# REAL-WORLD FINTECH

**INTERIM REPORT 2017**

TEMENOS

Welcome

# TEMENOS: THE SOFTWARE SPECIALIST FOR BANKING AND FINANCE

## Temenos provides mission critical software to 41 of the top 50 banking institutions in the world.

Headquartered in Geneva, Switzerland, the Company has 65 offices in 42 countries and had non-IFRS revenues of USD 635 million for the year ended 31 December 2016. Temenos has been a public company listed on the SIX Swiss Exchange (TEMN) since June 2001.

### OVERVIEW



### IFRS FINANCIAL STATEMENTS (UNAUDITED)



### WHO WE ARE

Founded in 1993, Temenos is the market-leading provider of mission critical software to financial institutions globally with more than 2,000 customers in 145 countries worldwide. Temenos partners with banks and other financial institutions to transform their businesses and stay ahead of a changing marketplace.

**4,600+**

Over 4,600 professionals

**145**

Serving clients in 145 countries

**2,000+**

Over 2,000 clients

**500m+**

Processing the daily transactions of more than 500 million banking customers

Financial and operating highlights

# Very strong growth and operational performance in H1 2017

### H1 2017 NON-IFRS FINANCIAL HIGHLIGHTS

Total software licensing growth of 19%.

Maintenance growth of 8%.

Total group revenue growth of 12%.

EBIT margin of 23.7%, up 2.2 percentage points.

EPS of USD 0.79, up 27%.

Cash flow of USD 81 million, up 31%.

LTM cash conversion of 117%, with DSOs down to 124 days.

Dividend of CHF 0.55 per share, totalling CHF 40 million, paid to shareholders.

### H1 2017 OPERATIONAL HIGHLIGHTS

Strong performance across all KPIs in H1 2017, driven by high levels of client activity and excellent sales execution.

Digital and regulatory pressures on banks continue to drive market growth.

Extended market leadership position across Retail, Wealth and Corporate, as recognised by leading independent industry analysts.

Tier 1 and 2 clients contributed 57% of total software licensing H1 2017, compared to 48% in the prior year.

53 implementation go-lives in the first half of 2017.

Completed acquistion of Rubik bringing presence and scale in the attractive Australian market.

Strength of H1 activity, increased revenue visibility and strength of pipeline give confidence for second half of 2017.

For the most up-to-date Investor Information and Press Releases, please refer to our website.

**www.temenos.com**

# H1 2017 non-IFRS highlights

### TOTAL SOFTWARE LICENSING

+19%

| | |
|---|---|
| **H1 2017** | **USD 118.2m** |
| H1 2016 | USD 99.6m |

### MAINTENANCE REVENUE

+8%

| | |
|---|---|
| **H1 2017** | **USD 131.7m** |
| H1 2016 | USD 121.8m |

### TOTAL GROUP REVENUE

+12%

| | |
|---|---|
| **H1 2017** | **USD 317.4m** |
| H1 2016 | USD 283.2m |

### EBIT MARGIN

23.7%

| | |
|---|---|
| **H1 2017** | **23.7%** |
| H1 2016 | 21.5% |

### EARNINGS PER SHARE

+27%

| | |
|---|---|
| **H1 2017** | **USD 0.79** |
| H1 2016 | USD 0.62 |

### LTM CASH CONVERSION

117%

| | |
|---|---|
| **H1 2017** | **117%** |
| H1 2016 | 130% |

Our investment case

# WHY WE WIN

Our products are open, integrated, componentised and upgradeable, supported by a dedicated professional services organisation and a strong Partner ecosystem.

## SPECIALIST

Temenos only creates software for banking and finance. And we've been doing it for more than 20 years. This makes us true specialists with deep domain knowledge and razor-sharp focus. We place our clients at the core of what we do. Everything starts and ends with our clients' goals – we can't meet our goals without meeting theirs.

Over 2,000 firms across the globe, including 41 of the top 50 banks, rely on Temenos to process the daily transactions of more than 500 million banking customers.

