Temenos

Interim Report 2012

TEMENOS
The Banking Software Company

Contents

TEMENOS GROUP AG

Consolidated income statement (condensed)

The amounts are expressed in thousands of US dollars

for the six months ended 30 June

unaudited

	2012	2011
Revenues		
Software licensing	**47,651**	67,293
Maintenance	**98,622**	97,824
Services	**59,718**	60,488
Total revenues	**205,991**	225,605
Operating expenses		
Cost of sales	**68,500**	77,888
General and administrative	**37,649**	32,668
Other operating expenses	**98,264**	141,718
Total operating expenses	**204,413**	252,274
Operating profit/(loss)	**1,578**	(26,669)
Finance costs - net	**(6,961)**	(5,109)
Loss before taxation	**(5,383)**	(31,778)
Taxation (note 3)	**(6,073)**	(953)
Loss for the period	**(11,456)**	(32,731)
Attributable to:		
Equity holders of the Company	**(11,456)**	(32,642)
Non-controlling interest	**-**	(89)
Earnings per share (in US$): (note 6)		
basic	**(0.17)**	(0.47)
diluted	**(0.17)**	(0.47)

The notes on page 8 to 11 form an integral part of these interim condensed condolidated financial statements.

The amounts are expressed in thousands of US dollars

	2012	2011
Loss for the period	**(11,456)**	(32,731)
Other comprehensive income:		
Currency translation difference	**(4,595)**	17,396
Cash flow hedge	**2,660**	(538)
Other comprehensive income, net of tax	**(1,935)**	16,858
Total comprehensive income for the period	**(13,391)**	(15,873)
Attributable to:		
Equity holders of the Company	**(13,391)**	(15,857)
Non-controlling interest	**-**	(16)

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TEMENOS GROUP AG

Consolidated statement of financial position (condensed)

The amounts are expressed in thousands of US dollars
unaudited

	30 June 2012	31 December 2011 Re-presented
Assets		
Current assets		
Cash and cash equivalents	**59,105**	154,950
Trade and other receivables	**292,621**	295,532
Other financial assets	**3,456**	4,062
Total current assets	**355,182**	454,544
Non-current assets		
Property, plant and equipment (note 7)	**13,669**	13,210
Intangible assets (note 7)	**402,264**	404,744
Trade and other receivables	**41,251**	49,108
Other financial assets	**-**	210
Deferred tax asset	**30,393**	33,814
Total non-current assets	**487,577**	501,086
Total assets	**842,759**	955,630
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables	**92,747**	127,418
Other financial liabilities	**4,907**	6,005
Deferred revenues	**148,049**	180,503
Income taxes payable	**13,426**	15,667
Borrowings (note 8)	**10,682**	11,123
Provisions for other liabilities and charges	**3,282**	5,337
Total current liabilities	**273,093**	346,053
Non-current liabilities		
Trade and other payables	**1,903**	1,685
Other financial liabilities	**-**	758
Income tax liabilities	**1,544**	1,544
Borrowings (note 8)	**213,034**	242,624
Provisions for other liabilities and charges	**2,069**	2,488
Deferred tax liabilities	**6,643**	8,448
Retirement benefit obligations	**3,850**	3,849
Total non-current liabilities	**229,043**	261,396
Total liabilities	**502,136**	607,449
Shareholders' equity		
Share capital (note 5)	**239,798**	239,677
Treasury shares (note 5)	**(112,089)**	(113,473)
Share premium and capital reserves	**23,695**	19,367
Fair value and other reserves	**(71,932)**	(69,997)
Retained earnings	**261,151**	272,607
Total equity	**340,623**	348,181
Total liabilities and equity	**842,759**	955,630

The notes on page 8 to 11 form an integral part of these interim condensed condolidated financial statements.

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

unaudited

Consolidated statement of cash flows (condensed)

for the six months ended 30 June

	2012	2011
Cash used in operations	**(27,960)**	(25,115)
Income taxes paid	**(6,918)**	(2,115)
Net cash used in operating activities	**(34,878)**	(27,230)
Cash flows from investing activities		
Purchase of property, plant and equipment, net of disposals	**(2,668)**	(3,203)
Purchase of intangible assets, net of disposals	**(1,655)**	(1,567)
Capitalised development costs (note 7)	**(19,204)**	(13,797)
Acquisitions of subsidiaries, net of cash acquired	**(2,263)**	(405)
Settlement of financial instruments	**(1,213)**	(12,298)
Interest received	**79**	75
Net cash used in investing activities	**(26,924)**	(31,195)
Cash flows from financing activities		
Acquisition of treasury shares	**-**	(108,111)
Interest payments	**(3,221)**	(1,799)
Repayments net proceeds from borrowings (note 8)	**(30,010)**	85,079
Payment of finance lease liabilities (note 8)	**(206)**	(482)
Payment of financial instrument related expenses	**(394)**	(2,878)
Net cash used in financing activities	**(33,831)**	(28,191)
Effect of exchange rate changes	**(212)**	2,677
Net decrease in cash and cash equivalents in the period	**(95,845)**	(83,939)
Cash and cash equivalents at the beginning of the period	**154,950**	160,274
Cash and cash equivalents at the end of the period	**59,105**	76,335

