Temenos

Interim Report 2010

TEMENOS
The Banking Software Company

Contents

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

unaudited

Consolidated income statement (condensed)

for the six months ended 30 June

	2010	2009
Revenues		
Software licensing	**61,514**	55,159
Maintenance	**69,963**	56,325
Services	**62,642**	51,655
Total revenues	**194,119**	163,139
Operating expenses		
Cost of sales	**74,225**	60,016
General and administrative	**31,295**	21,802
Other operating expenses	**75,929**	62,138
Total operating expenses	**181,449**	143,956
Operating profit	**12,670**	19,183
Finance costs - net	**(4,474)**	(6,770)
Profit before taxation	**8,196**	12,413
Taxation (note 2)	**(202)**	(87)
Net income for the period	**7,994**	12,326
Attributable to:		
Equity holders of the parent	**8,012**	12,600
Non-controlling interest	**(18)**	(274)
Earnings per share for profit attributable to the equity holders of the Group (in US$): (note4)		
basic	**0.13**	0.22
diluted	**0.12**	0.21

The notes on page 8 to 13 form an integral part of these consolidated financial statements.

The amounts are expressed in thousands of US dollars

	2010	2009
Profit for the period	**7,994**	12,326
Other comprehensive income:		
Currency translation difference	**(23,150)**	7,463
Cash flow hedge	**(503)**	6,744
Available-for-sale financial assets	**-**	(14)
Other comprehensive income, net of tax	**(23,653)**	14,193
Total comprehensive income for the period	**(15,659)**	26,519
Attributable to:		
Equity holders of the parent	**(15,653)**	26,775
Non-controlling interest	**(6)**	(256)

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	30 June 2010	31 December 2009 Re-presented
Assets		
Current assets		
Cash and cash equivalents	**101,855**	142,651
Trade and other receivables	**272,998**	287,213
Other financial assets	**5,372**	4,838
Prepayments	**12,443**	10,821
Total current assets	**392,668**	445,523
Non-current assets		
Property, plant and equipment (note 5)	**11,978**	15,508
Intangible assets (note 5)	**265,046**	292,804
Trade and other receivables	**17,215**	17,735
Deferred tax asset	**32,200**	33,025
Total non-current assets	**326,439**	359,072
Total assets	**719,107**	804,595
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables	**67,634**	81,427
Other financial liabilities	**3,705**	5,621
Deferred revenues	**95,846**	115,058
Income taxes payable	**5,754**	5,848
Borrowings (note 6)	**31,381**	36,357
Provisions for other liabilities and charges	**1,120**	808
Total current liabilities	**205,440**	245,119
Non-current liabilities		
Borrowings (note 6)	**207,922**	237,232
Deferred tax liabilities	**9,004**	15,740
Income tax liabilities	**1,242**	2,440
Retirement benefit obligations	**2,100**	2,190
Trade and other payables	**4,662**	905
Total non-current liabilities	**224,930**	258,507
Total liabilities	**430,370**	503,626
Shareholders' equity		
Share capital (note 3)	**194,980**	178,340
Treasury shares (note 3)	**(8,689)**	-
Share premium and capital reserves	**(89,755)**	(85,231)
Fair value and other reserves	**(55,684)**	(32,019)
Retained earnings	**247,230**	239,218
	288,082	300,308
Non-controlling interest	**655**	661
Total equity	**288,737**	300,969
Total liabilities and equity	**719,107**	804,595

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	2010	2009
Cash generated from operations	**9,155**	28,795
Income taxes paid	**(1,912)**	(4,024)
Net cash generated from operating activities	**7,243**	24,771
Cash flows from investing activities		
Purchase of property, plant and equipment, net of disposals	**(572)**	(1,296)
Purchase of intangible assets, net of disposals	**(1,700)**	(1,409)
Capitalised development costs (note 5)	**(9,502)**	(9,216)
Acquisitions of subsidiaries, net of cash acquired	**(3,657)**	(1,540)
Disposals of subsidiaries, net of cash disposed	**3,534**	-
Settlement of financial instruments	**(3,287)**	498
Interest received	**202**	63
Others, net	**-**	(52)
Net cash used in investing activities	**(14,982)**	(12,952)
Cash flows from financing activities		
Proceeds from issuance of shares, net of related expenses	**2,751**	-
Acquisition of treasury shares	**(10,417)**	-
Interest payments	**(2,864)**	(2,666)
Repayments of borrowings (note 6)	**(15,466)**	(6,879)
Debt refinancing	**-**	9,178
Payment of finance lease liabilities (note 6)	**(341)**	(249)
Others, net	**(308)**	(1,160)
Net cash used in financing activities	**(26,645)**	(1,776)
Effect of exchange rate changes	**(6,412)**	493
Net (decrease)/increase in cash and cash equivalents in the period	**(40,796)**	10,536
Cash and cash equivalents at the beginning of the period	**142,651**	65,600
Cash and cash equivalents at the end of the period	**101,855**	76,136