## UNRIVALLED CUSTOMER SUCCESS

We make packaged and upgradeable software. We spend c.20% of our revenues annually on R&D. As such, our software gets functionally richer and more technologically advanced with every new release.

Temenos customers significantly outperform their peers. Over a seven year period, Temenos clients enjoyed on average a 31% higher return on assets, a 36% higher return on equity and an 8.6 percentage points lower cost to income ratio than financial institutions running legacy software.

The benefits of using modern software are clear. Temenos customers are more agile, able to offer more personalised products and services, to operate at lower unit costs, to react quicker to market opportunities and to manage risk better.

## UNIQUE BUSINESS MODEL

Our success has proven that packaged software with the highest levels of flexibility can meet the exacting requirements of the world's largest financial institutions, without source code modification.

With enhancements rolled into an annual upgrade programme, banks can now focus on their true differentiators, whilst we focus on delivering best-in-class systems.

## MARKET LEADER

Temenos continues to be the leader in its market. In 2017 Temenos topped both the IBS Intelligence league table and the Forrester deals survey for sales of mission critical and digital software for the banking and finance industry, (see IBS Intelligence's 'Sales League Table 2017' for core banking systems and digital banking and channels systems, and Forrester's 'Global Banking Platform Deals Survey 2017').

## ECOSYSTEMS FOR GROWTH

We strongly believe in the importance of collaboration to achieve growth and the best customer outcomes.

This is evident in our large ecosystem of Partners. We partner with other firms to give our clients access to a large pool of system integration resources as well as choice over the technology platforms they run.

In addition, we open up our software to third parties to foster innovation. The Temenos MarketPlace is our digital store where clients can browse, discover, download and deploy an ever-growing range of apps. These apps are developed by MarketPlace providers using more than 11,000 APIs and business events that we make available to them.

## PEOPLE-POWERED

We pride ourselves on seeing things differently from everyone else. We embody a culture of openness and meritocracy that allows us to attract the best people and to set them free to make things happen.

This culture is at the root of the Company's pioneering record on innovation.

Temenos employs more than 4,600 people across 65 offices.

## INDUSTRY RECOGNITION

**Gartner**[1]

Recognised as a Leader for 8th consecutive year in 'Magic Quadrant for Global Retail Core Banking'.

**Forrester**[2]

Leader in Forrester Wave for digital banking engagement platforms and global banking platforms.
Classed "Global Power Seller" for new business for 11th consecutive year and "Top Global Player" for new and existing business deals for 5th consecutive year.

**Ovum**[3]

"Market Leader" in core banking and "Market Leader" in digital banking platforms.

**IBS Intelligence**[4]

Ranked best selling core banking system for the last five years and top two positions for the past 18 consecutive years.
Ranked best selling digital banking and channels system.

**Celent**[5]

Awarded "2016 XCelent Award" for advanced technology in digital channels and awarded "2017 XCelent Award" for breadth of functionality in wealth core banking.

**International Data Corporation**[6]

Recognised as a Leader in global core banking, European mobile banking and wealth management front and middle office.

**Banking Technology**[7]

Readers' Choice Award for "Best emerging/innovative technology product" for Temenos MarketPlace.