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TEMENOS GROUP AG

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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 2010	**236,958**	**(9,208)**	**19,508**	**(55,896)**	**300,859**	**506**	**492,727**
Total comprehensive income for the period	-	-	-	16,785	(32,642)	(16)	(15,873)
Cost of share option	-	-	5,555	-	-	-	5,555
Exercise of share options	2,407	9,208	(11,700)	-	-	-	(85)
Acquisition of treasury shares	-	(108,111)	-	-	-	-	(108,111)
Share issuance costs	-	-	(83)	-	-	-	(83)
	2,407	(98,903)	(6,228)	16,785	(32,642)	(16)	(118,597)
Balance at 30 June 2011	**239,365**	**(108,111)**	**13,280**	**(39,111)**	**268,217**	**490**	**374,130**
Balance at 31 December 2011	**239,677**	**(113,473)**	**19,367**	**(69,997)**	**272,607**	**-**	**348,181**
Total comprehensive income for the period	-	-	-	(1,935)	(11,456)	-	(13,391)
Cost of share option	-	-	5,868	-	-	-	5,868
Exercise of share options	121	1,384	(1,500)	-	-	-	5
Share issuance costs	-	-	(40)	-	-	-	(40)
	121	1,384	4,328	(1,935)	(11,456)	-	(7,558)
Balance at 30 June 2012	**239,798**	**(112,089)**	**23,695**	**(71,932)**	**261,151**	**-**	**340,623**

The notes on page 8 to 11 form an integral part of these interim condensed condolidated financial statements.

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 2 Rue Ecole de Chimie, 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.

2 Basis of preparation

This condensed interim financial information for the six month ended 30 June 2012 has been prepared in accordance with IAS 34 (Interim financial reporting) and are unaudited. The consolidated interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2011 which have been prepared in accordance with IFRS's.

Where necessary comparative information has been re-presented to reflect the finalisation of the initial accounting for the acquisition of PRIMISYN.

3 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 2011.

Income tax is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year.
Tax expense for the period ended 30 June 2012 was primarily affected by the reversal of temporary differences on deferred tax balances.

Standards, amendments and interpretations effective as of 1 January 2012 that have been adopted by the Group

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2012 which were adopted by the Group:

- IAS 12 (amendment) ‘Income taxes'.
- IFRS 7 (amendment) ‘Financial Instruments: Disclosures'.

The adoption of the above amendments has not resulted in a material impact on the Groups' consolidated financial statements.

Seasonality of operations

The Group is not significantly influenced by seasonal or cyclical fluctuations but, historically, the Group tends to recognise a higher volume of licensing revenue in the second half of the financial year.

Significant events and transactions during the period

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

The impairment loss related to financial assets was US$ 3 million for the period ending 30 June 2012 compared to US$ 27.6 million for the same period a year ago.

In the first half of 2012, the Group has not suffered from any significant financial risks. Market risk, credit risk and liquidity risk reported in the consolidated financial statement for the year ended 31 December 2011 remain the same. There were no transfers between level 1 and 2 of the fair value hierarchy.

The finalisation of the initial accounting for the previous year acquisition ("PRYMISYN") has not resulted in material changes in the fair value of the identifiable assets acquired and liabilities assumed.

4 Estimates

The preparation of these interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Group's interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011.

5 Share capital

As at 30 June 2012, the issued shares of TEMENOS Group AG comprised 72,023,148 common shares of a nominal value of CHF 5 each. All issued shares are fully paid.

	30 June 2012 Number	31 December 2011 Number
Total number of shares issued, as at 1 January	72,000,930	71,524,117
Treasury shares	(3,123,695)	(464,982)
Total number of shares outstanding, as at 1 January	68,877,235	71,059,135
Share issued on exercise of employee share options	22,218	476,813
Movement in treasury shares	36,339	(2,658,713)
Total number of shares outstanding, as at 30 June 2012	68,935,792	68,877,235

As at 30 June 2012 the number of treasury shares held by the Group amounted to 3,087,356 (30 June 2011: 2,898,695). 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 conditional capital, comprising:

- authorised shares available until 17 June 2013	14,304,823
- conditional shares that may be issued on the exercise of employee share options	7,200,000
- conditional shares that may be issued in conjunction with financial instruments	6,607,904

6 Earnings per share

The basic earnings per share are calculated by dividing the profit or loss attributable to the equity holders of the Group by the weighted average of ordinary shares outstanding during the period.