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	Share capital	Treasury shares	Share premium and capital reserves	Fair value and other reserves	Retained earnings	Non-controlling interest	Total
Balance at 31 December 2008	**174,122**	**(20,677)**	**(77,217)**	**(42,938)**	**170,583**	**737**	**204,610**
Total comprehensive income for the period	-	-	-	14,175	12,600	(256)	26,519
Cost of share option	-	-	3,776	-	-	-	3,776
Exercise of share options	-	3,289	(2,869)	-	-	-	420
Share issuance costs	-	-	(7)	-	-	-	(7)
	-	3,289	900	14,175	12,600	(256)	30,708
Balance at 30 June 2009	**174,122**	**(17,388)**	**(76,317)**	**(28,763)**	**183,183**	**481**	**235,318**
Balance at 31 December 2009	**178,340**	**-**	**(85,231)**	**(32,019)**	**239,218**	**661**	**300,969**
Total comprehensive income for the period	-	-	-	(23,665)	8,012	(6)	(15,659)
Cost of share option	-	-	11,363	-	-	-	11,363
Exercise of share options	16,633	1,728	(15,689)	-	-	-	2,672
Exercise of conversion rights	7	-	-	-	-	-	7
Acquisition of treasury shares	-	(10,417)	-	-	-	-	(10,417)
Share issuance costs	-	-	(198)	-	-	-	(198)
	16,640	(8,689)	(4,524)	(23,665)	8,012	(6)	(12,232)
Balance at 30 June 2010	**194,980**	**(8,689)**	**(89,755)**	**(55,684)**	**247,230**	**655**	**288,737**

The notes on page 8 to 13 form an integral part of these consolidated financial statements.

1 Basis of preparation

This condensed interim financial information for the six month ended 30 June 2010 has been prepared in accordance with IAS 34 (Interim financial reporting). The consolidated interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2009 which have been prepared in accordance with IFRS's.

2 Accounting policies

Except as described below, the accounting policies are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2009.

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

The Group is not subject to pronounced seasonal or cyclical fluctuations but, historically, the Group recognises a higher volume of licensing business in the second half of the financial year.

There were no material changes in respect of the Group's contingent liabilities, including litigation settlement, since the last annual balance sheet date.

During the period ended 30 June 2010, the Group disposed of the commodities trading software business of Viveo Group and the assets of Viveo Consulting BV, the consulting arm of Viveo Group. The net assets disposed of as well as the gain recognised in the income statement are not significant to the Group's financial statements.

Since the annual financial statements for the year ended 31 December 2009 the Group has not suffered from any significant financial risks and the Group still remains strongly vigilant to mitigate these risks.

Following the acquisition of VIVEO Group, the Groups has started to implement a plan to restructure the VIVEO Group business. The plan is still under negotiation with the local Union and Work council and it is expected to be finalized in the second half of the year 2010.The full impact of the restructuring plan on the Group's financial statements will be disclosed in the 2010 annual financial statements.

Standards, amendments and interpretations effective in 2010

-IFRS 3 (revised) 'Business combinations', and consequential amendments to IAS 27 'Consolidated and separate financial statements', IAS 28 'Investments in associates' and IAS 31 'Interests in joint ventures'. The revised standard continues to apply the acquisition method to business combinations with some significant changes. For example, all acquisition-related costs should be expensed; contingent consideration must be recognised at acquisition date at fair value with subsequent adjustments to be recognised in the income statement. The Group has adopted the revised standard to business combinations with effective date on or after 1 January 2010. The adoption of the consequential amendment to IAS 27 'Consolidated and separate financial statements' has not impacted the Group financial statements as no transactions with non-controlling interests have occurred during the period.

Standards, amendments and interpretations effective in 2010 that are either not expected to have any significant impact or not relevant to the Group's financial statements

- 2009 Annual improvements. The effective date vary standard by standard but most are effective 1 January 2010. These amendments have not resulted in a material impact on the Group's financial statements.

- IFRS 1 (Amendment) ‘First time adoption of IFRS’. This amendment is not relevant to the Group' financial statements, as it is an existing IFRS preparer.

