INTERIM REPORT
2014

SUCCEEDING THROUGH THE DIGITAL REVOLUTION

TEMENOS
The Banking Software Company

About us
At a glance

Founded in 1993, Temenos is the market leading provider of mission critical software to financial institutions globally with more than 1,600 installations in over 150 countries worldwide. Temenos software provides financial institutions with a single, real-time view across the enterprise, enabling them to maximise returns while streamlining costs.

Our vision is to provide the software solution of choice for the transformation of the financial services industry – for all providers, everywhere.

Our mission statement is to extend our product leadership supported by both a professional services group and a strong partner ecosystem, delivering success for our customers, consistent, profitable growth for our company and providing a great place for our employees to realise their ambitions.

Temenos' products provide advanced technology and rich functionality, incorporating best practice processes that leverage Temenos' expertise around the globe. Temenos customers are proven to be more profitable than their peers: in the period 2008-2012, Temenos customers enjoyed on average a 32% higher return on assets, a 42% higher return on equity and an 8.1 percentage point lower cost/income ratio than banks running legacy applications.

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THE NEW
TEMENOS WEBSITE

Temenos has launched its brand new website. For the most up-to-date Investor Information and Press Releases, please refer to our website.

www.temenos.com

Consolidated statement of profit or loss (condensed)
for the six months ended 30 June

Unaudited

	2014 USD 000	2013 USD 000
Revenues		
Software licensing	**60,262**	52,133
Software-as-a-Service	**3,768**	1,643
Total software licensing	**64,030**	53,776
Maintenance	**109,519**	103,420
Services	**48,286**	56,423
Total revenues (note 9)	**221,835**	213,619
Operating expenses		
Cost of sales	**56,916**	68,077
Sales and marketing	**44,645**	43,034
General and administrative	**32,605**	29,808
Other operating expenses	**50,325**	50,066
Total operating expenses	**184,491**	190,985
Operating profit	**37,344**	22,634
Finance costs – net	**(5,787)**	(5,303)
Profit before taxation	**31,557**	17,331
Taxation (note 3)	**(5,517)**	(5,182)
Profit for the period	**26,040**	12,149
Attributable to:		
Equity holders of the Company	**26,040**	12,149
Earnings per share (in USD) (note 10):		
basic	**0.38**	0.18
diluted	**0.37**	0.17

Notes on pages 6 to 12 are an integral part of these interim consolidated financial statements.

Consolidated statement of comprehensive income (condensed)
for the six months ended 30 June

Unaudited

	2014 USD 000	2013 USD 000
Profit for the period	**26,040**	12,149
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Remeasurements of post employment benefit obligations	**5**	–
	5	–
Items that are or may be subsequently reclassified to profit or loss		
Available-for-sale financial assets	**193**	–
Cash flow hedge	**3,922**	(3,023)
Currency translation difference	**355**	(9,815)
	4,470	(12,838)
Other comprehensive income for the period, net of tax	**4,475**	(12,838)
Total comprehensive income for the period	**30,515**	(689)
Attributable to:		
Equity holders of the Company	**30,515**	(689)

Notes on pages 6 to 12 are an integral part of these interim consolidated financial statements.

Consolidated statement of financial position (condensed)