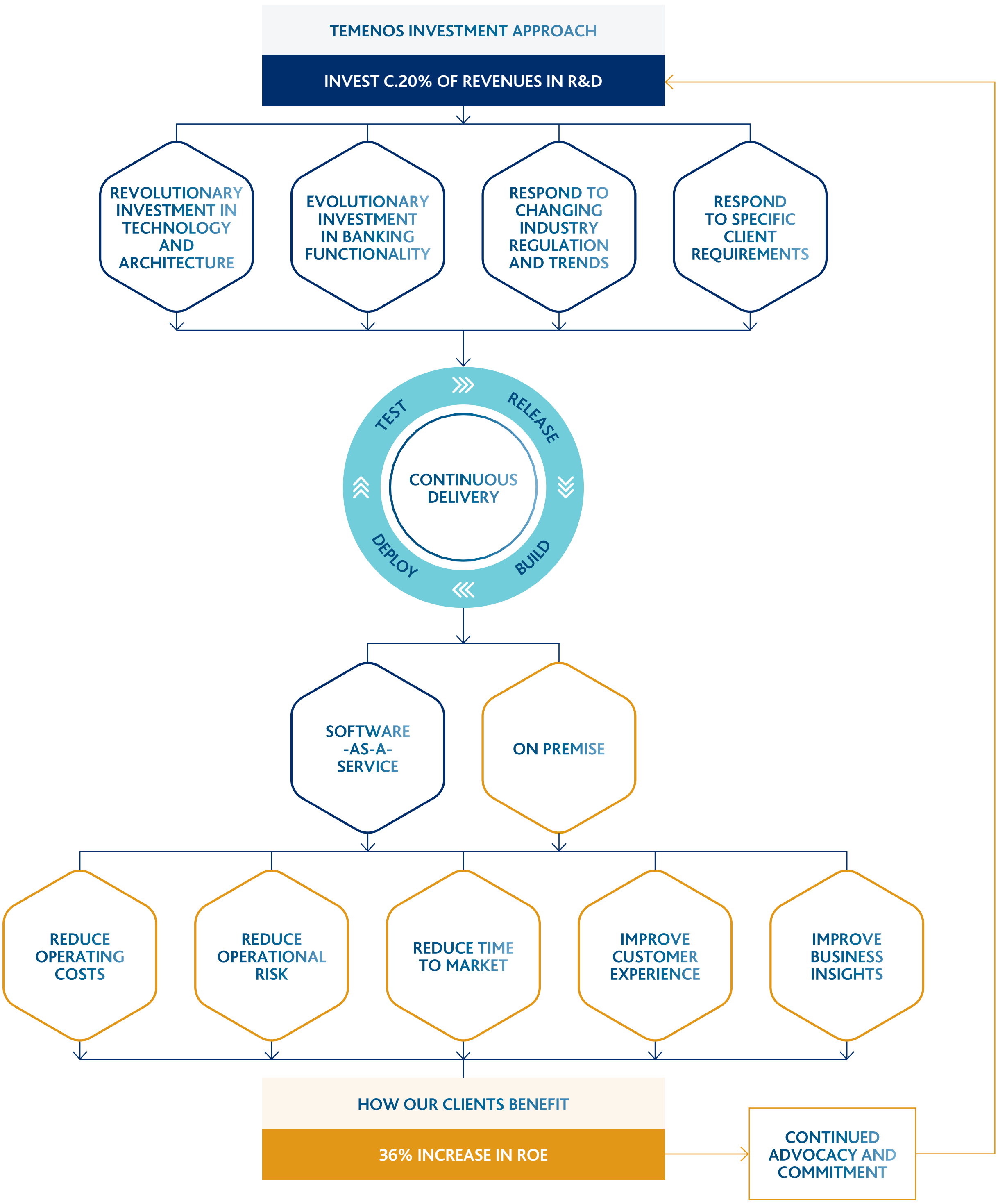
**FS Tech Awards**[8]

"Technology Provider of the Year 2017".

Research and Development

# THE VIRTUOUS CYCLE OF TEMENOS SOFTWARE INVESTMENT

The Temenos software investment approach is a virtuous cycle whereby Temenos' customers influence Temenos investment and thereby benefit from the improved product that contributes to their success. In turn, they advocate for our solutions enabling us to attract new clients, and invest further in the product, that is shared by all our clients.



Our offering

# WHAT MAKES US DIFFERENT

First and foremost, Temenos is a product Company. Our software provides financial institutions with a single, real-time view across the enterprise, enabling them to maximise returns while streamlining costs.

## Our vision

Every financial institution to run on packaged, upgradeable software, to create a better and more inclusive world of banking and finance.

## Our mission

Build real-time, integrated and open software for the banking and finance industry.

