and system integrator for T24 in Greece, Eastern Europe, the Balkans and the Middle East

- the acquisition of Financial Objects, a UK listed provider of software to the banking and wealth management industries

- the acquisition of Lydian Associates, a privately-held UK company providing business intelligence software to banks

These acquisitions have been well received. The people who joined Temenos from the acquired companies are happy to form part of a larger group, with all of the possibilities this brings in terms of extra resources for R&D, a larger sales channel and individual career progression, and have been absorbed seamlessly into the Temenos team.

We anticipate that the three acquisitions will provide significant value for shareholders. All three had a maintenance stream to underpin their valuations and, furthermore, we are well ahead of our forecasts in terms of cost synergies. At the time of the Financial Objects and Informer acquisitions, we communicated a figure of USD 3.1 million and by the year end, we had already delivered USD 7 million of cost synergies.

In terms of revenue synergies, which were not needed to justify the acquisition prices, we are confident these will start to come through in 2009. We have seen substantial interest within the acquired installed base to take T24 and, similarly, many existing Temenos customers have expressed an interest in Insight, the product we derived from the Lydian acquisition.

Outlook for 2009
Our priority in 2009 is to protect shareholder value, while continuing to lay the foundations for a highly scalable growth model to promote the long-term interests of the company and ensure that Temenos captures the future growth in the core banking market to the fullest extent possible.

There is little doubt that 2009 is going to be a challenging year for the World economy and the banking market is still far from healthy. Even though addressing IT system cost and inflexibility will form an important part of banks' strategies to ready themselves for the future, Q4 showed us that, in the face of strong uncertainty, even highly strategic projects can be postponed. Therefore, we have taken several actions to prepare the business for a tough year and ensure that we protect the interests of our shareholders until trading improves.

As a result of the cost rationalisation programme that we initiated in the summer and that we accelerated at the end of the year, we have taken USD 33 million of costs out of the business (net of new investments).

This materially lower cost base, coupled with higher locked-in maintenance revenue, gives us confidence that we can deliver robust operating margins and strong cash generation in 2009. For the first time in its history, Temenos has the scale to be able to manage costs to manage margins and this is what we intend to do in 2009, adjusting the cost base up or down depending on the circumstances to deliver solid performance.

However, since the growth in the core banking software software is structural, we believe the market will continue to grow very strongly in the future and so continue to put in place strategic initiatives to ensure we remain best placed to capture this growth.

Clearly, the work that we have done around our services methodology, R&D and support functions will help Temenos to scale effectively in the future. Also key will be growing our ecosystem of partners, which is an objective we are actively pursuing in 2009.

I look forward to updating you on our progress next year.

Andreas Andreades
Chief Executive Officer

Max Chuard

Mike Head

Max Chuard
Director of M&A and Investor Relations

"In 2007, we set out a clear strategy with regard to acquisitions in 2008. We said we would target companies with revenues of USD 20-50 million that would help us to achieve one or more of the following: expand geographically into markets where Temenos was unrepresented; penetrate more deeply the core banking space by increasing the size of our installed base and maintenance stream; and, enter adjacent markets. We also said that any acquisition would have to be earnings accretive within one year.

Informer and Financial Objects both met these criteria. The Informer acquisition, accretive to group earnings from the start, gave Temenos a presence in new markets like Romania and Egypt, an installed base of about 15 T24 clients and further T24 implementation resources. Similarly, Financial Objects (earnings accretive from 2009) gave Temenos access to an installed base of around 50 core banking customers, an increased presence in the UK and Nordic markets and access to complimentary IP.

Lydian Associates was an exception in that it was smaller than our stated goal (in its last financial year, it had sales of USD 1.8 million), but it has allowed Temenos to improve significantly its business intelligence offering and we expect the acquisition to be strongly accretive to earnings in 2009."

Mike Head
Global Alliances Director

"In January of 2009, we officially launched the Temenos partner programme. Its objective is to create a scalable growth model for Temenos, where Temenos, supported by an ecosystem of certified partners, can concentrate on its core competence of developing and implementing its products. It is envisaged that partners will provide broader consulting and system integration services, ancillary applications and a complementary indirect sales channel.

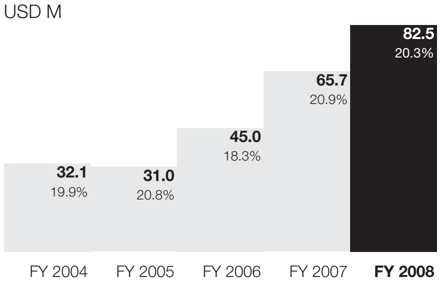
Several factors have made it possible for Temenos to launch the partner programme at this time. First, is Temenos' size – in revenue terms, more than twice the size of three years ago; second, is Temenos' market leader position; third, is the progress Temenos has made in its own services business – there is now a process-led approach to specifying and implementing T24 and a defined delivery methodology; and, lastly, is the size and growth of the core banking market – it is widely estimated that the implementation services around third party core banking software are worth at least four times as much as the licence market, or more than USD 2.5 billion.

We are already in active discussions with a number of large system integrators and we hope to be able to report good progress by the end of 2009."

"We see Temenos as one of the few true growth stories in our European tech universe. As a result of the crisis, we anticipate a significant increase in regulation and a return to "old-fashioned" banking. We foresee increased end-demand for leading-edge vendors such as Temenos to help customers comply with new regulations and for core banking systems as a way to improve cost/income to improve profits. With Temenos as the leading vendor in the space, we believe the company is well positioned to benefit from the next wave of banking system renewals once we see a return to more strategic decision making.

Raimo Lenschow
Senior Director, Bank of America Merrill Lynch

Annual R&D Spend and R&D % of total revenue
USD M



Scale and efficiency

Its been a busy year, writes Adrian Hadley, Product Strategy Director – with T24's implementation at the Bank of Shanghai demonstrating Temenos' ability to support high activity retail volumes, Release 09 offering process automation and increased SOA capabilities, and the availability of a business intelligence solution that fully integrates with T24 amongst the highlights.

"Our long term strategy is to become a truly international bank with global scope. T24's scalability and open systems architecture has enabled us to standardise our processes and manage our customer accounts from a central point. The system's rich functionality means that we can deliver innovative, integrated product and service offerings to both existing and new markets."

Jiang Hong
Vice President, Bank of Shanghai

Reduced implementation times
44 new customers went live on T24 during 2008, compared to 36 in 2007. The majority of these customers opted for the Temenos Model Bank to take advantage of pre-configured, best practice processes to reduce implementation time and minimise project risk. On average, we are now achieving implementation times of less than 12 months and we are continuing our year on year reductions in implementation time which follow from banks adopting our Model Bank approach. This is despite an increase in the volume and complexity of projects.

Demonstrating scale and performance
A T24 Performance Management Team was formed to continually evaluate and improve the performance and scalability of T24. The team created a real-world retail banking environment of 15 million customers, 25 million accounts and a representative mix of transactions at IBM's performance testing facilities in Montpelier, France during May 2008. The research demonstrated that T24 can process in excess of 2,600 transactions per second. These results were achieved on the standard R8 model bank release, which was made available to customers in April 2008, and on a realistically sized IT platform to demonstrate real world cost of ownership.

The successful implementation of T24 at the Bank of Shanghai further demonstrates our ability to comfortably support the high activity volumes and operational needs for the majority of retail banks. Bank of Shanghai, one of the largest city commercial banks in China, uses T24 to support its entire retail operations servicing 11 million customer accounts and two and a half million daily transactions.

An intelligent understanding of the banking business
According to Gartner, business intelligence has been ranked as the number one priority for CIOs for the past three years.* Being able to ensure that scarce capital is allocated to the most profitable activities is reason enough to put it at the top of most banks' agendas. Immediate access to the latest information means better, quicker decisions.

Temenos recognises the importance of being able to extract good quality information from a core banking system. Delivering the right information, to the right people, at the right time, and for the right cost is paramount. Temenos' new business intelligence solution, Insight, is fully integrated with T24 and available to customers today. Using a dashboard concept, it enables senior decision makers to monitor their area of business and make more informed decisions based on a better analysis of data.

Insight came from our acquisition of Lydian Associates, and is used by more than 60 banks. Already a proven solution, delivering real benefits, its integration with T24 will offer a genuine advantage to Temenos customers. Insight will be integrated with earlier releases of T24, including Globus and will be developed in parallel with T24.

Process & process efficiency
Business process efficiency continues to be one of the main benefits derived from implementing new core banking software. Release 09 of T24 (R9) automates processes in BPEL, the standard language for process automation and provides our clients with a wider range of efficient standard processes.

R9 also sees a significant extension of T24's SOA capabilities with the first release of our T24 Model Service Catalogue. Over 60 pre-defined business services are now available and can be accessed through our modern SOA technology, simplifying system interfaces and connectivity, and reducing cost and operational risk for our clients.

We have also introduced T-Verify, an automated upgrade tool specifically designed to assist with upgrades to newer releases of T24. T-Verify fully automates the testing phase by managing an automated 'parallel run' between the old and new systems. As this is the most time-consuming element of a T24 upgrade, this capability will help more of our clients to upgrade to the latest versions of our software.

A process-led implementation approach
Temenos has hands on experience of over 600 core banking implementations which has culminated in our unique Model Bank methodology. We have applied this experience to deliver pre-configured, processes within T24 Model Bank based on industry best practice. Our goal is to enable banks to quantify the benefits of a packaged core banking system and build strong business cases for core system replacements.

To facilitate this we now offer an innovative 'process-led' implementation approach which provides a clear understanding of the tangible efficiency improvements that a migration project will deliver, along with focusing the entire team, both client and Temenos, on achieving those objectives.

Source
*Gartner, "Meeting the Challenge: The CIO Agenda", January 2009, Mark McDonald.

Accessible support & development

We believe in making support and development capabilities accessible for our clients. Temenos Application Management (TAM), our non-customer facing service for supporting and enhancing T24, welcomed 57 new customers in 2008. It supported them in local developments to their T24 system, off-site upgrade projects and scalability testing. TAM also offers 24/7 monitoring services and remote health checks for our T24 clients.

Reacting to market requirements

Banks' customers are becoming increasingly risk averse although they are still looking for a return on their investments. Temenos has a new Structured Products module which means that our clients can develop investment vehicles to help protect their customers from market volatility. The Structured Products module will support banks in an investment, private or retail banking environment. It encompasses a broad range of product coverage with the flexibility to bundle multiple instruments to enable consolidated valuation reporting, consolidated deal reporting and consolidated accounting.

Reaching out to global retail banking organisations

We continued to progress our two largest projects at Kasikornbank in Thailand and Metavante in the United States with TCB, our solution for large global retail banking organisations with very high volume transaction and account processing needs.

We have made significant progress in the execution of the three-year joint development plan with Metavante. 2008 saw the delivery of an independent customer information management (CIM) solution and the implementation of our new service oriented architecture (SOA).

The SOA will enable banks to implement TCB on an incremental basis, replacing their complex legacy applications in a phased approach to align business returns with the project investment. This strategy significantly reduces the risk inherent in a full core replacement and makes it feasible for very large banks to consider embarking on a system replacement. The CIM application provides 'global megabanks' and very large US national and regional banks with a single global customer view and consistent service levels. The first bank for the CIM solution has been signed.

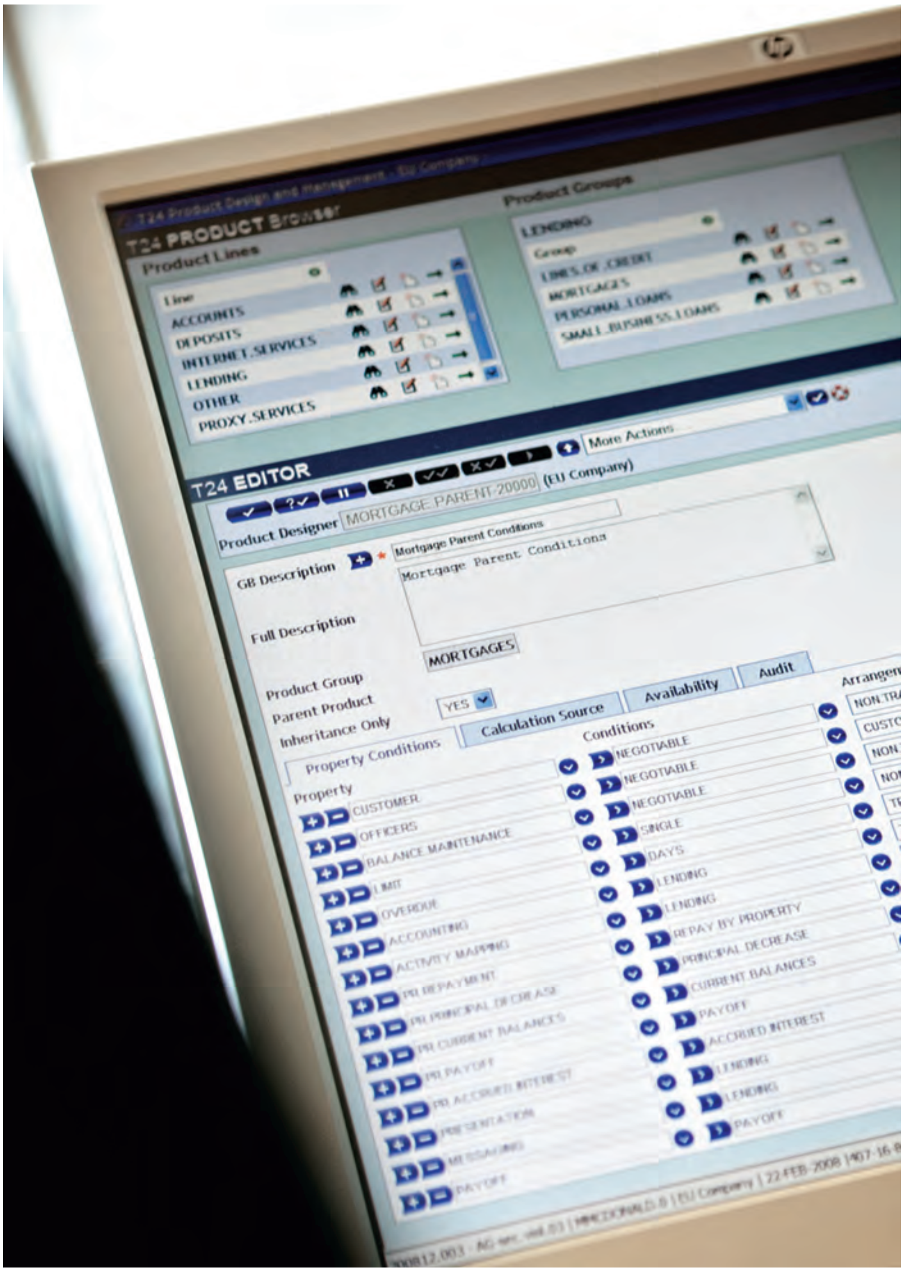
Our strategic relationship with Metavante was extended to include T24 in September 2008. T24 will be integrated with CIM and Metavante's IBS Deposits and Loans system to provide additional functionality and a 360° view of the customer in a single integrated solution.

Temenos remains committed to developing the market in the US.

Adrian Hadley
Product Strategy Director

> "T-Verify is an exciting development because it reduces the cost and effort of taking new enhancements and, as a CIO, I am always trying to maximise the part of the IT budget that goes into new functionality and automation."

Rolf Fischer
CIO, Schroder & Co Bank AG



Robust

Despite a challenging macro environment Temenos grew total revenue – helped on by record maintenance revenues. Increased operating profit contributed to a 10% rise in adjusted EPS and says David Arnott, Chief Financial Officer, Temenos is well positioned for improved EBITDA margin in 2009.

Temenos is happy to enter 2009 with a balance sheet which remains strong. Temenos has USD 66 million of cash on our balance sheet, and a further USD 163 million of facilities in place which we can draw down on up to 2010 and repay up until the end of 2012.

Our facility is with a consortium of seven banks. In 2008, we drew down USD 56.8 million of debt for our acquisitions. This gives available funding of USD 229 million at the start of the year which will increase as we generate significant free cashflows in 2009.

100

The maintenance revenues for the year have topped the USD 100 million mark. This is an important milestone for the Company as it brings us to a point where we have increased recurring revenues and visibility.

By continuing high investment in the product, we have ensured that our clients are being given the service and product which they expect, and we have been able to ensure that this maintenance stream has continued to grow with a very low attrition rate.

Key figures

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

	2008	2007
Employees (including consultants)	**2,994**	2,307
Revenue	**406,937**	329,860
Operating profit	**63,952**	62,503
Operating margin	**15.7%**	18.9%
Net profit attributable to the Group	**64,711**	64,674
Cash generated from operations	**56,225**	64,789
Total assets	**617,998**	457,577
Shareholders' equity	**203,873**	177,100
Basic Earnings per share	**US$ 1.12**	US$ 1.11
Diluted Earnings per share	**US$ 1.02**	US$ 1.00

Revenue grows by 23%
Despite a challenging macro environment, Temenos has grown total revenue by 23% in 2008 to USD 407 million. Thanks to a strong first nine months of the year, we were able to maintain the revenue growth that the Company has achieved over the last few years. The three year CAGR for revenue remains over 34% which goes to show that as a company we are still delivering an excellent performance even in challenging markets.

Maintenance revenue exceeds USD 100 million
The maintenance revenues for the year have topped the USD 100 million mark. This is an important milestone for the company as it brings us to a point where we have increased recurring revenues and visibility. By continuing high investment in the product, we have ensured that our clients are being given the service and product which they expect, and we have been able to ensure that this maintenance stream has continued to grow with a very low attrition rate.

Operating profit increase, but margins come under pressure in 2008
Operating profit for the year rose 2% to USD 64 million as we absorbed all the costs of restructuring our acquisitions, plus our own cost reduction exercises, during the year.

Margins this year have unfortunately deteriorated slightly, down 320 basis points to 15.7%. This decrease was a consequence of the fourth quarter, where the margin was down 540 basis points on the prior year at 29.5%. Due to deals at the end of December not signing and being delayed into 2009 following the deterioration of the macroeconomic environment – and the sales costs on these deals already being recognised – it was inevitable that margins in the quarter would be below our expectations and thus pull down the full year figure.

The scale to control costs effectively
Following three acquisitions completed in 2008, for the first time in its history Temenos has reached critical scale to deliver margin through cost control. In the second half of 2008 we took quick and decisive action to protect shareholder value in 2009. As a result of the actions taken, we believe we can achieve an operating margin of 19 to 21% which translates to an EBITDA margin of between 27 to 29%. This compares to 16% and 22% respectively for 2008. We have made USD 33 million of cost cuts net of new investment. These were achieved mainly through cost synergies on acquisitions, streamlining processes and off-shoring capacity. This, added to about USD 26 million of reduction coming about through currency movements, leads to a cost run rate of USD 310 million for 2009. This figure is 10% lower than the 2008 operating costs and leaves us very well positioned to deliver strong growth in 2009 and beyond.

Adjusted EPS grows by 10%
Adjusted EPS (Earnings Per Share), which excludes amortisation of acquisition-related intangibles and restructuring charges, was USD 1.13 for the full year, a 10% increase over 2007. The growth is reflecting the increased operating profit, our good tax structure, and good management of foreign exchange.

DSO's trend remains downwards
In 2008, Temenos reduced its DSO's (Days Sales Outstanding) by the end of 2008 to 168 compared to 172 in 2007. The trend in DSOs remains downwards, based on shorter projects and better payment terms. On average, deals signed in 2008 have been 55% cash up front, and a further 30% on fixed dates, which will drive further DSO reduction going forward.

Operating cashflow was USD 56.2 million for 2008 representing cash conversion – conversion of Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) into operating cashflow – of 64% over the last 12 months.

Balance sheet remains strong
Temenos is happy to enter 2009 with a balance sheet which remains strong. Temenos has USD 66 million of cash on its balance sheet, and a further USD 163 million of facilities in place which the Group can draw down on up to 2010 and repay up until the end of 2012. Our facility is with a consortium of seven banks. In 2008, we drew down USD 56.8 million of debt for our acquisitions. This gives available funding of USD 229 million at the start of the year which will increase as we generate significant free cashflows in 2009.

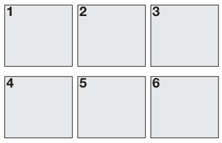
In addition, we have a convertible bond of USD 128 million, with a coupon of 1.5%, which matures in 2013 by which time we expect it to convert into equity.

David Arnott
Chief Financial Officer

Board of Directors

Focused

The Board of Directors is a highly experienced and skilled team focused on delivering shareholder value.








For our investors, we try to remain as open as possible in sharing information and communicating our plans for the business. At a time when the economic slowdown is exposing cracks in company corporate governance procedures and processes, it is worth pointing out that our governance procedures remain highly robust and have been recognised as such by independent bodies – the Ethos Investment Foundation (representing 77 Swiss pension funds), for example, awarded Temenos an A+ for governance in its latest report.