Unaudited

	30 June 2014 USD 000	Re-presented* 31 December 2013 USD 000
Assets		
Current assets		
Cash and cash equivalents	**195,337**	115,649
Trade and other receivables	**257,428**	254,353
Other financial assets	**2,972**	2,444
Total current assets	**455,737**	372,446
Non-current assets		
Property, plant and equipment (note 12)	**13,720**	12,945
Intangible assets (note 12)	**472,409**	473,946
Trade and other receivables	**24,303**	27,454
Other financial assets	**7,959**	6,688
Deferred tax asset	**21,859**	24,817
Total non-current assets	**540,250**	545,850
Total assets	**995,987**	918,296
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables	**92,633**	94,857
Other financial liabilities	**1,745**	3,784
Deferred revenues	**153,383**	171,830
Income taxes payable	**8,318**	13,903
Borrowings (note 13)	**13,670**	11,598
Provisions for other liabilities and charges	**928**	2,244
Total current liabilities	**270,677**	298,216
Non-current liabilities		
Other financial liabilities	**–**	72
Income tax liabilities	**1,844**	1,848
Borrowings (note 13)	**302,882**	201,487
Provisions for other liabilities and charges	**1,466**	1,661
Deferred tax liabilities	**1,902**	2,781
Retirement benefit obligations	**4,472**	4,063
Total non-current liabilities	**312,566**	211,912
Total liabilities	**583,243**	510,128
Shareholders' equity		
Share capital	**239,798**	239,798
Treasury shares	**(114,239)**	(131,775)
Share premium and capital reserves	**(436)**	16,442
Fair value and other reserves	**(54,755)**	(59,225)
Retained earnings	**342,376**	342,928
Total equity	**412,744**	408,168
Total liabilities and equity	**995,987**	918,296

* Note 3

Notes on pages 6 to 12 are an integral part of these interim consolidated financial statements.

Consolidated statement of cash flows (condensed)
for the six months ended 30 June

Unaudited

	2014 USD 000	2013 USD 000
Cash used in operations	**41,927**	26,905
Income taxes paid	**(6,135)**	(4,125)
Net cash generated from operating activities	**35,792**	22,780
Cash flows from investing activities		
Purchase of property, plant and equipment, net of disposals	**(2,521)**	(1,300)
Purchase of intangible assets, net of disposals	**(2,056)**	(2,529)
Capitalised development costs (note 12)	**(19,481)**	(19,324)
Acquisitions of subsidiaries, net of cash acquired	**–**	(12,225)
Disposal of subsidiary or business, net of cash disposed	**31**	–
Settlement of financial instruments	**306**	(718)
Interest received	**66**	95
Net cash used in investing activities	**(23,655)**	(36,001)
Cash flows from financing activities		
Acquisition of treasury shares	**(5,211)**	(9,115)
Repayments net proceeds from borrowings (note 13)	**(10,018)**	(103,601)
Proceeds from issuance of bond (note 13)	**112,338**	104,281
Interest payments	**(1,035)**	(2,408)
Dividend paid	**(26,597)**	(20,377)
Payment of other financing costs	**(1,095)**	(4,311)
Payment of finance lease liabilities (note 13)	**(86)**	(178)
Net cash generated from/(used in) financing activities	**68,296**	(35,709)
Effect of exchange rate changes	**(745)**	(1,507)
Net increase/(decrease) in cash and cash equivalents in the period	**79,688**	(50,437)
Cash and cash equivalents at the beginning of the period	**115,649**	117,734
Cash and cash equivalents at the end of the period	**195,337**	67,297

Notes on pages 6 to 12 are an integral part of these interim consolidated financial statements.

Consolidated statement of changes in equity (condensed)

Unaudited

	Share capital USD 000	Treasury shares USD 000	Share premium and capital reserves USD 000	Fair value and other reserves USD 000	Retained earnings USD 000	Total USD 000
Balance at 1 January 2013	**239,798**	**(105,264)**	**20,398**	**(64,941)**	**297,785**	**387,776**
Profit for the period	–	–	–	–	12,149	12,149
Other comprehensive income for the period, net of tax	–	–	–	(12,838)	–	(12,838)
Total comprehensive income for the period	–	–	–	(12,838)	12,149	(689)
Dividend paid	–	–	–	–	(20,377)	(20,377)
Cost of share options	–	–	6,718	–	–	6,718
Share issued in relation to acquisition	–	15,559	(6,286)	–	–	9,273
Exercise of share options	–	4,898	(4,901)	–	–	(3)
Acquisition of treasury shares	–	(12,513)	–	–	–	(12,513)
Share issuance costs	–	–	(48)	–	–	(48)
	–	7,944	(4,517)	(12,838)	(8,228)	(17,639)
Balance at 30 June 2013	**239,798**	**(97,320)**	**15,881**	**(77,779)**	**289,557**	**370,137**
Balance at 1 January 2014	**239,798**	**(131,775)**	**16,442**	**(59,225)**	**342,928**	**408,168**
Profit for the period	–	–	–	–	26,040	26,040
Other comprehensive income for the period, net of tax	–	–	–	4,475	–	4,475
Total comprehensive income for the period	–	–	–	4,475	26,040	30,515
Dividend paid	–	–	–	–	(26,597)	(26,597)
Cost of share options	–	–	8,126	–	–	8,126
Exercise of share options	–	24,969	(24,969)	–	–	–
Acquisition of treasury shares	–	(7,433)	–	–	–	(7,433)
Share issuance costs	–	–	(35)	–	–	(35)
	–	17,536	(16,878)	4,475	(557)	4,576
Balance at 30 June 2014	**239,798**	**(114,239)**	**(436)**	**(54,750)**	**342,371**	**412,744**