## Our values

**WE PLACE CLIENTS AT THE CORE OF WHAT WE DO**
Everything starts and ends with our clients' goals.

**WE SEE THINGS DIFFERENTLY FROM EVERYONE ELSE**
Average people see difficulties, exceptional people see opportunities.

**WE INSPIRE, THROUGH LIVING UP TO OUR FULL POTENTIAL**
We dream big and pursue our goals fearlessly.

**WE BELIEVE IN THE POWER OF PEOPLE**
People make things happen. People define our destiny.

Low-cost, highly automated, scalable systems

Rapid launch of personalised products across multiple channels, single view of customer, real-time customer intelligence

← Sustainably lower costs

← Economies of scale

→ Greater wallet share

→ Lower asset provisions

→ Market development

# Our solutions

We offer our clients a set of complete front-to-back, integrated banking and finance software solutions which provides them with the full package for their specific needs.

## SUITES

Our set of complete front-to-back, integrated banking and finance software solutions.

RetailSuite
WealthSuite
CorporateSuite
UniversalSuite
IslamicSuite
InclusiveBankingSuite
FundSuite

## PRODUCTS

Our product families span core banking through to channels, analytics and risk and compliance.

Analytics
Core Banking
Channels
Financial Crime
Front Office
Funds and Securities
Payments
Risk and Compliance
Solutions for the US market

## TECHNOLOGY

Our technology products and frameworks are organised into five offerings, reflecting five areas in which banks face major business challenges.

Data
Design
Integration
Interaction
Platform

# Overview of IFRS vs non-IFRS

| USDm, except EPS | Non-IFRS H1 2017 | Non-IFRS H1 2016 | Non-IFRS Change | IFRS H1 2017 | IFRS H1 2016 | IFRS Change |
|---|---|---|---|---|---|---|
| Software licensing | 89.4 | 74.7 | 29% | 89.4 | 74.7 | 20% |
| SaaS and subscription | 28.7 | 24.9 | 15% | 28.0 | 24.4 | 15% |
| **Total software licensing** | **118.2** | **99.6** | **19%** | **117.5** | **99.0** | **19%** |
| Maintenance | 131.7 | 121.8 | 8% | 131.8 | 121.8 | 8% |
| Services | 67.6 | 61.8 | 9% | 67.6 | 61.8 | 9% |
| **Total revenues** | **317.4** | **283.2** | **12%** | **316.8** | **282.7** | **12%** |
| | | | | | | |
| **EBIT** | **75.3** | **61.0** | **23%** | **53.4** | **41.4** | **29%** |
| EBIT margin | 23.7% | 21.5% | | 16.9% | 14.6% | |
| | | | | | | |
| **Diluted EPS (USD)** | **0.79** | **0.62** | **27%** | **0.52** | **0.38** | **37%** |

To ensure that the presentation of results reflects the underlying performance of the business, Temenos publishes its key metrics on a non-IFRS basis as well as on an IFRS basis. For transparency purposes, Temenos also publishes full reconciliations between IFRS and non-IFRS measures. Full definitions of non-IFRS adjustments can be found below.

## Non-IFRS adjustments:

**Deferred revenue adjustments**
Adjustments made resulting from acquisitions.

**Discontinued activities**
Discontinued operations at Temenos that do not qualify as such under IFRS.

**Acquisition related charges**
Relates mainly to advisory fees, integration costs and earn-outs.

**Amortisation of acquired intangibles**
Amortisation charges as a result of acquired intangible assets.

**Restructuring**
Costs incurred in connection with a restructuring plan implemented and controlled by management. Severance charges, for example, would only qualify under this expense category if incurred as part of a company-wide restructuring plan.

**Taxation**
Adjustments made to reflect the associated tax charge relating to the above items.

Reconciliation from IFRS EBIT to non-IFRS EBIT

| USDm | H1 2017 | H1 2016 |
|---|---|---|
| IFRS EBIT | **53.4** | 41.4 |
| Deferred revenue adjustments | 0.7 | 0.5 |
| Amortisation of acquired intangibles | 15.5 | 16.0 |
| Restructuring | 3.8 | 3.1 |
| Acquisition-related charges | 2.0 | 0.0 |
| Non-IFRS EBIT | **75.3** | 61.0 |

Readers are cautioned that the supplemental non-IFRS information presented is subject to inherent limitations. It is not based on any comprehensive set of accounting rules or principles and should not be considered as a substitute for IFRS measurements. Also, the Company's supplemental non-IFRS financial information may not be comparable to similarly titled non-IFRS measures used by other companies.