George Koukis
Chairman

1 George Koukis
Chairman
Greek & Australian, born in 1946

Mr George Koukis has been active in the software industry for more than 25 years, having begun at Qantas where he was heavily involved with the computerisation of the company's Management Information Systems (MIS and Accounting). 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. He continues to hold positions on the Board of Directors of a small number of operating companies within the Group.

4 Mark Austen
Non-Executive & Independent Director
British, born in 1949

Mr Mark Austen, a qualified accountant, has had considerable experience at an executive level in international financial markets and financial services consulting. Until 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 a member of the transaction group that oversaw the sale of the consulting business to IBM. Mr Austen is currently a non-executive director of Standard Bank PLC, Liverpool Victoria Friendly Society Ltd, IFB International AG, The Philharmonia Trust Ltd and is a trustee of Arts & Business, one of Prince Charles' charities.

2 Paul Selway-Swift
Vice Chairman, Non-Executive & Independent Director
British, born in 1944

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 a director of several companies including Pure Circle Ltd (Chairman) and Alba PLC all of which are quoted on the London Stock Exchange. He is also Chairman of Atlantis Investment Management (Ireland) Ltd and a director of Li & Fung Ltd which is quoted on the Hong Kong Stock Exchange.
Mr Selway-Swift was educated in England and subsequently attended the Massachusetts Institute of Technology Program for Senior Executives.

5 Chris Pavlou
Non-Executive & Independent Director
British, born in 1945

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.
In 1999, Mr Pavlou joined Laiki Bank of Cyprus as a consultant and served on the Board from 2001 to 2004. Mr Pavlou is currently CEO of TFI, a Cyprus based financial company.

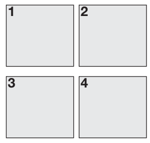
3 Andreas Andreades
Chief Executive Officer & Executive Director
Cypriot, born in 1965

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.
In the nine years since he joined Temenos, the company grew in size from less than 150 employees to more than 2,900 in the last fiscal year and to more than USD 400 million in revenues. 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 strategy, sales and general management positions.
Mr Andreades holds a Masters engineering degree from the University of Cambridge and is a UK chartered accountant.

6 Lewis Polk Rutherfurd
Non-Executive & Independent Director
American, born in 1944

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, Inter-Asia Capital III (the Founder investor in Temenos) and Inter-Asia Capital IV. 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.

Executive Committee



Creating value

The Executive Committee works closely with the Board of Directors in proposing and implementing strategy and objectives in order to drive profitability and shareholder value.

1 Andreas Andreades
Chief Executive Officer & Executive Director
Cypriot, born in 1965

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. In the nine years since he joined Temenos, the company grew in size from less than 150 employees to more than 2,900 in the last fiscal year and to more than USD 400 million in revenues. 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 strategy, sales and general management positions.
Mr Andreades holds a Masters engineering degree from the University of Cambridge and is a UK chartered accountant.

3 Mark Cullinane
Chief Operating Officer
British, born in 1964

Mr Mark Cullinane has over 20 years of experience in providing international banking solutions, including more than 15 years living and working in the Asia Pacific region.
He began his career in London as a management trainee with BIS Banking Systems in 1986, performing a variety of roles, including software development, implementation consultancy and client support, before focusing his early career in sales and sales management. Following acquisition by ACT in 1994, Mr Cullinane was promoted to General Manager for North Asia and subsequently, following acquisition by Misys in 1995, he was promoted to Regional Director for Misys business operations in the Asia Pacific region. He joined Temenos in February 2004 as Regional Director for Asia Pacific before assuming the role of Chief Operating Officer for the Group in January 2006. Mr Cullinane holds a degree in Business Studies (BA Hons.) from Greenwich University, London.

2 David Arnott
Chief Financial Officer
British, born in 1969

Mr David Arnott has been serving as the Chief Financial Officer of Temenos since April 2001. Prior to joining the Group, he worked as Chief Financial Officer of Société Européenne de Communication in Luxembourg. Mr Arnott also held a number of senior finance positions within the Anglo American group, a mining and precious metals trading company. Prior to this Mr Arnott was a Management Consultant with Deloitte where he also qualified as a Chartered Accountant. Mr Arnott holds a Bachelor of Sciences from the University of Southampton and a Masters Degree from the University of Freiburg.

4 Andre Loustau
Chief Technology Officer
British, born in 1958

Mr Andre Loustau has been with Temenos and its predecessor companies since 1984. Mr Loustau was an Application Developer at Grindlays Bank after which he joined Temenos' predecessor company EBS to begin the development of what was to become TEMENOS T24. Mr Loustau has held various roles in development, implementation and sales within Temenos, prior to assuming the responsibilities of the Chief Technology Officer in 2001.

We put our customers at the centre of everything we do, responding to their needs to develop and deliver software that makes a profound impact on their businesses; we aim to invest in our people and foster the dynamic, entrepreneurial and meritocratic culture that makes Temenos a great place to work; and, we aim to stay in regular contact with our shareholders, keeping them informed of developments in the business, and endeavouring to maximise their long term returns.

Andreas Andreades
Chief Executive Officer & Executive Director




Striking a balance

Temenos believes in striking a balance between the economic, social and environmental aspects of its day-to-day business activities, writes Koen Van den Brande, Group Strategy & Marketing Director.

We strive to run a growing, profitable business that can support its clients, employees and shareholders effectively while minimising any negative impact on the world at large. By embracing corporate and social responsibility at the heart of our business, it can permeate throughout our organisation to affect how we operate on both a global and local basis. We consider the impact that our company can have in everything we do and take pride in being a global organisation that takes responsibility for its activities.

Making our banking software accessible and affordable
Facilitating financial intermediation makes an essential contribution to the global economy and is of growing importance in poorer regions of the world. Temenos has a large presence in the Microfinance and Community Banking sector and makes a significant contribution towards improving the effectiveness of these institutions. By making T24 – our market leading packaged core banking solution – accessible to these organisations we have been instrumental in enabling them to increase their outreach and subsequently reduce interest rates for their borrowers.

Microfinance and Community Banking is a profitable and growing area of our business. Its success is important as it means we can continue to invest in ways of making T24 affordable for microfinance institutions (MFIs). Having a modern core banking system at the centre of its operation helps an MFI adhere to international banking standards, create new products to offer to its customers and improve the effectiveness of its operations.

Cognisant of the limited resources available to MFIs when it comes to selecting and implementing a core banking system, Temenos has created a pre-configured application, based on tried and tested versions of our software, which allows swift and cost-effective implementations with minimum maintenance and support requirements. Over 100 organisations are using our T24 for Microfinance & Community Banking product to run banking operations that support the world's poorest people and communities. By leveraging our expertise to create a sustainable banking solution for this market, Temenos is actively supporting the vision for microfinance and the extension of banking services to the people who desperately need them.

Over 100 institutions are using T24 for Microfinance & Community banking to run banking operations that support the world's poorest people and communities.

Opportunity International
Opportunity International is a non-profit organisation dedicated to helping the working poor. It provides small loans that allow poor entrepreneurs to start or expand a business, develop a steady income, provide for their families and create jobs for their neighbours. It also offers savings, microinsurance, business training and many more services to 1.1 million working poor in 28 developing nations.

Opportunity International runs T24 for Microfinance & Community Banking as a centralised service from its offices in Denver, USA to support its network of over 100 microfinance institutions. Temenos worked closely with Opportunity International so that it could be completely self-sustaining whereby no services were required for the system implementation. This approach made it possible for Opportunity International to consider T24 as a viable option. The organisation has been able to configure the system to provide microinsurance as a new service to its customers.

People are the key
People are the key to Temenos' success. Committed employees that share the aspirations and values of the Temenos Group are essential to achieving our business objectives and delivering value for our customers and shareholders. It is vital that we continue to motivate and inspire our employees to be the best that they can be. We are continuing to run the Employee Stock Options Plan and the equity based STAR programme to recognise the efforts of our employees and to reward them in a way which benefits both the individual and the company.

With over 2,900 people from 75 countries, speaking 66 languages Temenos is a testament to diversity and equal opportunity. We are committed to operating a policy of equal opportunities for all regardless of race, colour, nationality, ethnic or national origin, sex, marital status, disability, age or religious beliefs. We also operate a robust Health and Safety policy in each of our offices.

Protecting our environment
As a technology company the development of our software solutions requires minimal amounts of energy and raw materials; however we ensure that we use our resources effectively with a minimum impact on the environment. In addition we actively promote the use of video conferencing across our international offices to reduce the volume of air travel undertaken by our employees.

Giving back
In association with the Global Fund for Children Temenos has donated funds towards community-based projects that aim to give vulnerable children and young people the best possible start in life. And in 2008, Temenos employees have voted to support four projects in India, Kenya and Sierra Leone.

Governing the Group

Introduction
This report has been prepared in compliance with the Directive on Information Relating to Corporate Governance (hereafter"DCG") and its Commentary issued by the SIX Swiss Exchange.

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.

Unless otherwise indicated, the information provided in this report reflects the situation as of the 31 December 2008.

TEMENOS Group AG is hereinafter referred to as "the Company" or "Temenos". TEMENOS Group AG and its affiliated companies are hereinafter referred to as "Temenos Group" or "the Group".

1. Group structure and shareholders

1.1 Group structure

The ultimate holding company, TEMENOS Group AG, is registered in Geneva, where the Group is also headquartered.

1.1.1 The Temenos Group is organised and managed by the CEO who is the head of the Executive Committee of the Management Board (Executive Committee). The Executive Committee has been in place since 1 December 2007.

This Committee comprises the following members:

Andreas Andreades
Chief Executive Officer

David Arnott
Chief Financial Officer

Mark Cullinane
Chief Operating Officer

Andre Loustau
Chief Technology Officer

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

The Group's product sales and services operations are divided into three main geographic regions:

- Europe, Middle East and Africa
- Asia Pacific
- Americas – including North and South Americas

The Group Development and Product Support centres are based in India (Chennai and Bangalore), Spain (Madrid) and United Kingdom (Hemel Hempstead). Temenos Development Centres and Help Desk departments operate from these locations.

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

Name	TEMENOS Group AG
Domicile	18 Place des Philosophes 1205 Geneva, Switzerland
Listed at	SIX Swiss Exchange
First listing date	26 June 2001
Market capitalisation	CHF 826,076,818
Security Number	1245391
ISIN number:	CH0012453913
Symbol:	TEMN
Reuters:	TEMN.S
Bloomberg:	TEMN SW

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

Corporate Governance
continued

1.1.3 Please find below the main non-listed companies belonging to the Group:
(all companies are directly or indirectly wholly owned subsidiaries of TEMENOS Group AG, unless otherwise indicated)

Name	Domicile	Country of Incorporation	Share Capital
ACTIS BSP Germany GmbH	Grosswallstadt	Germany	500,000 DEM
ACTIS BSP IT Services GmbH	Frankfurt am Main	Germany	50,000 DEM
ACTIS in Frankfurt GmbH	Frankfurt am Main	Germany	100,000 DEM
BSP Partners GmbH & Co. KG	Grosswallstadt	Germany	42,900 DEM
DBS Global Solutions (Pty) Limited	Cape Town	South Africa	100 ZAR
Fairs Limited	London	United Kingdom	50,000 GBP
Financial Objects (Risk Management) Limited	London	United Kingdom	9,697 GBP
Financial Objects (UK) Limited	London	United Kingdom	466,667 GBP
Financial Objects Inc.	Wilmington	USA	1,500 shares (no par value)
Financial Objects Limited	London	United Kingdom	950,528 GBP
Financial Objects Software (India) Private Limited	Bangalore	India	3,258,020 INR
Fomento Empresarial de Servicios Informaticos SA de CV (ownership interest : 51%)	Mexico City	Mexico	45,713,473 MXN
Genisys Technology Limited	London	United Kingdom	51,505 GBP
Lydian Associates Limited	London	United Kingdom	20 GBP
Quetzal Informatique SA	Paris	France	235,280 EUR
SC TEMENOS Romania SA	Bucharest	Romania	100,000 RON
TEMENOS (Malaysia) Sdn Bhd	Kuala Lumpur	Malaysia	250,000 MYR
TEMENOS (NL) BV	Amsterdam	Netherlands	18,152 EUR
TEMENOS (Thailand) Co. Limited	Bangkok	Thailand	100,000,000 THB
TEMENOS Africa (Pty) Limited	Sunninghill	South Africa	100 ZAR
TEMENOS Australia Pty Limited	Sydney	Australia	2 AUD
TEMENOS Bulgaria EOOD	Sofia	Bulgaria	10,000 BGN
TEMENOS Costa Rica SA	San Jose	Costa Rica	500,000 CRC
TEMENOS Cyprus Limited	Nicosia	Cyprus	100,000 EUR
TEMENOS Deutschland GmbH	Frankfurt am Main	Germany	25,000 EUR
TEMENOS East Africa Limited	Nairobi	Kenya	100,000 KES
TEMENOS Eastern Europe Limited	Nicosia	Cyprus	809,856 EUR
TEMENOS Ecuador SA	Quito	Ecuador	2,000 USD
TEMENOS Egypt LLC	Cairo	Egypt	200 EGP
TEMENOS France SAS	Paris	France	500,000 EUR
TEMENOS Headquarters SA	Geneva	Switzerland	100,000 CHF
TEMENOS Hellas SA	Chalandri	Greece	60,000 EUR
TEMENOS Hispania SA	Madrid	Spain	60,102 EUR
TEMENOS Holdings NV	Curacao	Netherlands Antilles	40,105 USD
TEMENOS Holland BV	Amsterdam	Netherlands	19,000 EUR
TEMENOS Hong Kong Limited	Hong Kong, China (PRC)	Hong Kong, China (PRC)	2 HKD
TEMENOS India Private Limited	Chennai	India	2,962,000 INR
TEMENOS Investments BV	Amsterdam	Netherlands	18,000 EUR
TEMENOS Japan KK	Tokyo	Japan	10,000,000 JPY
TEMENOS Korea Limited	Seoul	Korea	50,000,000 KRW
TEMENOS Luxembourg SA	Capellen	Luxembourg	1,181,250 EUR
TEMENOS Mexico SA de CV	Mexico City	Mexico	10,760,900 MXN
TEMENOS Middle East Limited	Nicosia	Cyprus	17,100 EUR
TEMENOS Philippines, Inc	Makati City	Philippines	10,000,000 PHP
TEMENOS Polska Sp. Zo.o	Warszawa	Poland	50,000 PLN
TEMENOS Singapore Pte Limited	Singapore	Singapore	10,000 SGD
TEMENOS Software Canada Limited	Vancouver	Canada	48,000 CAD
TEMENOS Software Shanghai Co. Limited	Shanghai	China	140,000 USD
TEMENOS Suisse SA	Geneva	Switzerland	7,500,000 CHF
TEMENOS Systems Ireland Limited	Dublin	Ireland	4 EUR
TEMENOS UK Limited	London	United Kingdom	2,198,844 GBP
TEMENOS USA, Inc.	Wilmington	USA	1 USD
T-jBASE SA	Geneva	Switzerland	100,000 CHF
T-TCB SA	Geneva	Switzerland	100,000 CHF
T-TFR SA	Geneva	Switzerland	100,000 CHF
Wealth Management Systems Limited	London	United Kingdom	525,000 GBP

1.2 Significant shareholders

To the best of our knowledge, please find below the list of shareholders who hold more than 3 percent of the voting rights of all issued shares, as of 31 December 2008.

Name	**Number of shares**	**Percentage of the share capital[1]**
UBS AG	2,969,888	5.03%
George Koukis	2,252,064	3.82%
Schroders plc.	1,872,261	3.17%
Virmont Sarl (Alken Asset Management LLP) [2]	1,854,963	3.14%

[1] On the basis of TEMENOS Group AG registered capital of 59,005,487 shares.
[2] Prior to 13 November 2008, the disclosures of Virmont Sarl were made in the name of Alken Asset Management LLP, the previous management company.

For more recent information on Temenos' major shareholders, please refer to page 87.

Disclosure notifications made in accordance with Article 20 of the Swiss Stock Exchange and Securities Trading Act are publicly available on:

http://www.six-swiss exchange.com/admission/being_public/disclosure/major_shareholders_en.html.

1.3 Cross-shareholdings

There are no cross-shareholdings to report.

2. Capital structure

2.1 Capital

On 31 December 2008, the ordinary share capital amounted to CHF 295,027,435 consisting of 59,005,487 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 129,230,885 and a conditional capital totalling CHF 48,796,460 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 129,230,885 through the issuance of a maximum of 25,846,177 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 20 June 2010.

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 means of a firm underwriting by a banking institution or syndicate with a 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 of 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, the take-over 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 3 quater (1)), the company's share capital shall be increased by a maximum aggregate amount of CHF 48,796,460, through the issuance of a maximum of 9,759,292 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. 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 quater (2)), the share capital may be increased by an amount not exceeding CHF 69,653,400, by issuing up to 13,930,680 new registered shares to be fully paid-in with a nominal value of CHF 5 each, to be divided as follows: first, in the amount of CHF 45,000,000, that is 9,000,000 new registered shares, through exercise of conversion and/or option rights, which are granted in connection with bonds or similar obligations or other financial instruments of the Company or one of its group companies; and second, in the amount of CHF 24,653,400, that is 4,930,680 new registered shares, by the exercise of option rights which are granted by the Company or one of its group companies to existing shareholders or third parties, in particular a US distributorship. In the case of the issuance of bonds, similar obligations, or other financial instruments linked with conversion and/or option rights, and in the case of the issuance of option rights, the pre-emptive rights of shareholders are excluded. The owners of conversion or option rights from time to time are entitled to the new shares.

The conditions of the option rights, including the exercise period and exercise price, are to be determined by the Board of Directors, whereby the exercise price may be fixed at a price lower than the market or intrinsic value.

The Board of Directors shall be authorised to restrict or exclude the advance subscription rights of shareholders: (1) if debt issues in connection with conversion rights or warrants or other financial instruments or options issues are for the purpose of financing or refinancing the acquisition of an enterprise, parts of an enterprise, or participations or new investments; or (2) if such debt or other financial instruments or options are issued on the international capital markets and for the purpose of a firm underwriting by a banking institution or a consortium of banks with a subsequent offering to the public; or (3) if such debt or other financial market instruments or options are issued for the purpose of the participation of strategic partners. In such cases, the following shall apply: the terms and conditions of the convertible bonds or warrants or other financial instruments or options shall correspond to market conditions (including dilution protection provisions in accordance with market practice), taking into account the specific situation, and the new shares shall be issued pursuant to the relevant conversion or exercise rights in connection with bond or warrant or options issuance conditions. Conversion rights may be exercised during a maximum ten (10)-year period, and warrants or options may be exercised during a maximum seven (7)-year period, in each case from the date of the respective issuance.

Regarding the issuance of warrants in connection with a US distributorship, the advance subscription rights of existing shareholders are excluded. The terms of such warrants shall be as set forth in the relevant warrant agreement.

2.3 Changes in capital

Statutory accounts

	31.12.08 CHF 000	31.12.07 CHF 000	31.12.06 CHF 000
Ordinary share capital	**295,027**	291,707	289,207
Conditional share capital	**118,450**	118,450	120,950
Authorised share capital	**129,231**	132,551	132,551
Share premium & capital reserve (incl. reserve for own shares)	**197,781**	182,599	181,240
Profit (loss) carried forward	**2,987**	532	(988)
Total equity	**495,795**	474,838	469,459

2.4 Shares and participation certificates

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 dividends in 2008. The Articles of Association do not provide for privileged voting rights shares.

Temenos does not currently anticipate paying any dividends, as it intends to retain future earnings to finance the development and growth of its business. The Company does not issue participation certificates.

2.5 Profit sharing certificates

The Company does not issue profit sharing certificates.

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 and warrants please refer to note 21 of the consolidated financial statements. With respect to the convertible bond issued on 20 March 2006, please refer to note 14 of the consolidated financial statements.

3. 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 Committee 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 2008 the Board of Directors comprises the following six members, four of whom are non-executive:

Name	Position
George Koukis	Chairman, Executive Director
Paul Selway-Swift	Vice-Chairman, Non-Executive and Independent Director
Andreas Andreades	Chief Executive Officer and Executive Director
Mark Austen	Non-Executive and Independent Director
Chris Pavlou	Non-Executive and Independent Director
Lewis Polk Rutherfurd	Non-Executive and Independent Director

Please refer to page 17 for their biographies.

None of the non-executive members of the Board of Directors has or has had any senior management position within the Group. None of them has any significant business connections with the Group.

3.2 Other activities and vested interested

No member of the Board of Directors has any:

- Activities in governing and supervisory bodies of important Swiss and foreign organisations, institutions and foundations under private and public law;
- Permanent management and consultancy functions for important Swiss and foreign interest groups;
- Official functions and political posts.