Notes on pages 6 to 12 are an integral part of these interim consolidated financial statements.

Notes to the consolidated interim financial statements
for the period ended 30 June 2014

Unaudited

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, marketing and sale 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 2014 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 consolidated financial statements for the year ended 31 December 2013 which have been prepared in accordance with IFRS's.

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 2013.

Standards, amendments and interpretations effective as of 1 January 2014 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 2014 which were adopted by the Group:

- IFRS 10 (amendment) 'Consolidated financial statements',
- IFRS 12 (amendment) 'Disclosure of interests in other entities',
- IAS 27 (amendment) 'Separate financial statement',
- IAS 39 (amendment) 'Financial instruments; Recognition and measurement',

The adoption of these amendments had no impact on the Group's consolidated interim financial statements.

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

The tax charge for the period ended 30 June 2014 consisted of tax on profits, withholding tax and deferred tax movements due to the reversal of timing differences.

Comparative information
Where necessary comparative information has been re-presented to reflect the finalisation of the initial accounting of TriNovus Capital LLC.

4. Seasonality of operations

The Group is not significantly influenced by seasonal or cyclical fluctuations although software licensing revenue, profit and cash collection have historically tended to be stronger in the second half of the year and specifically the final quarter.

5. 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 reporting date.

In the first half of 2014, the Group has not suffered from any significant financial risks. The market risk, credit risk and liquidity risk reported in the consolidated financial statements for the year ended 31 December 2013 remain the same.

6. Estimates

The preparation of these consolidated 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 consolidated 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 2013.

7. Fair value measurement

The following table provides the level of the fair value hierarchy within which the carrying amounts of the financial assets and liabilities measured at fair value are categorised.

- Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs: Inputs for the asset or liability that are not based on observable market data.

Balance at 30 June 2014

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial assets at FVTPL				
Forward foreign exchange contracts	**–**	**294**	**–**	**294**
Equity securities	**440**	**–**	**–**	**440**
Derivatives used for hedging				
Forward foreign exchange contracts	**–**	**3,537**	**–**	**3,537**
Cross currency swap	**–**	**6,660**	**–**	**6,660**
Total	**440**	**10,491**	**–**	**10,931**

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial liabilities at FVTPL				
Forward foreign exchange contracts	**–**	**1,071**	**–**	**1,071**
Derivatives used for hedging				
Forward foreign exchange contracts	**–**	**674**	**–**	**674**
Total	**–**	**1,745**	**–**	**1,745**

Balance at 31 December 2013

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial assets at FVTPL				
Forward foreign exchange contracts	–	755	–	755
Equity securities	247	–	–	247
Derivatives used for hedging				
Forward foreign exchange contracts	–	1,885	–	1,885
Cross currency swap	–	6,245	–	6,245
Total	247	8,885	–	9,132

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial liabilities at FVTPL (re-presented)				
Forward foreign exchange contracts	–	810	–	810
Derivatives used for hedging				
Forward foreign exchange contracts	–	3,046	–	3,046
Total (re-presented)	–	3,856	–	3,856

There were no transfers between Level 1 and 2 during the period.