- IFRS 2 (Amendment), ‘Share-based payment’. The expansion of the guidance form the former IFRIC 11 has no impact on the Group's financial statements as the Group's policy for share-based transactions were already in conformity with this amendment.

- IFRIC 17, 'Distributions of non-cash assets to owners' effective for annual periods beginning on or after 1 July 2009. This is not currently applicable as the Group has not made any non-cash distributions.

- IFRIC 18, ‘Transfers of assets from customers’ effective for transfers of assets received on or after 1 July 2009. This is not applicable as the Group has not received any assets from customers.

3 Share capital

As at 30 June 2010, the issued shares of TEMENOS Group AG comprised 63,382,989 common shares of a nominal value of CHF 5 each. All issued shares are fully paid.

		Nominal value (in thousands)	
	number	in CHF	in US$
Total number of shares issued, as at 1 January 2010	59,858,526	299,293	178,340
Share issued on exercise of employee share options	3,522,803	17,614	16,633
Share issued on exercise of conversion rights from the convertible bond	1,660	8	7
Total number of shares issued, as at 30 June 2010	63,382,989	316,915	194,980

As at 30 June 2010 the number of treasury shares held by the Group amounted to 364,982. 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.

According to its Articles or Association, the Group has also the following conditional capital:

- conditional capital for employee participation (article 3 quater (1))	5,383,450
- conditional capital for financials instruments (article 3 quater (2)) (of which 8,998,340 are reserved for the Convertible bond)	13,929,020

4 Earnings per share

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

The diluted earnings per share is the basic earnings per share adjusted for dilutive potential ordinary shares. The Group has two categories of dilutive potential ordinary shares: convertible debt and share options. Conversion of the convertible debt would be anti-dilutive and has therefore been excluded from the calculations as reported in the income statement

5 Property, plant and equipment and intangible assets

	Property, plant and equipment	**Intangible assets**
Six months ended 30 June 2010		
Opening net book amount at 1 January 2010 (Re-presented)	15,508	292,804
Additions	949	1,338
Acquisition of subsidiary	-	6,029
Disposal	(1,614)	(1,608)
Capitalised development costs	-	9,502
Charge for the period	(2,261)	(17,165)
Foreign currency exchange differences, impairment and other movements	(604)	(25,854)
Closing net book amount 30 June 2010	11,978	265,046

The amounts are expressed in thousands of US dollars

6 Borrowings

	2010	2009
Current		
Obligations under finance leases	525	533
Other loans	21	21
Bank borrowings	30,331	34,310
Convertible bond	504	1,493
Total current	31,381	36,357
Non-current		
Obligations under finance leases	578	701
Other loans	67	41
Bank borrowings	77,330	102,776
Convertible bond	129,947	133,714
Total non-current	207,922	237,232
Total borrowings	239,303	273,589

Movements in borrowings is analysed as follows:

Six months ended 30 June 2010	
Opening balance as at 1 January 2010	273,589
Repayments of borrowings	(15,807)
Foreign currency exchange differences	(19,866)
Increase in borrowings - other	1,387
Closing net book amount 30 June 2010	239,303

7 Business combinations

2010 Acquisition

On 10 May 2010 the Group acquired 100% of the share capital of FE-Mobile Limited, a UK based provider of software solutions for the mobile banking industry.

Since its foundation in 2002, FE-Mobile Limited has created a successful range of mobile banking applications. The FE-Mobile solution, marketed under the brand name of SecureLink, operates across three mobile channels providing universal applicability: a downloadable application, XHTML browser and SMS. The solution is secure, simple, versatile, scalable, easy to implement and easy to maintain. Given its flexibility, the product can easily replicate banks' existing functionality while giving them access to a robust platform for development and significant additional functionality, meaning that it can be marketed to all banks. The acquisition of FE-Mobile Limited will allow to broaden the suite of application that the Group can offer to its customers.

The goodwill arising from the acquisition is mainly attributable to the enhancement of the Group's software solutions and to the penetration into the mobile banking industry.

Purchase consideration:	
- Cash paid	582
- Contingent consideration	5,233
Total purchase consideration	5,815
Fair value of net assets acquired	1,100
Goodwill	4,715

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

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7 Business combinations (continued)

Net assets acquired:	Fair value
Intangible acquired	1,314
Trade and other receivables	1
Cash and cash equivalents	65
Trade and other payables	(1)
Deferred tax liability	(279)
Net assets acquired	1,100
Goodwill arising on acquisition	4,715
Total consideration	5,815

The initial accounting has been provisionally completed at 30 June 2010. The Group is continuing to evaluate the fair value of certain intangible assets and contingent consideration.