3.3 Cross-involvement

(repealed)

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 three years. (A year begins on the date of the General Meeting of Shareholders and continues until the next General Meeting.) 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

Name	First elected	Elected until
George Koukis	2001	2011
Paul Selway-Swift	2001	2009
Andreas Andreades	2001	2010
Mark Austen	2006	2009
Chris Pavlou	2001	2011
Lewis Polk Rutherfurd	2001	2009

3.5 Internal organisational structure

3.5.1 Allocation of tasks within the Board of Directors

At its first session after the ordinary General Meeting of Shareholders, the Board elects its Chairman, Vice-Chairman and Secretary, who does not need to be a member of the Board of Directors.

The Chairman is responsible for preparing and convening the meetings of the Board of Directors as well as for the implementation of the Board resolutions. In case of his absence, the Vice-Chairman shall call the Board meetings. The Chairman supervises the preparation of the General Meeting of Shareholders.

Position within the Board of Directors

Name	Position
George Koukis	Chairman
Paul Selway-Swift	Vice-Chairman
Andreas Andreades	Member
Mark Austen	Member
Chris Pavlou	Member
Lewis Polk Rutherfurd	Member

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.
These Committees are comprised mainly of non-executive and independent directors. These committees report regularly and make recommendations to the Board of Directors which is empowered to make decisions.

Name	Audit Commitee	Compensation Committee	Nomination Committee
George Koukis			
Paul Selway-Swift	Member	Member/ Chairman	Member
Andreas Andreades			Member
Mark Austen	Member/ Chairman		
Chris Pavlou	Member	Member	Member/ Chairman
Lewis Polk Rutherfurd	Member		Member

Audit Committee

The Audit Committee considers the Group's public reports, liaises with the external and internal auditors, and reviews the Group's internal controls, compliance with corporate governance rules and any other matters that may be brought to its attention by the internal and/or external auditors. The external and internal auditors are in attendance at all Audit Committee meetings.

Corporate Governance
continued

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.

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 Committee 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 Committee.

3.5.3 Work methods of the Board of Directors and its Committees
The Board of Directors meets as often as business requires, but at least four times a year, the Audit Committee meets at least twice a year and the Compensation and Nomination Committees meet at least once a year.

During 2008, the following numbers of meetings were held:

Board/ Committees	Meetings held
Board of Directors	5
Audit Committee	4
Compensation Committee	1
Nomination Committee	1

The attendance at the meetings of the Board of Directors and its Committees was 100%.

Moreover, both the external and internal auditors attended all the Audit Committee meetings in 2008.

The average duration of the meetings is as follows:

Board/ Committees	Average duration (hours)
Board of Directors	4
Audit Committee	3.5
Compensation Committee	1.5
Nomination Committee	1

All directors may take independent professional advice, at the Company's expense, if they deem such a course of action necessary or appropriate for adequately discharging their duties. 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 Committee 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 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, 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 acquisitions, disposals, strategic alliances, share repurchase programs and changes in the Group's structure and organisation, though its responsibilities are not limited to this.

Once a year, the Board of Directors reviews its conformity to corporate governance rules and evaluates its own performance. Moreover, the non-executive members of the Board of Directors assess the performance of each of the executive directors and vice versa.

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

Under the direction and presidency of the Chief Executive Officer, the Executive Committee is composed of the CFO, COO and CTO.

In compliance with the Board of Directors' decisions, the Executive Committee is responsible for setting Group strategy and monitoring performance against it. The Executive Committee also sets targets for Group organic and acquisitions growth on a three year basis. Finally, the Executive Committee approves all products CAPEX investments, as well as acquisitions to be proposed to the Board of Directors.

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

The Head of Internal Audit reports directly to the Audit Committee and administratively to the Chief Executive Officer. Internal Audit operates according to The International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors.

Executive Management evaluates risks at yearly intervals, or in special cases, on an ad-hoc basis. The Group Risk Management function coordinates risk management through Temenos, promoting anticipatory management of threats and opportunities, and providing the Executive Management with information necessary to manage overall risk exposure. Temenos integrates this risk management into its ongoing business planning process. Potential negative developments are evaluated, so that we can implement timely countermeasures if any events should lead to deviations from our business plan. Specialised functions such as Group Finance & Accounting, Group Quality and IT Security support regional organisations and control the effectiveness of risk management. The Internal Audit department aligns their activities to the risk management system.

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.

Every year, detailed budgets for each area of business are prepared for the 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 the attention of management and the Board. This is a goal which is pursued on an on-going basis while ensuring that an equilibrium is maintained between the minimisation of risk and costs associated with controls.

4. Executive Committee

4.1 Members of the Executive Committee

As at 31 December 2008, the Executive Committee comprises the following members:

Executive Committee

Name	Position
Andreas Andreades	Chief Executive Officer
David Arnott	Chief Financial Officer
Mark Cullinane	Chief Operating Officer
Andre Loustau	Chief Technology Officer

Please refer to page 18 for their biographies.

4.2 Other activities and vested interests

No member of the Executive Committee has any:

- Activities in governing and supervisory bodies of important Swiss and foreign organisations, institutions and foundations under private and public law;
- Permanent management and consultancy functions for important Swiss and foreign interest groups;
- Official functions and political posts.

4.3 Management contracts

No management tasks have been delegated to third parties.

5. Compensations, shareholdings and loans

5.1 Content and method of determining the compensation and the share-ownership programmes

For disclosure of participations and compensation as well as details on options and Stock Appreciation Rights (SARs), please refer to note 8 of the unconsolidated financial statements.

This section summarises the compensation programs for the executive members of the Board of Directors and for the Executive Committee (the "Executives") in 2008.

The Compensation Committee reviews, approves and makes recommendations on compensation packages concerning the Executives and seeks to confirm that such compensation is fair in relation to the person's skills and their position and consistent with best market practice. For more information on the Compensation Committee, please refer to section 3.5.2.

The objectives of Temenos compensation programs are to:

1. Attract, motivate and retain highly talented and performance-driven executives who have the potential to make the greatest impact on Temenos' success.
2. Reinforce a-pay-for performance culture by having a significant portion of compensation packages linked to the achievement of results and growth that is significantly higher than the peer group of global software companies.
3. Align Executives' interests with shareholders' interests by having a substantial amount of compensation linked to Temenos' stock performance.

Accordingly, the overall executive compensation is set at the top quartile when compared to that of other global software companies; however, the largest part of variable compensation is only paid upon achievement of profit and revenue growth targets which are higher than that achieved on average by our peer group.

The components of compensation for Executives comprise base salary, benefits, annual bonus and long term incentive (Equity Based Stock Appreciation Rights (SARs), stock options and profit sharing for one member of the Executive Committee).

The on-target annual bonus applicable to the Executives represents an average of 98% of their base salary. Annual bonus is conditional upon either achievement of key financial performance targets (EPS growth, Group profits targets, Group operating cash flow) or strategic individual business objectives depending on their functions within the Group and continuous employment. At least 50% of the annual bonus relates to Group performance targets. Executives with direct profit and loss responsibility are rewarded 100% on achievement of financial performance targets. In case the achievement is below a predefined threshold, which is 10% below the set target in the case of EPS, profit and operating cash flow, there is no bonus payout; in case of overachievement, there is an accelerator up to a maximum of 200% of the on-target bonus.

The SARs are conditional on cumulative EPS targets over 3 years. In case the achievement is below the predefined threshold of 80% there is no SARs grant; in case of overachievement, there is an accelerator up to a maximum of 200% of the initial bonus or SARs grant. The maximum face value (number of SAR x grant price) of SARs grant is in the range of 150% to 400% of base salary depending on the position of the Executive.

Stock options are not granted automatically on an annual basis, but are granted on an exceptional basis; the main objectives being to attract and retain key talent.

The emoluments of the non-executive members of the Board of Directors are quantified by reference to the time spent on the Board and on its Committees' meetings and related matters.

Insider trading:
According to the insider trading section of the Temenos Business Code of Conduct, the black out periods are defined as follows:

No director or employee should make any purchase or sale of Temenos securities (e.g. shares, options, SARs):

- during the period beginning ten trading days prior to publication of quarterly financial results and ending on the day of such public announcement;
- during the period beginning at the time of any public earnings-related announcement or public announcement of a significant corporate transaction or event and ending upon the completion of the second full trading day after such announcement;
- during such other periods as may be established from time to time by management in light of particular events or developments affecting Temenos; and
- during any other period when he or she has knowledge of any material non-public information concerning Temenos.

5.2 Transparency of compensation for shareholdings of and loans to issuers domiciled abroad
Not applicable to Temenos.

6. Shareholders' participation

6.1 Voting-rights and representation restrictions

6.1.1 According to the Company's Articles of Association, 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.

According to Article 6 of the Company's Articles of Association, "Every entry of an acquirer of shares is subject to the Board of Directors' consent. The Board of Directors may refuse its consent if, at its request, the acquirer does not explicitly declare to acquire and to hold the shares in his own name and for his own account or if the form filed by the acquirer to request registration contains untrue information or statements."

6.1.2 No such refusal has ever occurred.

6.1.3 This statutory restriction may be abolished by an amendment of the Articles of Association which requires a decision taken by the simple majority at the General Meeting of Shareholders (Article 9 (1) and 15 of the Articles of Association).

6.1.4 Shareholders may represent their shares in person or appoint a representative by written proxy. They may alternatively appoint 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 to be included on the agenda. Such request must be in writing and shall specify the items and the proposals of these shareholders.

6.5 Inscriptions into the share register
Pursuant to Article 13 §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 no later than 4 business days before the Annual General Meeting of Shareholders.

Only persons registered in the share register are considered as shareholders by Temenos.

The Eighth Annual General Meeting of Shareholders of the Company will be held in Geneva on 5 June 2009. The agenda of the Annual General Meeting of Shareholders is published and sent to each shareholder in French and English. Shareholders recorded in the share register on 15 May 2009 are entitled to vote.

7. Changes of control and defence measures

7.1 Duty to make an offer
There is no "opting out" or "opting up" clause in the Articles of Association of TEMENOS Group AG.

7.2 Clauses on changes of control
In the event of a change of control of the majority of Temenos stock, all non-vested stock options and SARs shall become vested and exercisable immediately provided that their respective vesting period has started. Typically, the vesting period starts one year following the grant date.

The contractual notice periods of the executive members of the Board of Directors and members of the Executive Committee do not exceed six months; there are no severance payment clauses.

In case of resignation, dismissal or redundancy, all unvested Options and SARs are immediately forfeited. Options and SARs that are vested but unexercised as of the 60th calendar day following termination of the contract of employment are cancelled.

8. Auditors

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

8.1.1 PricewaterhouseCoopers SA ("PwC") was re-elected as the statutory and group auditor at the Annual General Meeting of Shareholders held on 20 June 2008 for a period of one year (PwC was first elected in 2003).

8.1.2 The lead auditor for the Group audit is Mr Mike Foley, who was elected for the first time at the General Meeting of Shareholders of TEMENOS Group AG held on 27 June 2003.

8.2 Auditing fees
Included in general and administrative expenses is an amount of USD 1,066,000 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 474,000 have been incurred through the provision of tax advisory and other professional services by PricewaterhouseCoopers.

8.4 Information tools pertaining to the external audit
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 spend time with the external auditors without the presence of management. The external auditors formally report to the Audit Committee during its meetings and have direct access to its Chairman when necessary. The Chairman of the Audit Committee then reports at each meeting of the Board of Directors. Please also refer to paragraphs 3.5.2 and 3.5.3 above.

At the beginning of the year, the Audit Committee pre-approves an amount of permitted services that may be performed by the external auditors. Such services are then reviewed on a regular basis at Audit Committee meetings. For any other audit or non-audit related services beyond the above-mentioned limit, authorisation is required from the Chairman of the Audit Committee upon recommendation from the CFO.

9. Information policy

Temenos is committed to open and transparent communication with its shareholders and wider stakeholders.

Updates

Temenos publishes an annual report for the year to 31 December and an interim report for the six months to 30 June. Temenos also reports figures on a quarterly basis. All of this information and additional company-specific information is available at http://www.temenos.com/Investor-Relations/. In addition, those interested can sign up on the Temenos website to receive updates on new initiatives as well as financial news and the latest customer signings.

Contacting Temenos

To contact the Company, please either write to the Investor Relations team at TemenosIR@temenos.com or Ariel Boussiba, Company Secretary at aboussiba@temenos.com.

Meeting Temenos

On 5 June 2009, Temenos will hold its Annual General Meeting in Geneva, Switzerland. This occasion affords shareholders the opportunity to put their questions to the board and learn more about the Group's strategic direction.

Meetings between Directors, institutional shareholders and other market professionals are held regularly as a part of Temenos' investor relations programme. Furthermore, all directors are available to meet shareholders if requested.

A list of roadshows and conferences Temenos will attend in 2009 is published on the Company's website and updated regularly at http://www.temenos.com/Investor-Relations/Financial-Calendar/.

Temenos Business Code of Conduct

It is crucial for Temenos to conduct business in an ethical way everywhere and in all circumstances. The Temenos Business Code of Conduct has been drawn up in this respect and is reviewed annually by the Board of Directors.

This Code of Conduct describes the policies and procedures governing the relationship between the employee and Temenos, and is considered a part of the employment relationship.

This Code of Conduct is distributed to all new employees and acknowledged. It is available on the Temenos website and intranet (central repository database).

Report of the Group Auditors
on the Consolidated Financial Statements

Report of the statutory auditor to the general meeting of TEMENOS Group, AG Geneva.

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of TEMENOS Group AG, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes on pages 31 to 75 of TEMENOS Group AG Annual Report for the year ended 31 December 2008.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2008 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.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers SA

Michael Foley Audit expert Auditor in charge	Guillaume Nayet Audit expert

Geneva, 27 February 2009

Consolidated Income Statement
for the year ended 31 December

	2008 USD 000	2007 USD 000
Revenues		
Software licensing	**150,055**	148,777
Maintenance	**101,215**	76,337
Services	**155,667**	104,746
Total revenues (note 22)	**406,937**	329,860
Operating expenses		
Sales and marketing	**74,934**	71,777
Services	**140,808**	97,001
Software development and maintenance	**74,942**	57,061
General and administrative	**52,301**	41,518
Total operating expenses (note 25)	**342,985**	267,357
Operating profit	**63,952**	62,503
Other income (expenses) (note 26)		
Fair value (loss) gain from financial instruments, net (note 26)	**(6,930)**	181
Financial instrument related expenses (note 26)	**(1,997)**	(393)
Foreign exchange gain, net (note 26)	**12,050**	4,840
Total other income (expenses)	**3,123**	4,628
Finance income (expenses) (note 27)		
Interest expense (note 27)	**(7,119)**	(5,205)
Interest income (note 27)	**3,339**	2,484
Total finance income (expenses)	**(3,780)**	(2,721)
Profit before taxation	**63,295**	64,410
Taxation (note 12)	**1,881**	273
Profit for the year	**65,176**	64,683
Attributable to:		
Equity holders of the Company	**64,711**	64,674
Minority interest	**465**	9
	65,176	64,683
Earnings per share (in USD) (note 28):		
basic	**1.12**	1.11
diluted	**1.02**	1.00

Consolidated Balance Sheet
as at 31 December

	2008 **USD 000**	2007 USD 000
Assets		
Current assets		
Cash and cash equivalents (note 7)	**65,600**	93,062
Trade and other receivables (note 8)	**287,519**	192,824
Other financial assets (note 9)	**3,839**	1,286
Prepayments	**9,111**	7,264
Total current assets	**366,069**	294,436
Non-current assets		
Property, plant and equipment (note 10)	**14,618**	16,446
Intangible assets (note 11)	**188,855**	93,535
Trade and other receivables (note 8)	**9,544**	27,389
Deferred tax assets (note 12)	**38,912**	25,771
Total non-current assets	**251,929**	163,141
Total assets	**617,998**	457,577
Liabilities and equity		
Current liabilities		
Trade and other payables (note 13)	**84,756**	79,408
Other financial liabilities (note 9)	**14,711**	–
Deferred revenues	**84,624**	57,535
Income tax liabilities	**11,162**	19,964
Borrowings (note 14)	**13,277**	1,842
Provisions for other liabilities and charges (note 15)	**9,519**	104
Total current liabilities	**218,049**	158,853
Non-current liabilities		
Borrowings (note 14)	**173,169**	116,332
Deferred tax liabilities (note 12)	**9,686**	4,469
Income tax liabilities	**9,870**	–
Trade and other payables (note 13)	**2,614**	487
Total liabilities	**413,388**	280,141
Capital and reserves attributable to the Company's equity holders		
Share capital (note 18)	**174,122**	170,867
Treasury shares (note 18)	**(20,677)**	(696)
Share premium and capital reserves (note 19)	**(77,217)**	(92,589)
Fair value and other reserves (note 20)	**(42,938)**	(6,354)
Retained earnings	**170,583**	105,872
	203,873	177,100
Minority interest	**737**	336
Total equity	**204,610**	177,436
Total liabilities and equity	**617,998**	457,577

Consolidated Cash Flow Statement
for the year ended 31 December

	2008 USD 000	2007 USD 000
Cash flows from operating activities		
Profit before taxation	**63,295**	64,410
Adjustments:		
Depreciation and amortisation (note 25)	**23,853**	15,973
Loss on disposal of assets	**87**	95
Goodwill impairment charge	**–**	121
Cost of share options (note 21)	**15,851**	13,964
Finance costs – net (note 27)	**3,779**	2,721
Fair value loss (gain) from financial instruments (note 26)	**6,930**	(181)
Financial instrument related expenses (note 26)	**1,997**	393
Changes in net working capital		
Trade and other receivables, prepayments and other financial assets	**(78,028)**	(58,877)
Trade and other payables and other financial liabilities	**(628)**	19,532
Deferred revenues	**19,089**	6,638
Cash generated from operations	**56,225**	64,789
Income taxes paid	**(2,679)**	(3,759)
Net cash generated from operating activities	**53,546**	61,030
Cash flows from investing activities		
Purchase of property, plant and equipment	**(4,496)**	(6,750)
Disposal of property, plant and equipment	**85**	70
Purchase of intangible assets	**(5,211)**	(3,169)
Disposal of intangible assets	**–**	35
Capitalised development costs (note 11)	**(19,928)**	(16,946)
Acquisitions, net of cash acquired (note 6)	**(69,926)**	(23,733)
Settlement of financial instruments	**(6,719)**	3,722
Interest received	**841**	2,249
Net cash used in investing activities	**(105,354)**	(44,522)
Cash flows from financing activities		
Proceeds from issuance of shares, net of related expenses	**17**	209
Acquisition of treasury shares	**(34,643)**	(34,815)
Proceeds from borrowings	**69,590**	–
Interest payments	**(3,354)**	(2,020)
Payment of financial instrument related expenses	**(5,118)**	(297)
Payment of finance lease liabilities	**(520)**	(379)
Net cash generated from (used in) financing activities	**25,972**	(37,302)
Effect of exchange rate changes	**(1,626)**	2,488
Decrease in cash and cash equivalents in the year	**(27,462)**	(18,306)
Cash and cash equivalents at the beginning of the year	**93,062**	111,368
Cash and cash equivalents at the end of the year	**65,600**	93,062

Statement of Changes in Equity
for the year ended 31 December

	Share capital (note 18) USD 000	Treasury shares (note 18) USD 000	Share premium and capital reserves (note 19) USD 000	Fair value and other reserves (note 20) USD 000	Retained earnings USD 000	Minority interest USD 000	Total USD 000
Balance at 1 January 2007	**168,828**	**(2,974)**	**(66,521)**	**(4,719)**	**41,198**	**331**	**136,143**
Cumulative translation adjustment	–	–	–	(1,570)	–	(4)	(1,574)
Cash flow hedges (note 20)	–	–	–	(65)	–	–	(65)
Net expense recognised directly in equity	–	–	–	(1,635)		(4)	(1,639)
Profit for the year	–	–	–	–	64,674	9	64,683
Total recognised income	–	–	–	(1,635)	64,674	5	63,044
Cost of share options (note 21)	–	–	13,964	–	–	–	13,964
Exercise of share options	2,039	37,094	(39,312)	–	–	–	(179)
Settlement of employee share options	–	–	(613)	–	–	–	(613)
Share issuance costs	–	–	(107)	–	–	–	(107)
Acquisition of treasury shares	–	(34,816)	–	–	–	–	(34,816)
	2,039	2,278	(26,068)	(1,635)	64,674	5	41,293
Balance at 31 December 2007	**170,867**	**(696)**	**(92,589)**	**(6,354)**	**105,872**	**336**	**177,436**
Cumulative translation adjustment	–	–	–	(24,644)	–	(64)	(24,708)
Available-for-sale investment	–	–	–	1	–	–	1
Cash flow hedges (note 20)	–	–	–	(11,941)	–	–	(11,941)
Net expense recognised directly in equity	–	–	–	(36,584)	–	(64)	(36,648)
Profit for the year	–	–	–	–	64,711	465	65,176
Total recognised income	–	–	–	(36,584)	64,711	401	28,528
Cost of share options (note 21)	–	–	15,851	–	–	–	15,851
Exercise of share options	–	14,662	(15,830)	–	–	–	(1,168)
Settlement of employee share options	–	–	(996)	–	–	–	(996)
Shares issued in relation to acquisitions (note 6)	3,255	–	16,347	–	–	–	19,602
Acquisition of treasury shares	–	(34,643)	–	–	–	–	(34,643)
	3,255	(19,981)	15,372	(36,584)	64,711	401	27,174
Balance at 31 December 2008	**174,122**	**(20,677)**	**(77,217)**	**(42,938)**	**170,583**	**737**	**204,610**

Notes to the Consolidated Financial Statements
31 December 2008

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 SIX Swiss Exchange. On incorporation, TEMENOS Group AG succeeded TEMENOS Holdings NV in the role of the ultimate holding company of the Group. From 23 May 2006 the Company moved its seat of incorporation to Geneva, Switzerland. The registered office is 18 Place des Philosophes, Geneva.