Notes to the consolidated interim financial statements
for the period ended 30 June 2014

Unaudited

7. Fair value measurement (continued)

Assets and liabilities in level 2

- Forward foreign exchange contracts: The fair value is based on forward exchange rate (provided by brokers) with the resulting value discounted using a free risk curve plus appropriate credit risk.
- Cross currency swap: The fair value is measured by discounting the contractual cash flows using observable curves for both currencies that reflect currency basis spreads and counterparty credit risk. The resulting value from the leg in foreign currency is translated using the spot exchange rate at the reporting date.

There were no changes in valuation techniques during the period.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period when the event or change in circumstances occurred.

The Group has elected to use the exception provided by paragraph 48 of IFRS 13 'Fair Value Measurement' to measure the credit risk element attributable to the Group's own credit risk (net short position) or the counterparty's credit risk (net long position) on a net basis for the financial assets and financial liabilities governed by a master netting agreement.

8. Business combination

TriNovus Capital LLC
The following tables summarise the financial effect of the finalisation of the initial accounting.

	2013 USD 000	2014 adjustment USD 000	Total USD 000
Purchase consideration:			
– Cash consideration	13,125	–	13,125
– Equity instruments (408,877 treasury shares)	9,273	–	9,273
– Contingent consideration	1,609	(1,609)	–
Total purchase consideration	24,007	(1,609)	22,398
Fair value of net assets acquired	6,563	(286)	6,277
Goodwill	17,444	(1,323)	16,121

Subsequent adjustments by category

	2013 USD 000	2014 adjustment USD 000	Total USD 000
Cash and cash equivalents	800	–	800
Trade and other receivables	1,688	(286)	1,402
Property, plant and equipment	881	–	881
Intangible assets	7,284	–	7,284
Trade and other payables	(1,748)	–	(1,748)
Deferred revenues	(2,193)	–	(2,193)
Borrowings	(149)	–	(149)
Total	6,563	(286)	6,277

As a result of subsequent information obtained during the measurement period, the contingent consideration initially recognised as a liability was reversed since it did not meet any longer the definition of contingent consideration as per IFRS 3 'Business Combinations'.

9. 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, licensing and maintaining the Group's software solutions, including software development fees for requested functionality, as well as providing hosting arrangements. 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 includes the 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 administrative or corporate overheads that cannot be directly attributable to the operating segments.

The table below summarises the primary information provided to the Group's Chief Executive Officer:

	Product		Services		Total	
	2014 USD 000	2013 USD 000	**2014 USD 000**	2013 USD 000	**2014 USD 000**	2013 USD 000
External revenues	**173,549**	157,196	**48,286**	56,423	**221,835**	213,619
Operating contribution	**71,830**	59,994	**2,981**	(629)	**74,811**	59,365

Intersegment transactions are recognised as part of the allocated expenses. They are based on internal cost rates that excludes any profit margin.

There have been no differences from the last annual consolidated financial statements with regards to the basis of segmentation or to the basis of measurement of segment profit or loss.

There has been no material change in the assets reported to the CODM from the amount disclosed in the consolidated financial statements for the year ended 31 December 2013.

Reconciliation to the Group's consolidated interim financial statements

	30 June 2014 USD 000	30 June 2013 USD 000
Total operating profit for reportable segments	**74,811**	59,365
Depreciation and amortisation	**(25,128)**	(22,496)
Unallocated operating expenses	**(12,339)**	(14,235)
Finance costs – net	**(5,787)**	(5,303)
Profit before taxation	**31,557**	17,331

Notes to the consolidated interim financial statements
for the period ended 30 June 2014

Unaudited

10. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

	2014	2013
Profit attributable to equity holders of the Company (USD 000)	**26,040**	12,149
Weighted average of ordinary shares outstanding during the period (in thousands)	**68,091**	69,373
Basic earnings per share (USD per share)	**0.38**	0.18

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. For the periods presented in these consolidated interim financial statements, the Group has only one category with a potential dilutive effect: "Share options".

For the period ended 30 June 2014 and 30 June 2013, this category was fully dilutive.