None of the goodwill is expected to be deductible for tax purposes.

Acquisition related costs have been recognised in the income statement in the "General and administrative" line and are amounting to US$ 72 thousand.

The fair value of the trade and other receivables approximates its carrying value and it is expected to be fully recoverable.

The revenue and profit or loss contributed by the acquiree in the period between the date of acquisition and the balance sheet date is not significant.

If the acquisition had occurred on 1 January 2010, the estimated contribution by the acquiree to the Group's revenues would have been US$ 150 thousand and US$ 45 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 2010, with the consequential tax effects.

The contingent consideration consists of:
-US$ 737 thousand on the final acceptance by the Group of the acquired product by 31 May 2011;
-US$ 737 thousand on the successful "Go-live" of certain number of units sold;
-US$ 3,759 thousand on certain number of units sold during a period ending on the third anniversary of the acquisition date.

The Group has not entirely completed the fair value assessment of the contingent consideration and has consequently decided to recognise the present value of the full potential amount. The final completion of the fair value is expected to occur during the second half of the year but given the robustness of the product; the size and the high potential of opportunities of the mobile bank market, the Group believes that the final fair value will not be materially different from the amount reported as at 30 June 2010.

2009 Acquisition

VIVEO GROUP

The below table discloses the financial effects and the movement in the Goodwill for the period ending 30 June 2010 as a result of the partial completion of the initial accounting during the measurement period that will end on 24 December 2010.

	2009	2010 adjustment	Total
Purchase consideration:			
- Cash paid	91,060	-	91,060
- Direct costs relating to the acquisition	1,730	-	1,730
Total purchase consideration	92,790	-	92,790
Fair value of net assets acquired	(23,466)	4,422	(19,044)
Goodwill	69,324	4,422	73,746

As required by IFRS 3, 'Business Combinations', comparative information on the face consolidated statement of financial position have been re-presented to reflect the change of the provisional values.

The amounts are expressed in thousands of US dollars

7 Business combinations (continued)

Fair value adjustment by category

	2009	2010 adjustment	Total
	Fair value	Fair value	Fair value
Trade and other receivables	37,276	(1,750)	35,526
Prepayments	1,001	(147)	854
Deferred tax asset	1,722	(1,511)	211
Deferred Revenue	(21,503)	(882)	(22,385)
Trade and other payables	(18,125)	(132)	(18,257)
Total	371	(4,422)	(4,051)

8 Expenses by function

	Half-year	
	2010	**2009**
Sales and marketing	37,204	37,150
Services	66,616	49,759
Software development and maintenance	46,334	35,245
General and administrative	31,295	21,802
Total operating expenses	181,449	143,956

9 Segment information

The chief operating decision maker has been identified as the Group's Chief Executive Officer. He regularly reviews the Group's operating segments in order to assess performance and allocate resources. Assessment of the performance of the operating segments is based on the operating profit/(loss).

Segment result reflects operating expenses directly or reasonably attributable to the reporting segments. Unallocated costs mainly comprise of non-personnel related expenses such as restructuring costs, share-based payment expenses, depreciation and amortisation and offices related costs.

Segment operating result is measured on the basis of the same accounting policies as the Group's financial statements.

Since the last annual financial statements, the Group has conducted a re-organisation in its internal reporting that has resulted in reconsideration of the business activities from a regional to a product perspective. Therefore, two reportable segments have been identified : "Product and Services". The product segment is primarily engaged in marketing and licensing the Group's software solutions and the services segment comprises of the various other activities such as implementation, providing training.

Regional information are still presented to the CODM but it is not primarily used to review performance and to make decisions to allocate resources. The comparative has been represented to reflect the change in the reportable segments.

The primary information provided to the Group's Chief Executive Officer for the reportable segments is as follows:

	Product		**Services**		**Total**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
External revenues	131,477	111,484	62,642	51,655	194,119	163,139
Operating profit	61,609	44,896	6,884	6,696	68,493	51,592

Intersegment transactions are treated as cost reductions rather than internal revenues. They are charged based on internal cost rates that excludes any profit margin.

The amounts are expressed in thousands of US dollars

9 Segment information (continued)

RECONCILIATION TO THE GROUP'S INCOME STATEMENT

	2010	2009
Total operating profit for reportable segments	68,493	51,592
Unallocated operating expenses	(55,823)	(32,409)
Finance costs - net	(4,474)	(6,770)
Profit before taxation	8,196	12,413

10 Post balance sheet events

There are no reportable post balance sheet events.

TEMENOS

The Banking Software Company

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