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 17 February 2009.

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 financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

Standards, amendments and interpretations effective in 2008

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation has been taken into account in determining the recognised asset from pension plans.
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group's financial statements.
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 July 2008). The amendment only permits reclassification of certain non-derivative financial assets out of "Fair value through profit or loss" or "Available for sale" categories if specified criteria are met. Entities are now permitted to reclassify financial assets classified as held for trading in the following situations only:
  1) Where the financial asset meets the definition of a loan or receivable at the date of reclassification and the company now has the intent and ability to hold it for the foreseeable future or to maturity; and
  2) In rare circumstances for other financial assets (i.e. those that do not meet the definition of a loan or receivable at the date of reclassification).
  Entities continue to be prohibited from reclassifying derivative financial instruments, non derivative financial liabilities and financial instruments designated on initial recognition as at fair value through profit or loss out of the fair value through profit or loss category. Any reclassification into the fair value through profit or loss category after initial recognition remains prohibited. This amendment does not have an impact on the Group's financial statements as the Group has not reclassified any instruments.

Standards, amendments and interpretations effective in 2008 but not relevant to the Group's operations
The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but they are not relevant to the Group's operations:

- IFRIC 12, 'Service concession arrangements'; and
- IFRIC 13, 'Customer loyalty programmes'.

Notes to the Consolidated Financial Statements
continued

2. **Accounting policies** continued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009, but the Group has not early adopted them. Unless otherwise indicated, these publications are not expected to have any significant impact on the Group's financial statements:

- IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009).
- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009).
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009).
- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009).
- IFRS 8, "Operating segments" (effective from 1 January 2009).
- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009).
- IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009).
- IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).
- IAS 23 (Amendments), 'Borrowing costs' (effective from 1 January 2009).
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).
- IAS 27 (Revised), 'Consolidated and separate financial statements', (effective from 1 July 2009).
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).
- IAS 38 (Amendments), 'Intangible assets' (effective from 1 January 2009).
- IAS 39 (Amendments), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008).
- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' IAS 16, 'Property, plant and equipment' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008.

Standards, amendments and interpretations to existing standards that are not yet effective and are not relevant to the Group's operations

The following interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2009 but are not relevant to the Group's operations:

- IFRS 1 (revised) 'First time adoption of IFRS'.
- IFRIC 13, 'Customer loyalty programmes'.
- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows').
- IAS 27 (Amendment), 'Consolidated and separate financial statements'.
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures').
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies'.
- IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7).
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16).
- IAS 41 (Amendment), 'Agriculture'.
- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance'.
- There are minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance', and IAS 29, 'Financial reporting in hyperinflationary economies', IAS 40, 'Investment property', and IAS 41, 'Agriculture', which are part of the IASB's annual improvements project published in May 2008.
- IFRIC 15, 'Agreements for construction of real estates'.
- IFRIC 17, 'Distributions of non-cash assets to owners'.

(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.

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.

(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 and the currency in which the majority of the Group's transactions are denominated. The Company's functional currency is Swiss Francs.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing 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.

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 are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement 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".

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity and are included within "fair value and other reserves". When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale. Gains or losses resulting from long term intragroup balances for which settlement is neither planned nor likely to occur in the foreseeable future are treated as a net investment in foreign operations.

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, deposits held with banks with original maturities of three months or less, and other short-term highly liquid investments with original maturities of three months or less.

(e) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision made for impairment. 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, change of strategy; and default or delinquency in payments are considered indicators that the trade receivable could be impaired. However, due to the nature of the Group's business an extensive analysis of the environment that revealed one of these indicators needs to be undertaken before the trade receivable is deemed to be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement against revenue when it relates to a dispute about the services rendered or the license sold and in "sales and marketing" expenses when it relates to a collection risk. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the same income statement accounts.

2. Accounting policies continued

(f) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Depreciation on assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows (in years):

Buildings	50
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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill amortisation ceased at 31 December 2004 and separately recognised goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment losses are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over a period of three, four or five years to allocate the cost over their estimated useful lives.

Customer related intangible asset

Customer-related intangible assets acquired in business combinations. The cost of such intangible assets is their fair value at the acquisition date and it is amortised using the straight-line method over its estimated useful life, generally between 3 and 5 years.

(h) Internally generated software development

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 the following criteria are met:

- technical feasibility to complete the development;
- management intention to complete the product and use or sell it;
- the likelihood of success is probable;
- availability of technical and financial resources to complete the development phase;
- costs can be reliably measured;
- probable future economic benefits can be demonstrated.

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. Costs include the employee costs incurred in developing software and an appropriate portion of relevant overheads.

The capitalised development costs are amortised, using the straight-line method, commencing in the quarter 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.

(i) Impairment of non-financial 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 asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

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

(k) 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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(l) 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.

Fees paid on the establishment of loan facilities are deferred as a pre-payment for future liquidity services and amortised over the period of the facility within "Financial instrument related expenses". When a draw-down occurs, the net carrying amount of the related fees is considered as transaction costs in the determination of the fair value of the bank loan at draw-down date and then recognised in the income statement within "Finance expense" as part of the amortised cost.

The fair value of the liability portion of the convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) 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 lease's commencement 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. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset (note 2f and 2g) and the lease term. Payments made under operating leases are charged to the income statement on a straight line basis over the lease term.

(n) Share capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the company's equity holders.

Notes to the Consolidated Financial Statements
continued

2. Accounting policies continued

(o) Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, except for the short-term payables when the recognition of interest would be immaterial.

(p) Employee share options
The Group operates equity-settled, share-based compensation plans. 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. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. 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.

(q) Pensions
Group companies operate various pension schemes including both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior period. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement.

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 unrecognised actuarial gains or 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. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, and amendments to pension plans are charged or credited to income over the expected average remaining service lives of the related employees.

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.

(r) Revenue recognition
The Group derives revenues from the following sources: (1) software licences and the provision of software development services specifically commissioned by clients; (2) software maintenance (help desk services and rights to future product enhancements); and (3) software implementation and support services.

The Group recognises revenue in accordance with IAS 18: Revenue. This requires the exercise of judgement and the use of estimates in connection with the determination of the amount of revenue to be recognised in each accounting period. In exercising such judgement, the Group draws upon guidance from specific software industry revenue recognition practices which comply with IAS 18.

The Group begins to recognise revenue from arrangements when all of the following conditions are met: (1) the Group has entered into a legally binding agreement with a customer; (2) the software or services have been delivered; (3) the licence fee is fixed and the agreement is free of uncertainties that may alter the agreement such that it may not be complete and final; and (4) collection is probable.

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 18 and 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
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, hosting 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, 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. Hosting contracts are recognised on an accruals basis as services are rendered.

Multiple element arrangements
In many cases, the Group enters into transactions with customers that include software licence, maintenance and services revenues. The revenues from these arrangements are generally accounted for separately. 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), the availability of services from other vendors, the timing of payments and the 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 determined by the normal pricing and discounting practices for those products and services. 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.

Payment terms
Payment terms vary according to the individual contracts. Management reviews the nature of all payment terms to assess whether collection of the payments are considered probable.

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”.

(s) Cost of sales
Included in sales and marketing expenses are the direct costs associated with sales contracts, such as sales commissions and third-party licensing costs, and are expensed 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.

(t) 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 and convertible debt to the extent such incremental shares are dilutive.

(u) 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.

(v) Non-current assets (or disposal groups) held for sale
Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must commit to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal groups) classified as assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

2. Accounting policies continued

(w) Financial assets
Financial assets are classified as either financial assets at fair value through profit or loss or as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are those held for trading. A financial asset held for trading is classified in this category if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. They are subsequently measured at fair value and the resulting gains or losses are presented in the income statement within “Other income (expenses)” in the period in which they arise.

Financial assets at fair value through profit or loss are reported in current assets.

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. The Group’s loans and receivables comprise ‘trade and other receivables’ and cash and cash equivalents in the balance sheet (notes 2e and 2d).

Loans and receivables are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, except for the short-term receivables when the recognition of interest would be immaterial.

Discounted interest income is recognised in the income statement within “Finance income (expenses)”.

Regular purchases and sales of financial assets are recognised on the trade-date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are initially recognised at fair value and transaction costs are expensed in the income statement. They are subsequently measured at fair value and the resulting gains or losses are recognised in equity.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period.

Impairment of financial assets
Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset has been impacted.

Objective evidence could include, amongst other:

- significant financial difficulty of the counterparty;
- financial reorganisation or change in strategy;
- default or delinquency in payments;
- it becomes probable that the counterparty will enter bankruptcy.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivable, where the carrying amount is reduced through the use of an allowance account (note 2e).

(x) Financial liabilities
Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss are those held for trading. A financial liability held for trading is classified in this category if:

- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. They are subsequently measured at fair value and the resulting gains or losses are presented in the income statement within “Other income (expenses)” in the period in which they arise.

Financial liabilities at fair value through profit or loss are reported in the current liabilities.

Other financial liabilities
Other financial liabilities, including borrowings, are initially recognised at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, except for the short-term payables where the recognition of interest would be immaterial. The resulting discounted interest charge is recognised in the income statement within “Finance income (expenses)”.

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

On the face of the balance sheet, the 2007 comparatives figures in respect to the “Other financial assets” and “Other financial liabilities” line items have been reclassified from the “Prepayments” line item.

(y) Accounting for derivative financial instruments and hedging activities
Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value at each balance sheet date. The method of recognising the gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivates as either:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
(c) hedges of a net investment in a foreign operation (net investment hedge).

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 or to specific 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 fair values of derivative instruments used for hedging purposes are disclosed in note 9. Movements on the hedging reserve in shareholders’ equity are shown in note 20. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Derivatives not designated into an effective hedge relationship are classified as a current asset or liability if the remaining maturity is less than 12 months and as a non-current asset of liability if the remaining maturity is greater than 12 months and it is not expected to be realised or settled within 12 months.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within “Other income (expenses)” for currency risk” or within “Finance income (expenses)” for cash flow interest risk.

Amounts deferred in equity are recycled in the income statement in the period in which the hedged item is recognised in the income statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, fixed assets), the gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity remains in equity and is recognised when the hedge item is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

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”. They are classified as held for trading and the changes in the fair value of these derivatives are recognised immediately in the income statement within “Other income (expenses)”.

Notes to the Consolidated Financial Statements
continued

3. Financial risk management

(a) Financial risk factors
The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department under policies approved by the board of directors. The Chief Financial Officer and his team identify, evaluate and hedge financial risks.

Market risk
(i) Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the currencies described below. Foreign exchange risk arises from:

- forecasted revenue and costs denominated in a currency other than the entity's functional currency;
- recognised assets and liabilities; and
- net investments in foreign operations.

The Group makes efforts to mitigate its foreign exposure risk by aligning the revenue streams to currencies that match the cost base and hedge the residual exposure by using derivatives instruments. When hedge accounting is applicable, the Group documents at inception the hedging relationship and tests the effectiveness at each reporting date. Documentation and method of effectiveness testing are prepared in accordance with IAS 39 "Financial instruments: Recognition and Measurement. The Group's policy is to manage the next twelve months' foreign exchange exposure in material currencies by entering into forward foreign exchange contracts. The net foreign exchange exposure arises from substantial USD and EUR revenues which cover a multi-currency basket of operating costs.

In respect of the recognised assets and liabilities not designated as hedged items, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group does not hold a defined plan to hedge the risk in respect of the net investments in foreign operations as long as the risk is kept at a reasonable level.

The carrying amounts of the significant Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Net exposure	
	2008 FCY* 000	2007 FCY* 000
EURO	**36,200**	53,970
UK Pounds	**(30,797)**	1,115
Swiss Francs	**5,381**	4,472
Singapore Dollars	**(13,560)**	–
South African Rand	**(42,709)**	–

*Foreign currency

Sensitivity analysis
The following table details the Group's sensitivity to a 10% shift in the currencies above against the dollar with all the other variables held constant. 10% increase/decrease is the management assessment for the reasonable change in the foreign exchange rates. An increase would have a positive impact and a decrease would have an equal negative impact.

	2008 USD 000	2007 USD 000
Profit or loss before tax	**1,978**	11,631
Equity: Derivatives designated as hedging instrument (cash flow hedge)	**5,950**	1,241

In management's opinion, the above risk is unrepresentative of the Group's inherent foreign exchange risk since the reported balances represent an exposure at a given point that may be unwound within a short period from the balance sheet date at a rate approximating the closing rate used at 31 December. Furthermore, the exposures used in the sensitivity analysis do not reflect the real exposure during the year as the volume of licensing and maintenance invoicing is predominantly in the last quarter of the financial year.

(ii) Price risk
The Group is not significantly exposed to any price risks other than those related to derivatives foreign exchange contracts.

(iii) Cash flow and fair value interest risk
The Group is exposed to cash flow interest rate risks from cash and cash equivalent and borrowings at variable rates. The exposure in respect of borrowings at variable rates is denominated in EURO and UK Pounds (note 14).

The Group's policy is to limit the volatility in cash flow risk by the use of derivatives when the risk is deemed to be material. At December 2008, the risk was not considered significant, as demonstrated by the sensitivity analysis below and, therefore, no derivatives were entered into.

Sensitivity analysis
A sensitivity simulation was performed on the non-hedge portion of the borrowings with interest charged at variable rates. With all other variables held constant, a range of 2% was tested. The results of the sensitivity analysis were immaterial to the profit before tax.

The Group did not hold any borrowings at variable rates at 31 December 2008.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables.

The Group's credit risk is significantly mitigated since all of its customers are financial institutions spread across a wide geographic spectrum that have either high credit-rating, strong past experience or government backing. Moreover, such institutions are already strongly regulated by their local business laws to ensure a high level of capital structure in order to maintain a stable banking environment.

At the initial phase of the negotiation, the Group analyses the creditworthiness of the customer by ensuring that:

(i) the customer is highly rated by credit rating institutions or by other publicly available information, and it is not negatively flagged in the software industry; or
(ii) the customer has a strong past experience without delinquency of payments; or
(iii) if (i) and (ii) are not applicable, the Group may minimise the risk by requesting financial security such as prepayments, delivery against payments or collateral security.

The Group may withhold services under project implementation or withhold the right to use its software if a specific customer does not respect its payment obligations. At present, the Group does not hold any collateral security.

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.

Country risk is mitigated by the Group's broad geographic customer base and is minimised by a prudent approach of recognising the revenue. In rare cases where the country risk is predominant, the Group may recognise the revenue only upon cash collection.

At December 2008, the Group did not recognise and was not aware of any specific credit deterioration related to its existing customer base.

Moreover, as a result of the current economic situation, the Group has broadened its range of credit analysis when entering into a new business relationship and has reinforced its periodic credit control reviews in respect of the existing customer base.

The carrying amount of the financial assets, as reported under note 17, represents the maximum credit exposure.

The credit risk on liquid funds and derivative financial instrument is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

- 90% of cash is deposited in "Tier 1" banks;
- Derivatives are concluded with "Tier 1" banks;

The Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due as they present a high credit quality for the following reasons

- no historic default rates;
- good track record with the Group;
- balance includes a large number of "Tier 1" banks and state-owned banks.

Notes to the Consolidated Financial Statements
continued

3. Financial risk management continued

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages liquidity risk by maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facility (note 14), by continuously monitoring forecast and actual cash flow and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity of the Groups' financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 6 months USD 000	Between 6 and 12 months USD 000	Between 1 and 2 years USD 000	Between 2 and 5 years USD 000	over 5 years USD 000
Financial liabilities excluding derivatives					
At 31 December 2008					
Trade and other payables	82,640	2,116	–	–	–
Borrowings	7,997	6,037	13,807	185,434	–
Other long term payables	–	–	2,043	724	–
Total non-derivatives financial liabilities	**90,637**	**8,153**	**15,850**	**186,158**	**–**
Financial liabilities excluding derivatives					
At 31 December 2007					
Trade and other payables	76,388	3,020	–	–	–
Borrowings	2,065	238	2,210	5,964	137,471
Other long term payables	–	–	452	35	–
Total non-derivatives financial liabilities	**78,453**	**3,258**	**2,662**	**5,999**	**137,471**
Derivative financial instruments					
At 31 December 2008					
Outflow foreign exchange derivatives	52,189	50,809	–	–	–
Inflow foreign exchange derivatives	(45,616)	(44,307)	–	–	–
Net settled foreign exchange derivatives	836	800	–	–	–
Total derivatives	**7,409**	**7,302**	**–**	**–**	**–**
Derivative financial instruments					
At 31 December 2007					
Outflow foreign exchange derivatives	55,918	50,284	–	–	–
Inflow foreign exchange derivatives	(55,984)	(50,438)	–	–	–
Net settled foreign exchange derivatives	(248)	(236)	–	–	–
Total derivatives	**(314)**	**(390)**	**–**	**–**	**–**

(b) Capital risk management
The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain an optimal capital structure to reduce the cost of capital; and
- to ensure that the capital complies with the requirements of the working capital facility arrangement entered into on 23 May 2008 (note 14).

The capital structure of the Group consists of debt, which includes the convertible bond and bank borrowings as disclosed in note 14, cash and cash equivalents (note 7) and equity attributable to equity holders of the parent.

(c) Fair value estimation
The fair value of financial assets and financial liabilities are determined as follows:

(a) the fair value of derivative instruments and available for sale financial assets are calculated using quoted prices in an active market.
(b) the fair value for disclosure purposes of non-current trade and other receivables, non-current trade and other payables and borrowing is based on the discounted cash flow method using the current interest rate that is available to the Group for similar financial instruments with similar maturity.

4. 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

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 2i. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 11).

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. 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 current and deferred income tax assets and liabilities in the period in which such determination is made. Where the actual final outcome (on the judgment areas) to differ by 10% from management's estimates, the Group would need to:

- increase the deferred tax asset by USD 1.03 million, if favourable; or
- decrease the deferred tax asset by USD 1.03 million, if unfavourable

Pension benefits
The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 24.

Where the discount rate used to differ by 10% from management's estimates, the carrying amount of pension obligations would be an estimated USD 269 thousand lower or USD 269 thousand higher.

Critical judgements in applying the entity's accounting policies

Revenue recognition
As detailed in note 2r 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.

Internally generated software development
As detailed in note 2h, the Group is required to make an assessment for each ongoing project in order to determine at what stage a project meets the criteria outlined in the Group's accounting policies. Such assessment may, in certain circumstances, require significant judgement. In making this judgement, the Group evaluates, amongst other factors, the stage at which technical feasibility has been achieved, management's intention to complete and use or sell the product, likelihood of success, availability of technical and financial resources to complete the development phase and management's ability to reliably measure the expenditure attributable to the project.