# IFRS FINANCIAL STATEMENTS

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

**Unaudited**

| | **2017 USD 000** | 2016 USD 000 |
|---|---|---|
| **Revenues** | | |
| Software licensing | **89,422** | 74,650 |
| SaaS and subscription | **28,075** | 24,385 |
| Total software licensing | **117,497** | 99,035 |
| Maintenance | **131,766** | 121,795 |
| Services | **67,514** | 61,843 |
| **Total revenues** | **316,777** | 282,673 |
| **Operating expenses** | | |
| Cost of sales | **99,436** | 97,677 |
| Sales and marketing | **55,452** | 45,937 |
| General and administrative | **39,933** | 38,672 |
| Other operating expenses | **68,550** | 59,018 |
| **Total operating expenses** | **263,371** | 241,304 |
| **Operating profit** | **53,406** | 41,369 |
| **Finance costs – net** | **(9,701)** | (10,135) |
| **Profit before taxation** | **43,705** | 31,234 |
| Taxation (note 3) | **(6,329)** | (4,151) |
| **Profit for the period** | **37,376** | 27,083 |
| Attributable to: | | |
| Equity holders of the Company | **37,376** | 27,083 |
| **Earnings per share (in USD):** (note 11) | | |
| basic | **0.53** | 0.40 |
| diluted | **0.52** | 0.38 |

Notes on pages 13 to 21 are an integral part of these interim consolidated financial statements.

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

**Unaudited**

| | **2017 USD 000** | 2016 USD 000 |
|---|---|---|
| **PROFIT FOR THE PERIOD** | **37,376** | 27,083 |
| **Other comprehensive income:** | | |
| **Items that will not be reclassified to profit or loss** | | |
| Remeasurements of post employment benefit obligations | **–** | – |
| | **–** | – |
| **Items that are or may be subsequently reclassified to profit or loss** | | |
| Available-for-sale financial assets | **(18)** | (31) |
| Cash flow hedge | **(1,235)** | (2,124) |
| Currency translation difference | **20,649** | (4,437) |
| | **19,396** | (6,592) |
| Other comprehensive income for the period, net of tax | **19,396** | (6,592) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **56,772** | 20,491 |
| Attributable to: | | |
| Equity holders of the Company | **56,772** | 20,491 |

Notes on pages 13 to 21 are an integral part of these interim consolidated financial statements.

# Consolidated statement of financial position (condensed)

**Unaudited**

| | **30 June 2017 USD 000** | 31 December 2016 USD 000 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | **252,911** | 194,340 |
| Trade and other receivables | **247,263** | 231,960 |
| Other financial assets (note 9) | **2,707** | 3,866 |
| **Total current assets** | **502,881** | 430,166 |
| **Non-current assets** | | |
| Property, plant and equipment (note 12) | **17,841** | 15,788 |
| Intangible assets (note 12) | **787,849** | 690,097 |
| Trade and other receivables | **11,136** | 16,296 |
| Other financial assets (note 9) | **173** | 154 |
| Deferred tax asset | **24,580** | 19,001 |
| **Total non-current assets** | **841,579** | 741,336 |
| **Total assets** | **1,344,460** | 1,171,502 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Trade and other payables | **108,090** | 103,329 |
| Other financial liabilities (note 9) | **3,354** | 10,062 |
| Deferred revenues | **212,256** | 216,251 |
| Income taxes payable | **31,277** | 28,992 |
| Borrowings (note 13) | **110,246** | 102,780 |
| Provisions for other liabilities and charges | **1,852** | 936 |
| **Total current liabilities** | **467,075** | 462,350 |
| **Non-current liabilities** | | |
| Trade and other payables | **–** | 1,542 |
| Other financial liabilities (note 9) | **15,577** | 11,563 |
| Income tax liabilities | **1,869** | 1,801 |
| Borrowings (note 13) | **442,633** | 269,182 |
| Provisions for other liabilities and charges | **177** | 132 |
| Deferred tax liabilities | **19,749** | 16,617 |
| Retirement benefit obligations | **9,862** | 9,176 |
| **Total non-current liabilities** | **489,867** | 310,013 |
| **Total liabilities** | **956,942** | 772,363 |
| **Shareholders' equity** | | |
| Share capital | **232,192** | 226,058 |
| Treasury shares | **(54,430)** | (66,487) |
| Share premium and capital reserves | **(201,327)** | (154,249) |
| Fair value and other reserves | **(111,772)** | (131,168) |
| Retained earnings | **522,855** | 524,985 |
| **Total equity** | **387,518** | 399,139 |
| **Total liabilities and equity** | **1,344,460** | 1,171,502 |