	2014	2013
Profit used to determine diluted earnings per share (USD 000)	**26,040**	12,149
Weighted average of ordinary shares outstanding during the period (in thousands)	**68,091**	69,373
Adjustments for:		
– Share options (in thousands)	**1,599**	879
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**69,690**	70,252
Diluted earnings per share (USD per share)	**0.37**	0.17

11. Financial instruments measured at amortised costs

The following table provides the fair value and the carrying amount of the Group's financial instruments measured at amortised cost; excluding cash and cash equivalents, current trade and other receivables, current trade and other payables and current borrowing as their carrying amounts represent a reasonable approximation of their fair values.

	30 June 2014		31 December 2013	
	Carrying amount USD 000	**Fair value USD 000**	Re-presented Carrying amount USD 000	Re-presented Fair value USD 000
Financial assets				
Non-current trade and other receivables	**24,303**	**23,839**	27,454	26,920
Total	**24,303**	**23,839**	27,454	26,920
Financial liabilities				
Non-current borrowings:				
Obligations under finance leases	**–**	**–**	30	30
Other loans	**102**	**100**	113	112
Unsecured bonds	**222,780**	**231,007**	111,344	116,552
Bank borrowings	**80,000**	**74,661**	90,000	84,451
Total	**302,882**	**305,768**	201,487	201,145

12. Property, plant and equipment and intangible assets

	Property, plant and equipment USD 000	Re-presented Intangible assets USD 000
Six months ended 30 June 2014		
Opening balance as at 1 January 2014 (USD 000)	12,945	473,946
Additions	2,995	2,061
Disposals & impairment	(192)	–
Capitalised development costs	–	19,481
Charge for the period	(2,209)	(22,919)
Foreign currency exchange differences	181	(160)
Closing net book amount as at 30 June 2014 (USD 000)	**13,720**	**472,409**

13. Borrowings

	30 June 2014 USD 000	31 December 2013 USD 000
Current		
Obligations under finance leases	**82**	136
Other loans	**56**	64
Unsecured bonds	**3,501**	1,371
Bank borrowings	**10,031**	10,027
Total current	**13,670**	11,598
Non-current		
Obligations under finance leases	**–**	30
Other loans	**102**	113
Unsecured bonds	**222,780**	111,344
Bank borrowings	**80,000**	90,000
Total non-current	**302,882**	201,487
Total borrowings	**316,552**	213,085

Movements in borrowings is analysed as follows:

Six months ended 30 June 2014	
Opening balance as at 1 January 2014 (USD 000)	213,085
Repayments net proceeds from borrowings	(10,104)
Proceeds from issuance of bond	112,338
Interest expense	2,304
Foreign currency exchange differences	(1,071)
Closing net book amount as at 30 June 2014 (USD 000)	**316,552**

In March 2014, the Group issued a senior unsecured bond with a nominal value of CHF 100 million and a coupon of 2% paid annually on 31 January. The bond will mature on 31 January 2019 at a redemption price of 100% of the principal amount.

Notes to the consolidated interim financial statements
for the period ended 30 June 2014

Unaudited

14. Share capital

As at 30 June 2014, 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.

The changes in the number of issued and outstanding shares for the period ended 30 June 2014 are summarised below:

	Number
Total number of shares issued, as at 1 January	72,023,148
Treasury shares	(4,334,421)
Total number of shares outstanding, as at 1 January	67,688,727
Movement in treasury shares	470,921
Total number of shares outstanding, as at 30 June 2014	68,159,648

As at 30 June 2014 the number of treasury shares held by the Group amounted to 3,863,500 (30 June 2013: 2,898,912), out of which 2,134,786 shares are to be cancelled in the 3rd quarter of the year (capital reduction approved at the 2014 Annual General Meeting of Shareholders).

Temenos Group AG also has conditional and authorised capital, comprising:

Authorised shares available until 24 May 2015	14,304,823
Conditional shares that may be issued on the exercise of employee share options	7,177,782
Conditional shares that may be issued in conjunction with financial instruments	6,607,904

15. Dividends

A dividend of CHF 23,871 thousand (CHF 0.35 per share) in respect of the year ended 31 December 2013 was paid during the period ended 30 June 2014.

16. Events occurring after the reporting period.

There are no reportable events that occurred after the reporting period.

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