Notes to the Consolidated Financial Statements
continued

5. Group companies

The consolidated financial statements include the accounts of TEMENOS Group AG and the following entities as of 31 December 2008:

Company name	Country of incorporation	Ownership interest
TEMENOS S.R.L.	Argentina	100%
TEMENOS AUSTRALIA PTY LIMITED	Australia	100%
TEMENOS ÖSTERREICH GMBH	Austria	100%
TEMENOS BULGARIA EOOD	Bulgaria	100%
TEMENOS SOFTWARE CANADA LIMITED	Canada	100%
TEMENOS SOFTWARE SHANGAI CO. LIMITED	China	100%
TEMENOS COSTA RICA SA	Costa Rica	100%
TEMENOS EASTERN EUROPE LIMITED	Cyprus	100%
IT SERVICES LIMITED	Cyprus	100%
TEMENOS (RUSSIA) LIMITED	Cyprus	100%
TEMENOS MIDDLE EAST LIMITED	Cyprus	100%
TEMENOS CYPRUS LIMITED	Cyprus	100%
TEMENOS ECUADOR SA	Ecuador	100%
TEMENOS EGYPT LLC	Egypt	100%
TEMENOS FRANCE SAS	France	100%
QUETZAL INFORMATIQUE SA	France	100%
TEMENOS DEUTSCHLAND GMBH	Germany	100%
ACTIS.BSP GERMANY GMBH	Germany	100%
BSP PARTNERS GMBH & CO.KG	Germany	100%
ACTIS IN FRANKFURT GMBH	Germany	100%
ACTIS.BSP IT SERVICES GMBH	Germany	100%
TEMENOS HELLAS SA	Greece	100%
TEMENOS HONG KONG LIMITED	Hong Kong, China (PRC)	100%
TEMENOS INDIA PRIVATE LIMITED	India	100%
TEMENOS APPLICATION SERVICES PRIVATE LIMITED	India	100%
FINANCIAL OBJECTS SOFTWARE (INDIA) PRIVATE LIMITED	India	100%
RAFT SOFTWARE PRIVATE LIMITED	India	100%
TEMENOS SYSTEMS IRELAND LIMITED	Ireland	100%
TEMENOS JAPAN KK	Japan	100%
TEMENOS EAST AFRICA LIMITED	Kenya	100%
TEMENOS KOREA LIMITED	Korea	100%
TEMENOS LUXEMBOURG SA	Luxembourg	100%
TEMENOS (MALAYSIA) SDN BHD	Malaysia	100%
TEMENOS MEXICO SA DE CV	Mexico	100%
FORMENTO EMPRESARIAL DE SERVICIOS INFORMATICOS S.A. DE C.V	Mexico	51%
TEMENOS (NL) BV	Netherlands	100%
TEMENOS HOLLAND BV	Netherlands	100%
TEMENOS INVESTMENTS BV	Netherlands	100%
TEMENOS HOLDINGS NV	Netherlands Antilles	100%
TEMENOS PHILIPPINES, INC.	Philippines	100%
TEMENOS POLSKA SP.ZOO	Poland	100%
TEMENOS ROMANIA SA	Romania	100%
TEMENOS SINGAPORE PTE LIMITED	Singapore	100%
TEMENOS AFRICA PTY LIMITED	South Africa	100%
DBS GLOBAL SOLUTIONS (PTY) LIMITED	South Africa	100%
TEMENOS HISPANIA SA	Spain	100%
RAFT INTERNATIONAL AB	Sweden	100%

Company name	Country of incorporation	Ownership interest
TEMENOS HEADQUARTERS SA	Switzerland	100%
TEMENOS SUISSE SA	Switzerland	100%
T-TCB SA	Switzerland	100%
T-TFR SA	Switzerland	100%
T-JBASE SA	Switzerland	100%
VOL-DE-NUIT SA	Switzerland	100%
TEMENOS (THAILAND) CO. LIMITED	Thailand	100%
TEMENOS USA, INC.	U.S.A.	100%
FINANCIAL OBJECTS INC.	U.S.A.	100%
TEMENOS UK LIMITED	United Kingdom	100%
FINANCIAL OBJECTS LIMITED (formerly FINANCIAL OBJECTS PLC)	United Kingdom	100%
FINANCIAL OBJECTS (UK) LIMITED	United Kingdom	100%
FINANCIAL OBJECTS INTERNATIONAL LIMITED	United Kingdom	100%
FINANCIAL OBJECTS (RISK MANAGEMENT) LIMITED	United Kingdom	100%
WEALTH MANAGEMENT SYSTEMS LIMITED	United Kingdom	100%
FAIRS LIMITED	United Kingdom	100%
GENISYS TECHNOLOGY LIMITED	United Kingdom	100%
LYDIAN ASSOCIATES LIMITED	United Kingdom	100%
9000 LIMITED	United Kingdom	100%
C.A.L. PROPERTY LIMITED	United Kingdom	100%
FINO SOFTWARE SERVICES LIMITED	United Kingdom	100%
GLOBAL FINANCIAL SYSTEMS LIMITED	United Kingdom	100%
LOGICAL HOLDINGS LIMITED	United Kingdom	100%
LOGICAL SUPPORT SERVICES LIMITED	United Kingdom	100%
LOGICAL TRUSTEES LIMITED	United Kingdom	100%
RAFT INTERNATIONAL LIMITED	United Kingdom	100%
RAFT (OVERSEAS) LIMITED	United Kingdom	100%
LSS SUPPORT SERVICES LIMITED	United Kingdom	100%
WEALTH MANAGEMENT SOFTWARE LIMITED	United Kingdom	100%
WEALTH SOFTWARE LIMITED	United Kingdom	100%
WEALTH SYSTEMS LIMITED	United Kingdom	100%
JBASE SOFTWARE LIMITED	United Kingdom	100%
TEMENOS VIETNAM CO., LIMITED	Vietnam	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); Riyadh (Saudi Arabia); Moscow (Russia); Prague (Czech Republic); Almaty (Kazakhstan); Kiev (Ukraine); Taipei (Taiwan); Hanoi (Vietnam); Islamabad (Pakistan); Jakarta (Indonesia); New York (USA); Luxembourg (Luxembourg); Stockholm (Sweden); Singapore (Singapore).

Notes to the Consolidated Financial Statements
continued

6. Business combinations

INFORMER GROUP

On 1 July 2008 the Group acquired the core banking assets of the Informer Group, one of the largest and most experienced suppliers of "total solutions" in the information technology sector in Greece.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	USD 000
– Cash paid	18,683
– Fair value of shares issued (664,066 shares)	19,602
– Deferred consideration in cash	355
– Contingent consideration	677
– Direct costs relating to the acquisition	410
Total purchase consideration	39,727
Fair value of net assets acquired	(6,723)
Goodwill	**33,004**

The goodwill is mainly attributable to the benefits arising from consolidation of the Group's presence in Greece, Eastern European and Middle East markets, to savings as a result of the cancellation of the partnership agreement with Informer, and to the acquisition of employees and consultants experienced in implementation of the Group's products.

The fair value of the shares issued was based on published price at the date of acquisition.

The assets and liabilities arising from the transaction are as follows:

Net assets acquired:	Acquiree's carrying amount before combination USD 000	Fair value USD 000
Property, plant and equipment (note 10)	63	63
Intangible acquired (note 11)	2,053	8,694
Trade and other receivables	9	9
Cash and cash equivalents	65	65
Trade and other payables	(293)	(293)
Deferred revenue	–	(1,051)
Deferred tax liability	–	(764)
Net assets acquired	**1,897**	6,723
Goodwill arising on acquisition		33,004
Total consideration		**39,727**
Purchase consideration settled in cash		19,068
Cash and cash equivalents acquired		(65)
Cash outflow on acquisition		**19,003**

The cash consideration has been translated to USD using the exchange rate at the acquisition date while cash outflow in respect of acquisitions under the cash flow statement is calculated based on the exchange rate at the date of the payment in accordance with IAS7: Cash Flow Statements.

The purchase price allocation has been provisionally completed at 31 December 2008. The Group is continuing to evaluate the fair value of certain assets, liabilities and contingent liabilities acquired.

The result contributed by the acquiree in the period between the date of acquisition and the balance sheet date is USD 1.7 million.

If the acquisition had occurred on 1 January 2008, the estimated contribution by the acquiree to the Group's revenues would have been USD 14.8 million and USD 5.3 million to the Group's profit or loss.

These amounts have been calculated using the Group's policies and by adjusting the results to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2008, with the consequential tax effects.

FINANCIAL OBJECTS LIMITED (formerly FINANCIAL OBJECTS PLC)
On 10 September 2008 the Group acquired 100% of the share capital of Financial Objects Plc, an international provider of financial software for banking, wealth management and risk management.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	USD 000
– Cash paid	50,300
– Direct costs relating to the acquisition	2,165
Total purchase consideration	52,465
Fair value of net assets acquired	(8,052)
Goodwill	**44,413**

The goodwill arising from the acquisition is mainly attributable to the reinforcement of the Group's position in the markets covered by Financial Objects and to the expected synergies in processes, infrastructure and acquired workforce.

The assets and liabilities arising from the transaction are as follows:

Net assets acquired:	Acquiree's carrying amount before combination USD 000	Fair value USD 000
Property, plant and equipment (note 10)	1,105	1,105
Intangible acquired (note 11)	5,566	15,157
Goodwill acquired	11,483	–
Trade and other receivables	10,135	10,135
Deferred tax asset	1,999	3,574
Cash and cash equivalents	6,039	6,039
Trade and other payables	(5,652)	(5,652)
Contingent liabilities	–	(11,147)
Deferred revenue	(5,650)	(5,650)
Corporation tax	(584)	(1,024)
Deferred tax liability	(1,457)	(4,244)
Borrowings	(241)	(241)
Net assets acquired	**22,743**	8,052
Goodwill arising on acquisition		44,413
Total consideration		**52,465**
Purchase consideration settled in cash		51,767
Cash and cash equivalents acquired		(6,039)
Cash outflow on acquisition		**45,728**

The cash consideration has been translated to USD using the exchange rate at the acquisition date while cash outflow in respect of acquisitions under the cash flow statement is calculated based on the exchange rate at the date of the payment in accordance with IAS7: Cash Flow Statements.

The purchase price allocation has been provisionally completed at 31 December 2008. The Group is continuing to evaluate the fair value of certain assets, liabilities and contingent liabilities acquired.

The result contributed by the acquiree in the period between the date of acquisition and the balance sheet date is USD 1.4 million.

If the acquisition had occurred on 1 January 2008, the estimated contribution by the acquiree to the Group's revenues would have been USD 26.5 million and immaterial to the Group's profit or loss.

These amounts have been calculated using the Group's policies and by adjusting the results to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2008, with the consequential tax effects.

6. Business combinations continued

LYDIAN ASSOCIATES LIMITED

On 3 November 2008 the Group acquired 100% of the share capital of Lydian Associates Limited, a UK based provider of business intelligence software for the banking sector.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	USD 000
– Cash paid	803
– Deferred consideration in cash	3,459
– Contingent consideration	739
– Direct costs relating to the acquisition	95
Total purchase consideration	5,096
Fair value of net assets acquired	(2,547)
Goodwill	**2,549**

The goodwill is attributable to the significant opportunities that exist within the business intelligence sector.

The assets and liabilities arising from the transaction are as follows:

Net assets acquired:	Acquiree's carrying amount before combination USD 000	Fair value USD 000
Property, plant and equipment (note 10)	16	16
Intangible acquired (note 11)	–	2,325
Trade and other receivables	235	235
Cash and cash equivalents	717	717
Trade and other payables	(140)	(140)
Corporation tax	(137)	(137)
Deferred tax liability	–	(469)
Net assets acquired	**691**	2,547
Goodwill arising on acquisition		2,549
Total consideration		**5,096**
Purchase consideration settled in cash		803
Cash and cash equivalents acquired		(717)
Cash outflow on acquisition		**86**

The cash consideration has been translated to USD using the exchange rate at the acquisition date while cash outflow in respect of acquisitions under the cash flow statement is calculated based on the exchange rate at the date of the payment in accordance with IAS7: Cash Flow Statements.

The purchase price allocation has been provisionally completed at 31 December 2008. The Group is continuing to evaluate the fair value of certain assets, liabilities and contingent liabilities acquired.

The result contributed by the acquiree in the period between the date of acquisition and the balance sheet date is not material.

If the acquisition had occurred on 1 January 2008, the estimated contribution by the acquiree to the Group's revenues would have been USD 1.9 million and USD 298 thousand to the Group's profit or loss.

These amounts have been calculated using the Group's policies and by adjusting the results to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2008, with the consequential tax effects.

7. Cash and cash equivalents

The balance in respect of cash and cash equivalents consists of:

	2008 USD 000	2007 USD 000
Cash at bank and in hand	**63,453**	30,953
Short term deposits with banks	**2,147**	62,109
	65,600	93,062

8. Trade and other receivables

	2008 USD 000	2007 USD 000
Trade receivables	**304,741**	221,450
VAT and other taxation recoverable	**4,633**	4,299
Other receivables	**5,800**	4,123
Allowance for doubtful debts	**(18,111)**	(9,659)
	297,063	220,213
Less non-current portion	**(9,544)**	(27,389)
Total current portion of trade and other receivables	**287,519**	192,824

The "Trade receivables" line item comprises USD 196.7 million of unbilled receivables (2007: USD 150.4 million).

The carrying amount of the financial assets within the current portion of the trade and other receivables recorded in the financial statements approximates to their fair values at 31 December.

Trade and other receivables are initially recorded at fair value and subsequently measured at amortised cost. As the total carrying amount of the current portion of the trade and other receivables is due within the next 12 months from the balance sheet date, the impact of applying the effective interest method is not significant and, therefore, the carrying amount equals the contractual amount or the fair value initially recognised.

Contractual maturity and fair value of the non-current portion of the trade and trade receivables:

	Carrying amount		Fair value	
	2008 USD 000	2007 USD 000	**2008 USD 000**	2007 USD 000
Between 1 and 2 years	**9,544**	27,389	**9,168**	25,736
	9,544	27,389	**9,168**	25,736

The fair value is based on cash flows discounted using a rate of 2.0% (2007: 4.1%)

Ageing of the trade and other receivables at the reporting date:

	Gross 2008 USD 000	**Impairment 2008 USD 000**	Gross 2007 USD 000	Impairment 2007 USD 000
Not yet due	**214,536**	**–**	166,023	–
Current (less than 30 days)	**24,130**	**–**	17,542	–
Past due 31-90 days	**22,458**	**101**	19,860	13
Past due 91-180 days	**13,239**	**155**	6,930	32
Past due 181-360 days	**9,721**	**891**	5,065	2,099
More than 360 days	**31,090**	**16,964**	14,452	7,515
	315,174	**18,111**	229,872	9,659

Due to the nature of the operations, the Group believes that the past due and not impaired receivables are still recoverable as there has been no change in the credit risk and no history of defaults for each individual customer.

Notes to the Consolidated Financial Statements
continued

8. Trade and other receivables continued

Movements in the allowance for doubtful debts

The allowance account is used for impairment of "trade receivables" and "other receivables". The other classes do not contain any impaired assets.

	2008 USD 000	2007 USD 000
At 1 January	**9,659**	9,720
Provision for receivables impairment	**8,574**	5,300
Acquisition of subsidiary	**655**	–
Receivable written off	**(197)**	(4,735)
Unused amounts reversed	**(98)**	(927)
Exchange gain or loss	**(482)**	301
At 31 December	**18,111**	9,659

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

9. Other financial assets and liabilities

	2008		2007	
	Assets USD 000	**Liabilities USD 000**	Assets USD 000	Liabilities USD 000
Forward foreign exchange contracts – cash flow hedges	**244**	**11,223**	–	(52)
Forward foreign exchange contracts – held for trading	**3,589**	**3,488**	1,338	–
Available-for-sale investment	**6**	**–**	–	–
At 31 December	**3,839**	**14,711**	1,338	(52)
Less non-current portion	**–**	**–**	–	–
Current portion	**3,839**	**14,711**	1,338	(52)

There has been no ineffectiveness recognised in the income statement arising from cash-flow hedges.

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur each month during the next 12 months. Gains or losses recognised in the hedging reserve equity (note 20) on forward foreign exchange contracts as of 31 December 2008 will be recognised in the income statement in the periods during which the hedged forecast transaction affects the income statement.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

Available-for-sale investment financial assets includes investment in a publicly listed company in Australia.

10. Property, plant and equipment

Tangible fixed assets consist of:

Year ended 31 December 2008	Leasehold improvements USD 000	Vehicles USD 000	Fixtures fittings & equipment USD 000	Land and buildings USD 000	Total USD 000
Cost					
At 1 January 2008	10,833	3,122	19,659	3,373	36,987
Foreign currency exchange differences(1)	(1,100)	(49)	(3,887)	(698)	(5,734)
Acquisition of subsidiary (note 6)	98	–	1,086	–	1,184
Additions	573	65	3,371	2	4,011
Disposals(3)	(580)	(111)	(712)	–	(1,403)
31 December 2008	**9,824**	**3,027**	**19,517**	**2,677**	**35,045**
Depreciation					
At 1 January 2008	7,605	1,132	11,780	24	20,541
Foreign currency exchange differences(1)	(712)	(26)	(2,643)	(14)	(3,395)
Charge for the year(3)	1,017	540	2,901	55	4,513
Disposals(2)	(556)	(111)	(565)	–	(1,232)
31 December 2008	**7,354**	**1,535**	**11,473**	**65**	**20,427**
Net book value					
31 December 2008	**2,470**	**1,492**	**8,044**	**2,612**	**14,618**

Year ended 31 December 2007					
Cost					
At 1 January 2007	9,634	3,197	14,257	–	27,088
Foreign currency exchange differences(1)	522	37	913	–	1,472
Acquisition of subsidiary (note 6)	–	–	386	–	386
Additions	1,437	115	4,423	3,373	9,348
Disposals(2)	(760)	(227)	(320)	–	(1,307)
31 December 2007	10,833	3,122	19,659	3,373	36,987
Depreciation					
At 1 January 2007	6,639	677	8,899	–	16,215
Foreign currency exchange differences(1)	452	26	711	–	1,189
Charge for the year	1,126	591	2,465	24	4,206
Disposals(2)	(612)	(162)	(295)	–	(1,069)
31 December 2007	7,605	1,132	11,780	24	20,541
Net book value					
31 December 2007	3,228	1,990	7,879	3,349	16,446

Some minor reclassifications between “Foreign currency exchange differences” and “Charge for the year” have been made to the 2007 comparative figures.

(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 the disposals charged to the income statement in 2008 amounted to USD 87 thousand (2007: USD 95 thousand).

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

Notes to the Consolidated Financial Statements
continued

10. Property, plant and equipment continued

	Vehicles USD 000	Fixtures fittings & equipment USD 000	Total USD 000
Net book value at 31 December 2008	**33**	**1,250**	**1,283**
Net book value at 31 December 2007	59	1,277	1,336

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

11. Intangible assets

	Internally generated software devlopment costs USD 000	Goodwill USD 000	Copyrights USD 000	Computer software USD 000	Customer related USD 000	Total USD 000
Cost						
At 1 January 2008	70,197	42,476	25,381	12,486	2,498	153,038
Foreign currency exchange differences(1)	–	(12,712)	(111)	(635)	(3,500)	(16,958)
Acquisition of subsidiary (note 6)	–	79,966	–	3,175	23,001	106,142
Additions/adjustments(4)	19,928	405	–	4,831	–	25,164
Disposals(2)	–	–	–	(49)	–	(49)
31 December 2008	**90,125**	**110,135**	**25,270**	**19,808**	**21,999**	**267,337**
Amortisation						
At 1 January 2008	30,818	121	21,953	4,818	1,793	59,503
Foreign currency exchange differences(1)	–	–	(40)	(141)	(132)	(313)
Charge for year(3)	12,343	–	1,055	2,656	3,287	19,341
Disposals(2)	–	–	–	(49)	–	(49)
31 December 2008	**43,161**	**121**	**22,968**	**7,284**	**4,948**	**78,482**
Net book value						
31 December 2008	**46,964**	**110,014**	**2,302**	**12,524**	**17,051**	**188,855**

Year ended 31 December 2007						
Cost						
At 1 January 2007	53,251	17,870	22,767	5,088	2,498	101,474
Foreign currency exchange differences[1]	–	2,621	268	523	–	3,412
Acquisition of subsidiary (note 6)	–	21,552	2,346	3,651	–	27,549
Additions/adjustments[4]	16,946	433	–	3,565	–	20,944
Disposals[2]	–	–	–	(341)	–	(341)
31 December 2007	70,197	42,476	25,381	12,486	2,498	153,038
Amortisation and impairment						
At 1 January 2007	22,484	–	20,900	2,935	1,433	47,752
Foreign currency exchange differences[1]	–	–	23	73	–	96
Charge for year[3]	8,334	–	1,030	2,043	360	11,767
Impairment charge	–	121	–	–	–	121
Disposals[2]	–	–	–	(233)	–	(233)
31 December 2007	30,818	121	21,953	4,818	1,793	59,503
Net book value						
31 December 2007	39,379	42,355	3,428	7,668	705	93,535

Some minor reclassifications between "Foreign currency exchange differences" and "Charge for the year" have been made to the 2007 comparatives figures.

The opening balance of accumulated amortisation in respect of goodwill as at 1 January 2007 has been eliminated against its carrying amount in accordance with the transitional provisions of IFRS 3.

(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 2008 was USD nil (2007: USD nil).
(3) The amortisation charge of USD 19.3 million is included within the "Software development" line (USD 18.1 million) and "General and administrative" line (USD 1.2 million).
(4) Adjustment to goodwill is in respect of payments made on account of contingent consideration not previously accounted for at the time of acquisition as it did not meet the probability criteria.