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. For the period ended 30 June 2012, the Group has only one category with a potential dilutive effect: share options. However, given that the Group has recognised a net loss for the period, the impact of this category is anti-dilutive and, therefore, diluted EPS equals the basic EPS.

7 Property, plant and equipment and intangible assets

	Property, plant and equipment US$ 000	Intangible assets US$ 000
Six months ended 30 June 2012		
Opening net book amount at 1 January 2012	13,210	404,103
Additions	2,942	3,604
Acquisition of subsidiary *	-	2,113
Disposal	(50)	-
Capitalised development costs	-	19,204
Charge for the period	(2,319)	(21,634)
Foreign currency exchange differences, impairment and other movements	(114)	(5,126)
Closing net book amount 30 June 2012	13,669	402,264

* The amount represents the finalisation of the initial accounting for the previous year acquisition of PRIMISYN (US$ 641 thousand) and the change in fair value of a contingent consideration (US$ 1,472 thousand) related to an acquisition recognised prior to the revised IFRS 3:'Business Combinations'.

8 Borrowings

	30 June 2012 US$ 000	31 December 2011 US$ 000
Current		
Obligations under finance leases	262	321
Other loans	1	3
Bank borrowings	10,419	10,799
Total current	10,682	11,123
Non-current		
Obligations under finance leases	173	303
Other loans	35	43
Bank borrowings	212,826	242,278
Total non-current	213,034	242,624
Total borrowings	223,716	253,747

Movements in borrowings is analysed as follows:

Six months ended 30 June 2012	
Opening balance as at 1 January 2012	253,747
Repayments net proceeds from borrowings	(30,216)
Increase in borrowings - other	185
Closing net book amount 30 June 2012	223,716

The financial covenants in respect of the facilities granted were adhered during the period ended 30 June 2012.

9 Expenses by function

	30 June 2012 US$ 000	30 June 2011 US$ 000
Sales and marketing	40,646	76,247
Services	73,843	81,551
Software development and maintenance	52,275	61,808
General and administrative	37,649	32,668
Total operating expenses	204,413	252,274

10 Segment information

The Chief Operating Decision Maker ("CODM") has been identified as the Group's Chief Executive Officer ("CEO"). He regularly reviews the Group's operating segments in order to assess performance and to allocate resources.

The CODM considers the business from a product perspective and, therefore, recognises the reporting segments as: "Product and Services". Other representation of the Group's activity such as regional information is also presented to the CODM but it is not primarily used to review the Group's performance and to make decisions as how to allocate resources.

The "Product" segment is primarily engaged in marketing and licensing the Group's software solutions, including software development fees for requested functionality, and the "Services" segment represents various implementation services such as consulting and training.

The Group's Chief Executive Officer assesses the performance of the operating segments based on the operating result. This measure reflects operating expenses that are directly or reasonably attributable to the reporting segments. Unallocated costs mainly comprise of restructuring costs, share-based payment expenses, depreciation and amortisation, offices-related expenses, net finance costs and any other corporate expenses that cannot be directly attributable to the operating segments.

The "Product" and "Services" segments derive their revenue primarily from the licensing and maintenance of the Group's software solutions and from providing a wide range of supporting activities relating to the implementation of the Group's products, respectively.

10 Segment information (continued)

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

	Product		Services		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
External revenues	146,273	165,118	59,718	60,465	205,991	225,583
Operating profit/(loss)	51,470	39,189	(6,023)	(4,810)	45,447	34,379

Intersegment transactions are treated as cost reductions rather than internal revenues. They are charged based on internal cost rates that excludes any profit margin. There are no differences from the last annual financial statements with regards to the basis of segmentation or to the basis of measurement of segment profit or loss.

In the first half of 2012, there were no significant change in the assets reported to the CODM from the amount disclosed in the consolidated financial statements for the year ended 31 December 2011.

RECONCILIATION TO THE GROUP'S INCOME STATEMENT	**30 June 2012**	**30 June 2011**
Total operating profit for reportable segments	45,447	34,379
Depreciation and amortisation	(23,953)	(24,299)
Unallocated operating expenses	(19,916)	(36,749)
Finance costs - net	(6,961)	(5,109)
Loss before taxation	(5,383)	(31,778)

11 Post balance sheet events

On September 2012, the Group announced that it has signed a definitive agreement to acquire 100% of the share capital of Edge IPK, a UK provider of User Experience Platform (UXP) software to the financial services industry. The Group expects to close the transaction at the beginning of October 2012. The acquisition will enable the Group to compete more effectively in the financial services front application market.