Impairment tests for goodwill
The carrying amount of goodwill is allocated to cash generating units or groups of cash generating units presented as follows:

			2008			2007
	Amount USD 000	**Growth rate %**	**Discount rate %**	Amount USD 000	Growth rate %	Discount rate %
Europe, Middle East and Africa	**108,599**	**1**	**13.7**	40,940	2	15.0
Asia	**1,415**	**1**	**13.7**	1,415	2	15.0
	110,014			42,355		

The recoverable amount of the cash-generating unit (CGU) or group of cash generating units is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the most recent financial budget approved by the management covering a one-year period and then inflated over a perpetual period using the estimated growth rate assigned to the countries of the cash-generating unit. The growth rate does not exceed the long-term average growth rate for the software industry in which the CGU operates. The growth rate and the pretax discount rate used in the calculation are presented above.

Budgeted cash flow projections are determined based on the expectation of the future client signings from evaluation of the Group's current pipeline. Budgeted gross margin is based on expectations of market development and efficiency leverage. Management believes that any reasonable change in any of the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating units.

Notes to the Consolidated Financial Statements
continued

12. Taxation

Tax (income) expense:	2008 USD 000	2007 USD 000
Domestic current income taxes	**(28)**	996
Overseas current income taxes, including non-recoverable withholding tax	**8,327**	8,528
Total current tax	**8,299**	9,524
Deferred tax	**(10,180)**	(9,797)
Total tax (income) expense	**(1,881)**	(273)

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:

	2008 USD 000	2007 USD 000
Profit before tax	**63,295**	64,410
Tax at the domestic rate of 25%	**15,824**	16,103
Non-taxable income and expenses	**(6,913)**	412
Utilisation of previously unrecognised losses	**(3,006)**	(3,627)
Tax losses for which no deferred income tax asset was recognised	**10,847**	5,160
Tax adjustments related to prior periods	**(1,096)**	676
Recognition of deferred tax assets on intellectual property	**(12,200)**	(13,327)
Non-taxable consolidation adjustment on intellectual property amortisation	**(18,132)**	(17,455)
Other movement on deferred tax assets and liabilities, including rate changes	**2,264**	3,814
Effects of different tax rates	**5,107**	2,610
Overseas withholding tax	**2,972**	5,211
Other tax and credits	**2,452**	150
Total tax (credit) expense	**(1,881)**	(273)

Deferred tax assets and liabilities are offset when there is a legally enforceable 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:

	2008 USD 000	2007 USD 000
Deferred tax assets	**38,912**	25,771
Deferred tax liabilities	**(9,686)**	(4,469)
Net deferred tax assets	**29,226**	21,302

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 future taxable profits is probable. The majority of the deferred tax assets recognised are expected to be utilised after more than twelve months.

The Group has not recognised deferred tax assets of USD 47,581 thousand (2007: USD 41,210 thousand) in respect of losses amounting to USD 225,988 thousand (2007: USD 197,797 thousand) that can be carried forward against future taxable income. Losses amounting to USD 40,182 thousand (2007: USD 5,917 thousand) will expire within the next 5 years, USD 68,990 thousand (2007: USD 65,839 thousand) will expire within 5 to 10 years and USD 24,567 thousand (2007: USD 31,851 thousand) will expire within 10 to 20 years. There are no unrecognised deferred tax liabilities.

The Group has recognised deferred tax assets of USD 29,301 thousand (2007: USD 17,101 thousand) in respect of temporary differences arising on an intra-group transfer of intellectual property. Deferred tax assets of USD 4,170 thousand (2007: USD 22,163 thousand) have not been recognised on the remaining temporary difference of USD 36,261 thousand (2007: USD 201,486 thousand).

As part of the acquisition of Financial Objects Plc, the acquisition of the core banking business of the Informer Group and the acquisition of Lydian Associates Limited, the Group acquired deferred tax assets of USD 3,574 thousand and deferred tax liabilities of USD 5,477 thousand.

The gross movement on the deferred income tax account is as follows:

	2008 **USD 000**	2007 USD 000
At 1 January	**21,302**	4,276
Income statement credit	**10,180**	9,797
Foreign exchange movement on deferred tax assets and liabilities held in local currencies	**(111)**	729
Acquisition of subsidiaries	**(1,903)**	6,500
Reclassification	**(242)**	–
At 31 December	**29,226**	21,302

The movement in deferred tax assets is as follows:

	Tax losses USD 000	Taxable intellectual property USD 000	Taxable goodwill USD 000	Other USD 000	Total USD 000
At 1 January 2007	1,536	3,774	–	224	5,534
Charged (credited) to the income statement	(1,157)	13,327	(1,993)	330	10,507
Acquisition of subsidiary	4,345	–	4,434	–	8,779
Exchange differences	574	–	388	(11)	951
At 31 December 2007	5,298	17,101	2,829	543	25,771
Charged (credited) to the income statement	(661)	12,200	(477)	(455)	10,607
Acquisition of subsidiaries	2,682	–	–	892	3,574
Exchange differences	(719)	–	(95)	(226)	(1,040)
At 31 December 2008	**6,600**	**29,301**	**2,257**	**754**	**38,912**

The movement in deferred tax liabilities is as follows:

	Acquisition fair value adjustment USD 000	Investments in subsidiaries USD 000	Other USD 000	Total USD 000
At 1 January 2007	–	(1,258)	–	(1,258)
Charged (credited) to the income statement	829	(1,436)	(103)	(710)
Acquisition of subsidiary	(2,279)	–	–	(2,279)
Exchange differences	(222)	–	–	(222)
At 31 December 2007	(1,672)	(2,694)	(103)	(4,469)
Charged (credited) to the income statement	747	(1,136)	(38)	(427)
Acquisition of subsidiaries	(5,477)	–	–	(5,477)
Exchange differences	929	–	–	929
Reclassification	–	–	(242)	(242)
At 31 December 2008	**(5,473)**	**(3,830)**	**(383)**	**(9,686)**

Notes to the Consolidated Financial Statements
continued

13. Trade and other payables

	2008 USD 000	2007 USD 000
Trade payables	**35,845**	25,547
Accrued expenses	**36,645**	44,465
Other payables	**12,266**	9,396
Current trade and other payables	**84,756**	79,408
Non-current other payables	**2,614**	487
Total trade and other payables	**87,370**	79,895

The carrying amount of the financial liabilities within the current portion of the trade and other payables recorded in the financial statements approximates to their fair values at the balance sheet date.

The current trade and other payables are initially recorded at fair value and subsequently measured at amortised cost. As the total carrying amount of the above items is due within the next 12 months from the balance sheet date, the impact of applying the effective interest method is not significant and, therefore, the carrying amount of the trade and other payables equals to the contractual amount or the fair value initially recognised.

The non-current other payables are initially recorded at fair value and subsequently measured at amortised cost. The resulting interest expense is recognised in the income statement within "Finance expenses".

The carrying amounts and fair value of the non-current trade and other payables are presented as follows:

	Carrying amount		Fair value	
	2008 USD 000	2007 USD 000	**2008 USD 000**	2007 USD 000
Between 1-2 years	**1,949**	452	**1,963**	416
Between 2-3 years	**–**	35	**–**	33
Between 3-5 years	**665**	–	**668**	–
	2,614	487	**2,631**	449

The fair value is based on cash flows discounted using a rate of 2.0% (2007: 4.1%)

14. Borrowings

	2008 USD 000	2007 USD 000
Current		
Obligations under finance leases (note 16)	**419**	442
Other loans	**21**	30
Bank borrowings	**11,375**	–
Convertible bond	**1,462**	1,370
	13,277	1,842
Non-current		
Obligations under finance leases (note 16)	**664**	775
Other loans	**36**	35
Bank borrowings	**45,499**	–
Convertible bond	**126,970**	115,522
	173,169	116,332
Total borrowings	**186,446**	118,174

The fair value of current borrowings approximates to their carrying amount at 31 December, as the impact of discounting is not significant.

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	2008 **USD 000**	2007 USD 000	**2008** **USD 000**	2007 USD 000
Obligations under finance leases (note 16)	**664**	775	**713**	767
Other loans	**36**	35	**35**	29
Bank borrowings	**45,499**	–	**42,666**	–
Convertible bond	**126,970**	115,522	**136,330**	113,541
	173,169	116,332	**179,744**	114,337

The fair value is based on cash flows discounted using a rate of 2.0% (2007: 4.1%) except for the convertible bond as described below.

Bank borrowings are at variable rates and mature until 2012. The carry amounts are denominated in Euro (11.3 million) and UK Pounds (29.0 million).

Convertible bond
On 21 March 2006 the Group issued a convertible bond with a nominal value of CHF 132.25 million and a coupon rate of 1.50%. The bonds mature seven years from the issue date at a redemption value of CHF 152.83 million or can be converted into shares at the holder's option at a conversion price of CHF 18.06 per share.

The fair values of the liability component and the equity conversion component were determined at the issuance of the bond.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent loan. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves.

The convertible bond recognised in the balance sheet is calculated as follows:

	USD 000
Nominal value of convertible bond issued on 21 March 2006, net of transaction costs	98,948
Equity component	(4,189)
Liability component on initial recognition at 21 March 2006	94,759
Interest expense	3,569
Foreign exchange movement	6,566
Liability component at 31 December 2006	104,894
Interest expense (note 27)	4,806
Interest paid	(1,641)
Foreign exchange movement	8,833
Liability component at 31 December 2007	116,892
Interest expense (note 27)	5,489
Interest paid	(2,006)
Foreign exchange movement	8,057
Liability component at 31 December 2008	**128,432**

Interest expense on the bond is calculated using the effective interest method by applying the effective interest rate of 4.56% to the liability component.

The fair value of the liability component of the convertible bond at 31 December 2008, based on discounted cash flows method using a market interest rate of 2.72% (2007: 4.82%) for non-convertible loan, is USD 137,968 thousand (2007: USD 115,281 thousand).

The carrying amount of the convertible bond is denominated in Swiss Francs.

14. Borrowings continued

Bank facilities
On 14 March 2008, the Group concluded a combined term loan and revolving credit facility with a pool of three large financial institutions, replacing existing financing facilities. On 23 May 2008, the facility was amended following the accession of a fourth financial institution to the agreement. The pertinent details of the facility available to the Group are as follows:

Multicurrency term loan facility available for acquisitions:
USD 169.2 million bearing interest at LIBOR/EURIBOR (depending on drawing currency) plus a variable margin dependent on certain financial measurements at the start of each interest rate fixing period. The facility is available for drawdown until 31 December 2010 and utilised amounts are repayable in fixed instalments between June 2009 and September 2012.

Multicurrency revolving credit facility (RCF) available for general working capital and trade financing needs:
USD 50.8 million bearing interest at LIBOR/EURIBOR (depending on drawing currency) plus a variable margin dependent on certain financial measurements at the start of each interest rate fixing period. The facility is repayable in full on 30 September 2012.

Commitment fees are due on the undrawn balance of the above facility.

The facilities granted are subject to various financial covenants, which are based on conservative projections of the Group's results.

During the year, USD 70.7 million (2007: USD nil) of the term loan facility was utilised to finance the acquisitions of the core banking assets of Informer Group and the shares of Financial Objects Plc (note 6).

As at 31 December 2008, all amounts drawn under the RCF related to trade finance documents issued. As at 31 December 2008 guarantees totalling USD 17.1 million (2007: USD 9.9 million) were in issue.

15. Provisions for other liabilities and charges

	Legal claims USD 000	Onerous lease USD 000	Contingent liability arising on business combination USD 000	Total USD 000
At 1 January 2008	104	–	–	104
Foreign currency exchange differences	2	–	(1,987)	(1,985)
Addition from acquisition	–	–	11,191	11,191
Increase in provisions recognised in the income statement	4	283	–	287
Used during the year	(8)	–	–	(8)
Release of provision recognised in the income statement	(70)	–	–	(70)
31 December 2008	**32**	**283**	**9,204**	**9,519**

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 are uncertain. In the opinion of management the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2008.

Onerous lease
During 2008 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 18 months.

Contingent liability
A contingent liability has been recognised on the acquisition of Financial Objects Plc for a pending claim against the acquiree. The fair value of the contingent liability has been estimated on a provisional basis as the outcome of the case and the timing of any settlements are still uncertain as at 31 December 2008. The carrying amount of the contingent liability will be then adjusted against goodwill when the outcome becomes virtually certain which is expected to occur within the next 12 months.

16. Obligations under finance leases

Finance leases liabilities

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	USD 000	USD 000	**USD 000**	USD 000
Obligations under finance leases:				
repayable within one year	**495**	476	**419**	442
repayable between two and five years	**750**	866	**664**	775
	1,245	1,342	**1,083**	1,217

	2008	2007
Included in the financial statement as:		
Current borrowings (note 14)	**419**	442
Non-current borrowings (note 14)	**664**	775
	1,083	1,217

The interest charge on obligations under finance leases is recognised in the income statement within "Interest expenses".

17. Financial instrument by category

The accounting policies for financial instruments have been applied to the line items below:

	2008	2007
	USD 000	USD 000
Financial assets		
Fair value through profit or loss (FVTPL)		
– Held for trading	**3,589**	1,338
– Designated as at FVTPL	**–**	–
Derivatives instruments used for hedging	**244**	(52)
Available-for-sale financial assets	**6**	–
Loans and receivables (including cash and cash equivalent)	**362,663**	313,275
Total	**366,502**	314,561
Financial liabilities		
Fair value through profit or loss (FVTPL)		
– Held for trading	**3,488**	–
– Designated as at FVTPL	**–**	–
Derivatives instruments used for hedging	**11,223**	–
Financial liabilities measured at amortised cost	**273,816**	198,069
Total	**288,527**	198,069

Notes to the Consolidated Financial Statements
continued

18. Share capital

As at 31 December 2008, the issued shares of TEMENOS Group AG comprised 59,005,487 common shares of a nominal value of CHF 5 each. All issued shares are fully paid.

The changes in the number of issued and outstanding shares in the year ended 31 December 2008 are summarised below:

		Nominal value	
	number	in CHF	in USD
Total number of shares issued, as at 1 January 2007	57,841,421	289,207	168,828
Shares issued on exercise of employee share options	500,000	2,500	2,039
Total number of shares issued, as at 31 December 2007	58,341,421	291,707	170,867
Shares issued on acquisition (note 6)	664,066	3,320	3,255
Total number of shares issued, as at 31 December 2008	59,005,487	295,027	174,122
Treasury shares	(935,221)	(22,615)	(20,677)
Total number of shares outstanding, as at 31 December 2008	**58,070,266**	**272,412**	**153,445**

As at 31 December 2008 the number of treasury shares held by the Group amounted to 935,221 (2007: 30,164). Treasury shares include shares held for resale and other shares allotted 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 20 June 2010)	25,846,177
conditional shares that may be issued on the exercise of employee share options	9,759,292
conditional shares that may be issued in conjunction with financial instruments (of which 9,000,000 are reserved for the Convertible bond)	13,930,680

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

19. Share premium and capital reserves

	Convertible bond USD 000	Share premium USD 000	Employee share options reserve USD 000	Discount on shares issued to employees USD 000	Negative premium arising on creation of Temenos Group AG USD 000	Total USD 000
Balance at 1 January 2007	4,189	8,769	14,026	(25,049)	(68,456)	(66,521)
Cost of share options (note 21)	–	–	13,964	–	–	13,964
Exercise of share options (note 21)	–	1,222	–	(40,534)	–	(39,312)
Settlement of employee share options	–	–	(613)	–	–	(613)
Share issuance costs	–	(107)	–	–	–	(107)
Balance at 31 December 2007	4,189	9,884	27,377	(65,583)	(68,456)	(92,589)
Cost of share options (note 21)	–	–	15,851	–	–	15,851
Exercise of share options (note 21)	–	2,327	–	(18,157)	–	(15,830)
Settlement of employee share options	–	–	(996)	–	–	(996)
Shares issued in relation to acquisitions	–	16,347	–	–	–	16,347
Share issuance costs	–	–	–	–	–	–
Balance at 31 December 2008	**4,189**	**28,558**	**42,232**	**(83,740)**	**(68,456)**	**(77,217)**

Convertible bond
On 21 March 2006, the Group issued a convertible bond. The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent loan. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity.

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 2008 the cost of treasury shares held by the Group was USD 20,677 thousand (2007: USD 696 thousand).

Share options reserve
As detailed in note 21, the Group has issued share options to employees and third parties. The fair value of the shares issued is charged to the income statement over the period that the related service is received, with a corresponding credit made to the share options reserve.

Discount on shares issued to employees
As detailed in note 21, the Group has issued share options to employees and third parties. When the share options are exercised, the Group fulfills its obligations by issuing newly created shares out of conditional capital or by issuing treasury shares purchased by the Group. To the extent that the shares issued out of conditional capital are issued at a value that is lower than the nominal value of CHF 5 per share, or the proceeds received by the Group in respect of these treasury shares issued are less than their fair value at the time of exercise, 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 USD 0.001 per share, totalling USD 39 thousand. The new shares in TEMENOS Group AG were issued at nominal value of CHF 5 which resulted in a negative premium of USD 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.

A deficit of USD 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.

20. Fair value and other reserves

Included within fair value and other reserves are the following:

	Cumulative translation adjustment USD 000	Available-for-sale Investment USD 000	Fair value gains (losses) on qualifying cash flow hedges USD 000	Total USD 000
Balance at 1 January 2007	(5,732)	–	1,013	(4,719)
Currency translation differences	(1,570)	–	–	(1,570)
Transfers to income statement within "Personnel costs"	–	–	(740)	(740)
Net fair value gain on cash flow hedge	–	–	675	675
Balance at 31 December 2007	(7,302)	–	948	(6,354)
Currency translation differences	(24,644)	–	–	(24,644)
Transfers to income statement within "Personnel costs"	–	–	(1,066)	(1,066)
Net fair value gains or losses	–	1	(10,875)	(10,874)
Balance at 31 December 2008	**(31,946)**	**1**	**(10,993)**	**(42,938)**

21. Share based payments

Share options

Share options are granted to executive board members and selected employees. Share options are conditional on the employee completing a specified period of service (the vesting period). The vesting period ranges from one to five years and the share options have a contractual term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

A summary of the movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2008		2007	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
Outstanding at the beginning of the year	**5,629,317**	**$ 9.83**	8,482,081	$ 7.56
Granted during the year	**276,166**	**$ 14.71**	859,700	$ 19.87
Forfeited during the year	**(90,083)**	**$ 14.30**	(72,664)	$ 8.56
Cancelled during the year	**–**	**–**	(50,000)	$ 10.45
Exercised during the year	**(778,267)**	**$ 8.53**	(3,589,800)	$ 7.09
Outstanding at the end of the year	**5,037,133**	**$ 10.29**	5,629,317	$ 9.83

4,056,605 of the outstanding options (2007: 1,751,064) were exercisable at the balance sheet date with a weighted average exercise price of USD 7.99 (2007: USD 7.14). The options exercised during the year had a weighted average share price at the time of exercise of USD 26.26 (2007: USD 19.45).

Share appreciation rights

Share appreciation rights are granted to executive board members and selected employees. Share appreciation rights are conditional on the employee completing a specified period of service and are only exercisable if the Group achieves specified cumulative profitability targets. In case of overachievement of profitability targets, certain share appreciation rights grants may be increased by a maximum of 100% of the original grant subject also to individual performance criteria. The vesting period ranges from one to three years and the share appreciation rights have a maximum contractual term of eleven and a quarter years. The Group has no legal or constructive obligation to repurchase or settle the share appreciation rights in cash.

A summary of the movements in the number of share appreciation rights outstanding and their related weighted average exercise prices are as follows:

	2008		2007	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
Outstanding at the beginning of the year	**5,133,002**	**$ 16.33**	1,126,075	$ 9.78
Granted during the year	**2,398,158**	**$ 14.10**	4,120,858	$ 17.96
Forfeited during the year	**(881,438)**	**$ 26.65**	(48,276)	$ 11.64
Exercised during the year	**(227,303)**	**$ 11.81**	(65,655)	$ 9.78
Outstanding at the end of the year	**6,422,419**	**$ 14.26**	5,133,002	$ 16.33

676,106 of the outstanding share appreciation rights (2007: 261,351) were exercisable at the balance sheet date with a weighted average exercise price of USD 11.85 (2007: USD 9.78). The share appreciation rights exercised during the year had a weighted average share price at the time of exercise of USD 29.86 (2007: USD 22.86).

As described above, in case of overachievement of profitability targets, certain share appreciation right grants may be increased by a maximum of 100% of the original grant, subject also to individual performance criteria. As at 31 December 2008 there were 4,350,778 share appreciation rights (2007: 3,048,687) that may be subject to this overachievement provision with a weighted average exercise price of USD 12.59 (2007: USD 16.15).

Share options and share appreciation rights outstanding at the end of the year have exercise prices and weighted average remaining contractual lives as follows:

2008 **Exercise price**	**Number**	**Remaining contractual life (years)**
$0.01-$0.20	**33,615**	**2.96**
$1.00-$1.70	**206,764**	**4.01**
$2.50-$2.84	**13,000**	**0.60**
$4.10-$6.09	**382,564**	**3.44**
$6.80-$8.14	**692,000**	**6.34**
$8.52-$9.78	**3,684,533**	**7.12**
$10.00-$15.00	**2,293,098**	**9.74**
$15.15-$16.82	**2,942,927**	**8.80**
$18.95-$23.51	**583,638**	**8.97**
$24.34-$27.79	**627,413**	**9.03**
	11,459,552	

2007 Exercise price	Number	Remaining contractual life (years)
$0.01-$0.35	35,705	3.86
$1.00-$1.60	258,414	4.77
$2.50-$2.66	14,000	1.82
$4.10-$6.09	455,476	2.76
$6.80-$7.96	874,829	7.15
$8.08-$9.78	3,926,466	8.17
$10.00-$15.00	630,095	6.39
$15.56-$16.82	2,914,162	10.16
$18.95-$23.51	595,226	9.97
$24.34-$27.79	1,057,946	10.74
	10,762,319	

Fair value of stock options and share appreciation rights

The weighted average fair value of options and share appreciation rights granted during the period determined using the Black-Scholes valuation model was USD 4.01 (2007: USD 5.99). The significant inputs into the model were weighted average share price at grant date of USD 13.68 (2007: USD 18.32), weighted average exercise price of USD 14.08 (2007: USD 18.24), standard deviation of expected share price returns of 40.98% (2007: 37.1%), weighted average option lives of 3.27 years (2007: 3.4 years) and weighted average annual risk-free interest rate of 1.35% (2007: 4.11%). 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.

Performance shares

A grant of 1.175 million performance shares was made to members of the Executive Committee and certain other employees during 2008. Performance shares are conditional on the employee completing a specified period of service and are only exercisable if the Group achieves specified profitability targets. The vesting period is two and a half years and there is no maximum contractual term. The Group has no legal or constructive obligation to repurchase or settle the performance shares in cash. The weighted average fair value of performance shares granted during the period determined by the share price on the date of grant was USD 12.55. None of the performance shares were exercisable at the balance sheet date.

The total expense recorded in the income statement in respect of employee share options, share appreciation rights and performance shares is USD 14,867 thousand (2007: USD 11,453 thousand).

21. Share based payments continued

Other share based payments
2.5 million share options with an exercise price of CHF 19.9 were issued to Metavante Corporation as part of the joint development and distribution agreement signed in February 2007. Two million of these options will only vest if incremental revenue targets are achieved in addition to the minimum contracted revenues and the options cannot be exercised until 2013. The fair value of these options determined using the Black-Scholes valuation model was USD 11.71 per option. The significant inputs into the model were share price at grant date of USD 22.77, exercise price of USD 16.18, standard deviation of expected share price returns of 37.9%, option lives of 5.75 years and annual risk-free interest rate of 2.63%. 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.

The total expense recorded in the income statement in respect of these share options is USD 984 thousand (2007: USD 818 thousand).

In connection with the joint development and distribution agreement signed with Metavante Corporation in February 2007, an exceptional award of 100,000 shares was made to an executive member of the Board of Directors. The shares vested immediately. The fair value of the shares awarded was USD 1,693 thousand and was determined using observable market prices.

22. 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 Group's internal organisational structure and internal financial reporting address both segments.

(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

			2008			2007
	Software licensing USD 000	**Services USD 000**	**Total USD 000**	Software licensing USD 000	Services USD 000	Total USD 000
Segment revenues	**251,270**	**155,667**	**406,937**	225,114	104,746	329,860
Segment operating result	**176,828**	**14,359**	**191,187**	168,053	7,745	175,798
Unallocated operating costs			**(127,235)**			(113,295)
Operating profit			**63,952**			62,503
Other income (expenses) (note 26)						
Fair value gain (loss) from financial instruments, net (note 26)			**(6,930)**			181
Financial instrument related expenses (note 26)			**(1,997)**			(393)
Foreign exchange gains, net (note 26)			**12,050**			4,840
Total other income (expenses)			**3,123**			4,628
Finance income (expenses) (note 27)						
Interest expense (note 27)			**(7,119)**			(5,205)
Interest income (note 27)			**3,339**			2,484
Total finance income (expenses)			**(3,780)**			(2,721)
Profit before taxation			**63,295**			64,410
Taxation			**1,881**			273
Profit for the year			**65,176**			64,683
Attributable to:						
Equity holders of the Company			**64,711**			64,674
Minority interest			**465**			9
			65,176			64,683

Other segment items (not including unallocated items)

	2008			2007		
	Software licensing USD 000	**Services USD 000**	**Total USD 000**	Software licensing USD 000	Services USD 000	Total USD 000
Assets						
Segment assets	**359,712**	**104,847**	**464,559**	241,911	57,482	299,393
Unallocated assets			**153,439**			158,184
Total assets			**617,998**			457,577
Liabilities						
Segment liabilities	**(70,112)**	**(14,511)**	**(84,623)**	(48,181)	(9,354)	(57,535)
Unallocated liabilities			**(328,765)**			(222,606)
Total liabilities			**(413,388)**			(280,141)
Capital expenditure	**42,929**	**–**	**42,929**	19,292	–	19,292
Amortisation	**16,685**	**–**	**16,685**	9,724	–	9,724

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 the Group's revenue recognition policy.

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

Segment assets consist primarily of receivables, accrued revenue, goodwill and certain intangible assets. Management does not consider it appropriate to allocate cash, prepayments and tangible fixed assets to business segments.

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

(b) Secondary reporting format – geographical segments
Revenue by region of destination of product or service

	Asia USD 000	Americas USD 000	Europe, Middle East and Africa USD 000	Total USD 000
Year ended 31 December 2008	**73,336**	**75,413**	**258,188**	**406,937**
Year ended 31 December 2007	56,003	56,338	217,519	329,860

Assets by region

	Asia USD 000	Americas USD 000	Europe, Middle East and Africa USD 000	Total USD 000
Year ended 31 December 2008				
Segment assets	49,299	57,432	312,947	419,678
Unallocated assets				198,320
Total assets				**617,998**
Year ended 31 December 2007				
Segment assets	44,028	32,715	175,388	252,131
Unallocated assets				205,446
Total assets				**457,577**

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

23. Personnel costs

	2008	2007
	USD 000	USD 0000
Salary, bonuses and commissions	**141,070**	123,960
Termination payments	**2,059**	879
Social charges	**16,801**	14,714
Defined contribution and defined benefit pension costs (note 24)	**5,430**	3,166
Cost of employee share option scheme	**14,867**	11,453
Other personnel costs	**8,853**	7,820
	189,080	161,992

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

	2008	2007
	USD 000	USD 000
Key management personnel of TEMENOS Group AG		
– short-term cash compensation and benefits	**4,413**	6,532
– post-employment benefits	**188**	176
– share-based payment	**8,450**	7,222
	13,051	13,930
Non-executive directors		
– short-term employee benefits	**322**	280

As described in the Corporate Governance Report, the composition of the Senior Management has been modified with effect from 1 December 2007 (creation of the Executive Committee). In order to provide an accurate comparison of the personnel costs over the periods reported, the 2007 comparatives have been restated to reflect only the figures of the members of the Executive Committee.

Disclosure of Board of Directors and Executive Committee remuneration in accordance with articles 663bbis and 663c of the Swiss Code of Obligations can be found in note 9 of the unconsolidated Financial Statements of TEMENOS Group AG.

24. 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 2008, amounted to USD 4.3 million (2007: USD 2.5 million). Generally, the Group does not maintain, nor is it committed to support, any defined benefit plans for its current or former employees.

In certain territories, the Group has a legal obligation to make one-time payments to employees reaching retirement age or departing employees. Such payments are based on the amount of the employee's final salary and their length of service. The amounts are largely unfunded and an accrual is booked based on actuarial estimates of the Group's liabilities.

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:

	2008 **USD 000**	2007 USD 000
Fair value of plan assets	**8,554**	9,523
Present value of funded obligations	**(8,634)**	(8,117)
	(80)	1,406
less:		
Unrecognised actuarial gains	**(253)**	(926)
Assets not recognised	**(145)**	(14)
Net asset (liability) in the balance sheet	**(478)**	466
Represented by:		
Accrued liabilities	**(884)**	–
Prepaid asset	**406**	466
Net asset (liability) in the balance sheet	**(478)**	466

The movement in the defined benefit obligation over the year is as follows:

	2008 **USD 000**	2007 USD 000
As at 1 January	**8,117**	7,271
Current service cost	**1,028**	702
Interest cost	**291**	221
Contributions by plan participants	**571**	622
Actuarial losses (gains)	**(596)**	(76)
Acquisitions	**85**	–
Exchange differences	**1,083**	613
Benefits paid	**(1,945)**	(1,236)
As at 31 December	**8,634**	8,117

The movement in the fair value of plan assets over the year is as follows:

	2008 **USD 000**	2007 USD 000
As at 1 January	**9,523**	8,678
Expected return on plan assets	**338**	289
Exchange differences	**608**	724
Employer contributions	**753**	697
Employee contributions	**571**	622
Benefits paid	**(1,945)**	(1,236)
Actuarial gains (losses)	**(1,294)**	(251)
As at 31 December	**8,554**	9,523

The actual return on plan assets was negative USD 956 thousand (2007: positive USD 289 thousand).

Notes to the Consolidated Financial Statements
continued

24. Pensions continued

The amounts recognised in the income statement are as follows:

	2008 USD 000	2007 USD 000
Current service cost	**1,028**	702
Interest cost	**291**	221
Expected return on plan assets	**(338)**	(289)
Amortisation of net gain	**(9)**	(23)
Assets not recognised	**130**	14
Total costs included in personnel costs and external consultants	**1,102**	625

Principal weighted average actuarial assumptions at the balance sheet date:

	2008	2007
Discount rate at 31 December	**3.50%**	3.50%
Expected return on plan assets at 31 December	**3.50%**	3.50%

The plan assets are invested in the following categories of investment:

	2008	2007
Liquidities	**14%**	7%
Fixed income securities	**45%**	49%
Equity securities	**25%**	27%
Real estate	**16%**	17%
	100%	100%

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Expected contributions to post-employment benefit plans for the year ending 31 December 2009 are USD 979 thousand.

The following table shows a four-year summary reflecting the deficit or suplus of the funded defined benefit plan as well as the experience adjustments arising of the plan liabilities and the plan assets.

At 31 December	**2008** USD 000	2007 USD 000	2006 USD 000	2005 USD 000
Present value of defined benefit obligation	**8,634**	8,117	7,271	6,822
Present value of plan assets	**8,554**	9,523	8,678	7,737
Deficit/(surplus)	**80**	(1,406)	(1,407)	(915)
Experience adjustments on plan liabilities	**(71)**	83	116	265
Experience adjustments on plan assets	**(1,294)**	(251)	206	440

25. Expenses by nature

	2008 USD 000	2007 USD 000
Third party licences and commissions	**14,044**	14,691
Personnel costs and external consultants	**256,490**	198,043
Depreciation and amortisation (note 10 and 11)	**23,854**	15,973
Travel expenses	**29,756**	22,137
Rent and other occupancy costs	**14,870**	12,451
Marketing and other professional costs	**10,654**	9,524
Other costs	**13,245**	11,484
Capitalised expenditure	**(19,928)**	(16,946)
	342,985	267,357

26. Other income (expenses)

	2008 USD 000	2007 USD 000
Financial assets at fair value through profit or loss:		
– Held for trading	**(6,930)**	181
– Foreign exchange gain, net	**12,050**	4,840
– Undrawn bank facilities related expenses	**(1,997)**	(393)
Total other income (expenses)	**3,123**	4,628

27. Finance income and costs

	2008 USD 000	2007 USD 000
Interest expenses:		
– Interest expense on convertible bond (note 14)	**5,489**	4,806
– Interest expense on obligations under finance leases	**51**	43
– Interest expense on non-current trade and other payables	**79**	157
– Interest expense on bank borrowings	**1,427**	–
– Other interest expense	**73**	199
Total finance costs	**7,119**	5,205
Interest income:		
– Interest income on short-term bank deposits	**228**	403
– Interest income on short-term investments	**567**	1,857
– Interest income on non-current trade and other trade receivables	**2,544**	224
Total finance income	**3,339**	2,484

Notes to the Consolidated Financial Statements
continued

28. Earnings per share calculations

Basic

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 (note 18).

	2008 **USD 000**	2007 USD 000
Profit attributable to equity holders of the Company	**64,711**	64,674
Weighted average of common shares outstanding during the year (in thousands)	**57,699**	58,109
Basic earnings per share (USD per share)	**1.12**	1.11

Diluted

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. The Group has two categories of dilutive potential ordinary shares: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For the 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.

	2008 **USD 000**	2007 USD 000
Profit attributable to equity holders of the Company	**64,711**	64,674
Interest expense on convertible debt (net of tax)	**5,489**	4,806
Profit used to determine diluted earnings per share	**70,200**	69,480
Weighted average of common shares outstanding during the year (in thousands)	**57,699**	58,109
Adjustments for:		
– Assumed conversion of convertible debt (in thousands)	**7,323**	7,323
– Share options (in thousands)	**4,059**	3,920
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**69,081**	69,352
Diluted earnings per share (USD per share)	**1.02**	1.00

29. Commitments and contingencies

The Group has obligations under operating leases relating to office premises and leased equipments. The leases have varying terms, escalation clauses and renewal rights. Operating lease expenses relating to office premises for the year ended 31 December 2008 amounted to USD 11.2 million (2007: USD 9.3 million) and operating lease expenses relating to leased equipment were USD 2.4 million (2007: USD 1.4 million).

At 31 December	**2008** **USD 000**	2007 USD 000
No later than 1 year	**11,779**	10,709
Later than 1 year and no later than 5 years	**21,825**	19,144
Later than 5 years	**7,433**	6,849
Total	**41,037**	36,702

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 other than those reported in note 15.

30. Related party transactions and balances

Remuneration of executive and non-executive directors is described in note 23. Equity compensation for executive and non-executive directors granted in the form of stock options is described in note 21.

In December 2003 an office building that is leased by TEMENOS Headquarters SA was acquired by one of the directors of TEMENOS Group AG. The annual rent payable in respect of this lease is CHF 496 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 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 2008.

31. Post balance sheet events

There are no reportable post balance sheet events.

32. Risk assessment required by Swiss Law

Executive Management evaluates risks at yearly intervals, or in special cases, on an ad-hoc basis. The Group Risk Management function coordinates risk management through the Group, promoting anticipatory management of threats and opportunities, and providing the Executive Management with information necessary to manage overall risk exposure. The Group integrates this risk management into its ongoing business planning process. Potential negative developments are evaluated, so that we can implement timely countermeasures if any events should lead to deviations from our business plan. Specialised functions such as Group Finance & Accounting, Group Quality and IT Security support regional organisations and control the effectiveness of risk management. The Internal Audit department aligns their activities to the risk management system.

More details about financial risk management are presented in note 3.

Report of the Statutory Auditors
on the Unconsolidated Financial Statements

Report of the statutory auditor to the general meeting of TEMENOS Group AG, Geneva.

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of TEMENOS Group AG, which comprise the balance sheet, income statement and notes on pages 77 to 85 of TEMENOS Group AG Annual Report for the year ended 31 December 2008.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2008 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation.
We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Michael Foley
Audit expert
Auditor in charge

Guillaume Nayet
Audit expert

Geneva, 27 February 2009

Unconsolidated Balance Sheet
as at 31 December

	2008	2007
	CHF 000	CHF 000
Assets		
Current assets		
Prepayments and other assets	**20**	125
Treasury shares	**13,738**	837
Liquid funds	**103**	4
Total current assets	**13,861**	966
Non-current assets		
Investments in, and advances to, subsidiaries (note 2)	**479,602**	458,709
Receivable from other Group entities	**11,872**	19,025
Total non-current assets	**491,474**	477,734
Total assets	**505,335**	478,700
Liabilities and shareholders' equity		
Current liabilities		
Trade payables	**1,175**	359
Other liabilities	**2,833**	2,224
Accrued expenses	**–**	350
Tax payable	**672**	659
Total current liabilities	**4,680**	3,592
Non-current liabilities		
Payable to other Group entities	**4,860**	270
Total non-current liabilities	**4,860**	270
Shareholders’ equity		
Share capital (note 3)	**295,027**	291,707
General legal reserve (note 4)	**27**	–
Share premium (note 4)	**175,139**	181,762
Reserve for treasury shares (note 4)	**22,615**	837
Retained earnings (deficit) (note 4)	**2,987**	532
Total shareholders’ equity	**495,795**	474,838
Total shareholders' equity and liabilities	**505,335**	478,700

Unconsolidated Income Statement
for the year ended 31 December

	2008 **CHF 000**	2007 CHF 000
Income from investments in subsidiaries	**9,000**	2,817
Expenses associated with the maintenance of the Register of Shareholders and other expenses	**(7,785)**	(923)
Net profit before taxation	**1,215**	1,894
Taxation	**(213)**	(374)
Net profit after taxation	**1,002**	1,520

Notes to the Unconsolidated Financial Statements
31 December 2008

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 SIX 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 or investing activities, except as the holder of all the issued and outstanding shares of the subsidiaries described in note 2.

The financial statements of TEMENOS Group AG comply with the requirements of the Swiss law for companies, the Code of Obligations (SCO).

2. List of direct subsidiaries

The following are the direct subsidiaries of the company, which are wholly-owned unless otherwise indicated (percentage of voting rights).

	Voting rights
TEMENOS Holdings NV, Netherlands Antilles (holding company)	
40,105 shares of a nominal value of USD 1 each.	100%
Advances for the acquisition of new shares	
TEMENOS Headquarters SA, Switzerland (holding and licensing company)	
1,000 shares of a nominal value of CHF 100 each.	100%
TEMENOS Suisse SA, Switzerland (servicing company)	
15,000 shares of a nominal value of CHF 500 each.	100%
T-TCB SA, Switzerland (licensing company)	
1,000 shares of a nominal value of CHF 100 each.	100%
T-TFR SA, Switzerland (licensing company)	
1,000 shares of a nominal value of CHF 100 each.	100%
T-jBASE SA, Switzerland (licensing company)	
1,000 shares of a nominal value of CHF 100 each.	100%
TEMENOS Investments BV, Netherlands (holding company)	
180 shares of a nominal value of EUR 100 each.	100%
TEMENOS Romania SA, Romania (servicing company)	
100,000 shares of a nomial value of RON 1 each.	52%
TEMENOS Cyprus Limited, Cyprus (servicing company)	
100,000 shares of a nominal value of EUR 1 each.	52%
TEMENOS Egypt LLC, Egypt (servicing company)	50%
2 shares of a nominal value of EGP 100 each.	
Temenos Luxembourg SA, Luxembourg (servicing company)	100%
47,249 shares of a nominal value of EUR 25 each.	
Temenos SRL, Argentina (servicing company)	80%
2,000 shares of a nominal value of ARS 10 each.	

Notes to the Unconsolidated Financial Statements
continued

3. Share capital

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

	2008 number	2007 number
Total number of TEMENOS Group AG shares issued, as at 1 January	**58,341,421**	57,841,421
Shares issued and alloted in relation to acquisitions	**664,066**	–
Shares issued and alloted on exercising of employee share options	**–**	500,000
Total number of TEMENOS Group AG shares issued, as at 31 December	**59,005,487**	58,341,421

As at 31 December 2008 the number of treasury shares held by TEMENOS Group AG amounted to 935,221 (2007: 30,164). A reserve has been created for these treasury shares. These treasury shares are held for resale or for alloting to members of the TEMENOS Employee Share Option Scheme at the time that they exercise their options. During the year the company acquired 1,555,047 shares at market value and disposed of 649,990 shares to option holders 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 20 June 2010)	25,846,177
conditional shares that may be issued on the exercise of employee share options	9,759,292
conditional shares that may be issued in conjunction with financial instruments (of which 9,000,000 are reserved for the Convertible bond)	13,930,680

The holdings of more than 3% of the voting rights of all issued shares, as at 31 December 2008 are as follows:

UBS AG	5.03%
George Koukis	3.82%
Schroders plc.	3.17%
Virmont Sarl (Alken Asset Management LLP)	3.14%

4. Share premium and capital reserves

	General legal reserve CHF 000	Share premium CHF 000	Reserve for treasury shares CHF 000	Retained earnings CHF 000	Total CHF 000
Balance at 1 January 2007	–	177,613	3,627	(988)	180,252
Issuance of shares	–	–	–	–	–
Transfer to/from the reserve for own equity instruments	–	2,790	(2,790)	–	–
Fair value gains or losses on disposal of own equity instruments	–	1,480	–	–	1,480
Share issuance costs	–	(121)	–		(121)
Net profit of the year	–	–	–	1,520	1,520
Balance at 31 December 2007	–	181,762	837	532	183,131
Issuance of shares	–	16,635	–	–	16,635
Appropriation of available earnings:	–	–	–	–	–
– to General legal reserve	27	–	–	(27)	–
Dissolution of free reserve	–	(1,480)	–	1,480	–
Transfer to/from the reserve for own equity instruments	–	(21,778)	21,778	–	–
Net profit of the year	–	–	–	1,002	1,002
Balance at 31 December 2008	**27**	**175,139**	**22,615**	**2,987**	**200,768**

5. Treasury shares

TEMENOS Group AG holds 935,221 shares at 31 December 2008 intended for resale or for alloting to members of the Temenos Employee Share Option Scheme at the time that they exercise their options (2007: 30,164).

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 USD 50.8 million. Management believes that these guarantees are unlikely to be activated.

7. Proposal for the appropriation of available earnings

	2008 CHF 000	2007 CHF 000
Profit (loss) of the year	**1,002**	1,520
Dissolution of free reserve	**1,480**	–
Balance brought forward from previous year	**505**	(988)
Total available earnings	**2,987**	532
Proposal of the board of directors:		
Appropriation to general reserves	**149**	27
To be carried forward	**2,838**	505
	2,987	532

8. Risk assessment

TEMENOS Group AG is fully integrated into the Group-wide internal risk management framework. The risk management framework also addresses the specific risks of TEMENOS Group AG (refer to note 32 of the consolidated financial statement).

Notes to the Unconsolidated Financial Statements
continued

9. Disclosure of compensation and participations as per articles 663bbis and 663c of the Swiss Code of Obligations

I. Compensation for acting members of governing bodies

(Exchange rates: USD/GBP: 0.6910; USD/CHF: 1.0561; USD/EUR: 0.7095)

This section summarises Temenos' Compensation programs for the executive members of the Board of Directors and for Temenos' Senior Management, i.e. members of the Executive Committee ("Executives") with respect to the 2008 fiscal year compared to 2007.

As detailed in the Corporate Governance Report, the Executive Committee has been in place since 1 December 2007 and is composed of the four following individuals: Mr Andreas Andreades (CEO), Mr David Arnott (CFO), Mr Mark Cullinane (COO) and Mr Andre Loustau (CTO). Mr Alex Groenendyk (COO – TCB) was a member of the Executive Committee until 1 October 2008.

The Compensation Committee reviews, approves and makes recommendations on compensation packages concerning the Executives and seeks to confirm that such compensation is fair in relation to the person's skills and their position and are consistent with best market practice.

The objectives of Temenos' Compensation programs are to:

1. Attract, motivate and retain highly talented and performance-driven Executives who have the potential to make the greatest impact on Temenos' success.
2. Reinforce a pay-for-performance culture by having significant portions of compensation packages linked to the achievement of results and growth significantly higher than our peer group of global software companies.
3. Align the interests of Executives with shareholders' interests by having a substantial amount of compensation linked to Temenos' stock performance.

The components of compensation for the Executives are comprised of: base salary, benefits, annual bonus and long term incentive (Equity Based Stock Appreciation Rights (SARs) and share options).

The total executive compensation package is set in the top quartile when compared to that of other global software companies; however the largest part of total compensation is variable compensation, which is only paid on achievement of profit and revenue growth targets which are higher than that achieved on average by our peer group.

More details on the basic principles and elements of compensation may be found in the Corporate Governance Report (please refer to paragraph 5.1.).

a. Board of Directors (chart 1)

The total of all compensation earned in 2008 and 2007 by the members of the Board of Directors in US dollars and the distribution per member of the Board, is as follows:

Name / Function	Fiscal year	Cash: Base salary	Cash: annual bonus	All other compen-sation(1)	**Total cash compen-sation**	Number of SARs granted(2)	Number of Performance Shares	Cancellation of 2008 SARs(6)
G. Koukis	2008	506,770	351,244	75,886	**933,900**	46,144	–	(31,486)
Chairman	2007	791,667	464,783	86,594	**1,343,044**	87,720	–	–
P. Selway-Swift	2008	80,000	–	–	**80,000**		–	–
Vice-Chairman	2007	70,000	–	–	**70,000**		–	–
Andreas Andreades	2008	908,854	606,425	87,461	**1,602,740**	–	750,000(4)	–
Member	2007	687,682	927,872	105,221	**1,720,775**	760,080(3)	100,000(5)	–
Mark Austen	2008	80,000	–	–	**80,000**		–	–
Member	2007	70,000	–	–	**70,000**		–	–
C. Pavlou	2008	80,000	–	–	**80,000**		–	–
Member	2007	70,000	–	–	**70,000**		–	–
Lewis Polk Rutherfurd	2008	80,000	–	–	**80,000**		–	–
Member	2007	70,000	–	–	**70,000**		–	–

(1) This includes life, medical, disability, accident insurances, pension and car allowance.
(2) Conditions and grant details are detailed in the next section.
(3) This includes a 3 year grant for delivering the strategic plan for the period 2007 to 2009; more details are provided in the notes to chart 4 below. Mr Andreades does not participate in the Annual SARs plan for the years 2008 and 2009. The corresponding charge in the 2007 accounts with respect to the grant was $2,609,567. The valuation method that has been used is explained in note 21 of the consolidated financial statements.
(4) A total of 750,000 performance shares have been granted on 1 December 2008 to cover long term performance incentive for the period 2009 and 2010. These performance shares are conditional on achieving internal 2009 EPS targets and on employment with Temenos from 1 January 2009 until 30 June 2011. The shares maybe disposed of after 1 January 2011 and will not vest if Mr Andreades resigns from Temenos before 31 December 2010.
(5) These shares were issued by the Board of Directors on 28th February 2007 as an exceptional award linked to the successful completion of the strategic alliance with Metavante Corporation Inc: details for which are set out in note 21 of the consolidated financial statements. These shares were made available on 28th February 2008. The value of those shares on the date of the grant was $1,693,000.
(6) The grant of the 2008 SARs was conditional on achievement of diluted adjusted EPS target of USD 1.16; since this target was not achieved the 2008 SARs have been cancelled.

No remuneration was paid to related persons.

b. Executive Committee (chart 2)

The total of all compensation earned in 2008 and 2007 in US dollars by the members of the Executive Committee other than Mr Andreades (refer to chart 1 for Mr Andreades compensation details) is as follows:

		Cash						
Name	Fiscal year	Base salary	Bonus	All other compen-sation(1)	**Total cash compen-sation**	Number of SARs granted(3)	Number of Performance Shares(4)	Cancellation of 2008 SARs(5)
Other members of the	2008	1,290,068	446,546	327,627	**2,064,241**	409,293	225,000	(144,040)
Executive Committee(2)	2007	1,334,103	1,970,472	339,905	**3,644,480**	848,830	–	–

(1) This includes medical, life, dental, disability and accident insurances as well as pension, housing, schooling, travel and car allowance for some members of the Executive Committee.
(2) This includes compensation paid to Mr David Arnott, Mr Mark Cullinane and Mr Andre Loustau. It also includes the compensation paid to Mr Alex Groenendyk until 1 October 2008. Mr Andreades compensation details are included in chart 1; his compensation is the highest amount paid to a member of the Executive Committee.
(3) Grant details are provided in section II below. The total accounting charges for the Executive Committee to be recorded in relation to the Option, SARs and Performance Shares granted in 2008 is 13,926,916 for on-target achievement. This number could reduce if EPS targets are not met or could increase in case of overachievement; this is set out in the notes to chart 4 in section II below. The expense will be amortised over the relevant vesting period; the vesting period is described in the notes to charts 4 in section II below.
(4) These performance shares have been granted on 1 December 2008 as a long term performance incentive for 2009 and 2010. These performance shares are conditional on achieving internal 2009 EPS targets and on employment with Temenos from 1 January 2009 until 30 June 2011. The shares maybe disposed of after 1 January 2011 and will not vest if the Executive resigns from Temenos before 31 December 2010.
(5) The grant of the 2008 SARs was conditional on achievement of a diluted adjusted EPS target of USD 1.16; since this target was not achieved the 2008 SARs have been cancelled.

No remuneration was paid to related persons.

The contractual notice periods of the Executives do not exceed six months. No severance payments were made to persons whose duties on the governing bodies had come to an end during the financial year 2008.

II. Status of shares and Options/SARs ownership

a. Board of Directors (chart 3)

The shares status of the independent members of the Board of Directors is detailed in the chart below. The shares status of Executive Directors, Mr Koukis and Mr Andreades, may be found in chart 4 and 5.

		31 December 2008			31 December 2007	
Name	Position	**Shares**	**Options/ SARs**	**Performance Share**	Shares	Options/ SARs
Paul Selway-Swift	Vice-Chairman	**11,400**	**–**	**–**	11,400	–
Mark Austen	Member	**17,900**	**–**	**–**	17,900	–
Chris Pavlou	Member	**50**	**–**	**–**	50	–
Lewis Polk Rutherfurd	Member	**1**	**–**	**–**	1	–

(1) Please see chart 4 for the detail.

No options and/or shares were held on 31 December 2007 and 2008 by related persons.

Notes to the Unconsolidated Financial Statements
continued

II. Status of shares and Options/SARs ownership continued

b. Executive Committee and Executive Members of the Board of Directors

Number of Options, SARs and Performance Shares as at 31 December 2008 (chart 4)

Name	Shares	Options/ SARs grant year	Options/ SARs grant price	Outstanding options and SARs[2]	Number of options and SARs unvested	Number of unvested Performance Shares[2]
George Koukis	2,252,064	2001 to 2008	$6.80 to $15.56	263,316	109,844	–
Chairman						
Andreas Andreades	35,000	2002 to 2007	$8.52 to $15.56	1,320,704	812,173	750,000
Chief Executive Officer						
David Arnott	0	2005 to 2008	$8.52 to $23.51	460,880	360,880	75,000
Chief Financial Officer						
Mark Cullinane	20,000	2005 to 2008	$8.52 to $27.79	391,122	241,122	75,000
Chief Operating Officer						
Andre Loustau	4,000	2001 to 2008	$8.52 to $27.79	783,936	332,385	75,000
Chief Technology Officer	7,898[1]					

Number of outstanding Shares, Options and SARs as at 31 December 2007 (chart 5)

Name	Shares	Options/ SARs grant year	Options/ SARs grant price	Number of options and SARs outstanding	Number of options and SARs unvested
George Koukis	2,252,064	2001 to 2007	$6.80 to $27.79	248,658	130,307
Chairman					
Andreas Andreades	177,851	2002 to 2007	$8.52 to $15.56	1,320,704	1,221,117
Chief Executive Officer					
David Arnott	29,000	2005 to 2007	$8.52 to $27.79	389,323	389,323
Chief Financial Officer					
Mark Cullinane	–	2005 to 2007	$8.52 to $27.79	524,002	324,002
Chief Operating Officer					
Alex Groenendyk	–	2005 to 2007	$6.90	128,527	128,527
Chief Operating Officer – TCB					
Andre Loustau	4,000	2001 to 2007	$8.52 to $27.79	721,418	702,388
Chief Technology Officer	7,898[1]				

(1) Shares held on 31 December 2008 and 31 December 2007 by related persons.

Note for Chart 4:
(2) Outstanding Options, SARs and Performance Shares included in the table above include the following:

- 1,345,533 outstanding options granted between 2001 and 2007, with grant price between $6.9 and $27.79. The options are subject to continuous employment between the grant date and the vesting date. Upon exercise, only the number of shares corresponding to the value of the gain, i.e. appreciation/gain above the Exercise Price, will be created and issued. 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 have vesting periods of 1 to 3 years and exercise periods from 7 to 9 years. Options granted after 2005 have vesting periods of 0 to 3 years and exercise periods from 7 to 10 years.

- 475,922 “2006 SARs”. The 2006 SARs have a grant price of USD 9.78 and are conditional on active employment from 1 January 2007 to the end of the vesting period, and to the achievement of 2006-2008 diluted EPS targets as follows: 30% vest on 1 May 2007 if 2006 diluted EPS is USD 0.41, 30% vest on 1 May 2008 if cumulative 2006-2007 is USD 0.91 and 40% on 1 May 2009 if cumulative 2006 to 2008 diluted EPS is USD 1.49. In case cumulative diluted EPS is below 80% of target, the respective SARs grant will be forfeited. For achievement between 80% and 100% of target a reduced amount will be granted. For every 1% over-achievement of the 3 years cumulative diluted EPS target, an additional 2% SARs may be granted up to a maximum of 200% of total grant. There is no look back on this plan which is only tested once at the end of each year. The 2006-2008 EPS target has been overachieved by more than 150%, hence the SAR grant could be increased up to a maximum of 200% in May 2009 subject to an assessment of individual performance.

- 472,680 “2007 SARs”. 2007 SARs have a grant price of USD 15.56 and are conditional on active employment from 1 January 2008 to the end of the vesting period and achievement of 2007-2009 diluted EPS targets as follows: 30% vest on 1 March 2008 if 2007 diluted EPS is USD 0.69, 30% vest on 1 March 2009 if cumulative 2007-2008 is USD 1.52 and 40% on 1 March 2010 if cumulative 2007 to 2009 diluted EPS is USD 2.51. In case cumulative diluted EPS is below 80% of target, the respective SARs grant will be forfeited. For achievement between 80% and 100% of target a reduced amount will be granted. For every 1% over-achievement of the 3 years cumulative diluted EPS target, an additional 2% SARs may be granted up to a maximum of 200% of total grant subject to an assessment of individual performance. There is no look back on this plan which is only tested once at the end of each year. Any SARs that relate to the achievement of the results of a specific year are forfeited if the EPS for the year is not achieved even if the cumulative EPS is achieved.

- No “2008 SARs”. 2008 SARs were granted at a price of USD 27.79 and were conditional on achievement of the 2008 diluted EPS target of USD 1.16. If the diluted EPS target of USD 1.16 had been achieved as well as Individual 2008 performance, the vesting of the 2008 SARs was conditional on active employment from 1 January 2009 to the end of the vesting period and achievement of 2008-2010 diluted EPS targets as follows: 30% vest on 1 March 2009 if 2008 diluted EPS is USD 1.16, 30% vest on 1 March 2010 if cumulative 2008-2009 is USD 2.55 and 40% on 1 March 2011 if cumulative 2008 to 2010 diluted EPS is USD 4.22. In case cumulative diluted EPS is below 80% of target, the respective SARs grant will be forfeited. For achievement between 80% and 100% of target a reduced amount will be granted. For every 1% over-achievement of the 3 years cumulative diluted EPS target, an additional 2% SARs may be granted up to a maximum of 200% of total grant subject to an assessment of individual performance. There is no look back on this plan which is only tested once at the end of each year. Since the 2008 EPS target of USD 1.16 has not been met, the 2008 SARs will not vest and are therefore cancelled.

- 425,823 “2009 SARs”. 2009 SARs have a grant price of USD 12.48 and are conditional on achieving 2009 diluted EPS target and on achieving personal objectives. Once those conditions are achieved, the vesting is subject to active employment from 1 January 2010 to the end of the vesting period as well as 2009-2011 EPS target set in February 2009 as follows: 30% vest on 1 March 2010 if 2009 diluted EPS is USD 1.19, 30% vest on 1 March 2011 if cumulative 2009-2010 is USD 2.62 and 40% on 1 March 2012 if cumulative 2009 to 2011 diluted EPS is USD 4.34. In case cumulative diluted EPS is below 80% of target, the respective SARs grant will be forfeited. For achievement between 80% and 100% of target a reduced amount will be granted. For every 1% over-achievement of the 3 years cumulative diluted EPS target, an additional 2% SARs may be granted up to a maximum of 200% of total grant subject to an assessment of individual performance. There is no look back on this plan which is only tested once at the end of each year. Any SARs that relate to the achievement of the results of a specific year are forfeited if the EPS for the year is not achieved even if the cumulative EPS is achieved.

- 500,000 SARs to Mr Andreades. These will vest on 31 December 2009 if Mr Andreades is employed with Temenos on that date and if cumulative 2007-2009 EPS is between USD 2.20 and USD 2.6199. The grant price is USD 15.56. The grant in case of under and overachievement is described in the table below:

2007 to 2009 Cumulative EPS	SARs Grant
Below USD 2.20	–
USD 2.20 to USD 2.6199	500,000
USD 2.6199 to 3.0999	750,000
USD 3.10 or more	1,750,000

There is no retesting or look back on this grant. Mr Andreades does not participate in the Annual SARs plan for the years 2008 and 2009.

- 975,000 Performance Shares. These performance shares have been granted on 1 December 2008 as an incentive for 2009 and 2010. They are conditional on achieving internal 2009 EPS target and on employment with Temenos from 1 January 2009 until 30 June 2011. The shares maybe disposed of after 1 January 2011 and will not vest if the Executive resigns from Temenos before 31 December 2010.

IV. Loans granted to members of governing bodies
As of 31 December 2008, the Company has no outstanding loans to members of the Board of Directors and Executive Committee. No loans were granted to persons related to the latter.

V. Major shareholders
Please refer to note 3 of the unconsolidated financial statements.

Financial Highlights
In millions of US dollars except earnings per share

	2008	2007	2006	2005	2004
Revenues	**406.9**	329.8	216.3	168.7	153.6
Operating costs	**343.0**	267.3	183.0	145.9	141.8
Other operating income	**–**	–	–	–	1.0
Operating profit	**63.9**	62.5	33.3	22.8	12.8
Profit before taxation	**63.3**	64.4	38.6	20.2	15.1
Net profit after tax	**65.2**	64.7	34.4	17.9	12.1
EBITDA	**87.8**	78.5	43.1	33.9	28.8
Diluted earnings per share (in USD)	**1.02**	1.00	0.57	0.32	0.22
Cash generated from operations	**56.2**	64.8	27.5	5.1	16.7
Current assets	**366.1**	294.5	262.7	127.8	114.5
Non-current assets	**251.9**	163.1	89.4	53.6	49.6
Total assets	**618.0**	457.6	352.1	181.4	164.1
Current liabilities (excluding deferred revenues)	**133.4**	101.3	62.4	40.9	36.8
Deferred revenues	**84.6**	57.6	45.0	33.6	34.6
Total current liabilities	**218.0**	158.9	107.4	74.5	71.4
Non-current liabilities	**195.4**	121.3	108.6	5.8	8.5
Total liabilities	**413.4**	280.2	216.0	80.3	79.9
Total equity	**204.6**	177.4	136.1	101.1	84.2
Total equity and liabilities	**618.0**	457.6	352.1	181.4	164.1

Information for Investors

Capital structure
The share capital is divided into 59 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
5th June 2009

Statistics on Temenos shares

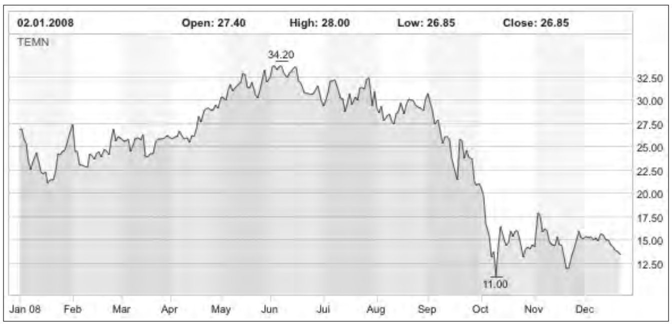
Registered shares of CHF 5 nominal	2008
Sector	Technology/Software
Market Segment	SIX Main Market
Index Member	SMIM/SPI
Swiss Security No	124 5391
ISIN No	CH0012453913
Symbol	TEMN
Number of shares	59,005,487
Market price high/low (CHF)	34.20/11.00
Market price 31.12.2007	27.95
Market price 31.12.2008	14.00
Market capitalisation high/low (CHF m)	2,018/649
Share capital nominal value at 31.12.2008 (CHF m)	295

Key figures per share	2008
Basic earnings per share (USD)	1.12
Diluted earnings per share (USD)	1.02
Consolidated shareholders' equity (USD m)	203.9
Consolidated shareholders' equity per share (USD)	3.46

Major shareholders (>3%) of Temenos Group AG*	(as at 23.02.2009)
Standard Life Investments	5.04%
George Koukis	3.82%
TIAA-CREF Investment Management, LLC	3.41%
Schroders Plc	3.17%
Virmont Sarl (Alken Asset Management LLP)**	3.14%

*by holding TEMENOS Group AG registered shares
**See page 23

Development of the Temenos share price



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