Notes on pages 13 to 21 are an integral part of these interim consolidated financial statements.

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

**Unaudited**

| | 2017 USD 000 | 2016 USD 000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Profit before taxation** | **43,705** | 31,234 |
| **Adjustments:** | | |
| Depreciation, amortisation and impairment of financial assets | **42,311** | 42,649 |
| Cost of share options | **9,386** | 7,073 |
| Foreign exchange loss/(gain) on non-operating activities | **3,788** | (1,650) |
| Interest expenses, net | **6,377** | 6,770 |
| Net (gain)/loss from financial instruments | **(1,746)** | 2,270 |
| Other finance costs | **1,921** | 1,993 |
| Other non-cash item | **(1,567)** | – |
| **Changes in:** | | |
| Trade and other receivables | **(2,588)** | 12,804 |
| Trade and other payables, provisions and retirement benefit obligations | **(6,320)** | (23,109) |
| Deferred revenues | **(14,612)** | (18,461) |
| **Cash generated from operations** | **80,655** | 61,573 |
| Income taxes paid | **(5,500)** | (3,012) |
| **Net cash generated from operating activities** | **75,155** | 58,561 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment, net of disposals | **(2,782)** | (1,771) |
| Purchase of intangible assets, net of disposals | **(2,810)** | (2,461) |
| Capitalised development costs (note 12) | **(23,062)** | (22,138) |
| Acquisitions of subsidiaries, net of cash acquired | **(51,818)** | (1,581) |
| Disposal of subsidiary or business, net of cash disposed | **–** | 489 |
| Settlement of financial instruments | **2,006** | (3,612) |
| Interest received | **1,063** | 38 |
| **Net cash used in investing activities** | **(77,403)** | (31,036) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Dividend paid (note 15) | **(39,506)** | (31,733) |
| Acquisition of treasury shares | **(38,127)** | – |
| Repayments of borrowings (note 13) | **(10,206)** | (79,439) |
| Proceeds from issuance of bond (note 13) | **148,781** | – |
| Interest payments | **(7,750)** | (8,146) |
| Payment of other financing costs | **(1,516)** | (5,189) |
| **Net cash generated from/(used in) financing activities** | **51,676** | (124,507) |
| Effect of exchange rate changes | **9,143** | 1,102 |
| **Net increase/(decrease) in cash and cash equivalents in the period** | **58,571** | (95,880) |
| **Cash and cash equivalents at the beginning of the period** | **194,340** | 193,252 |
| **Cash and cash equivalents at the end of the period** | **252,911** | 97,372 |

Notes on pages 13 to 21 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 2016** | **210,774** | **(19,686)** | **(148,516)** | **(110,084)** | **442,809** | **375,297** |
| Profit for the period | – | – | – | – | 27,083 | 27,083 |
| Other comprehensive income for the period, net of tax | – | – | – | (6,592) | – | (6,592) |
| Total comprehensive income for the period | – | – | – | (6,592) | 27,083 | 20,491 |
| Dividend paid | – | – | – | – | (31,733) | (31,733) |
| Cost of share options | – | – | 7,073 | – | – | 7,073 |
| Exercise of share options | 14,880 | 15,020 | (29,900) | – | – | – |
| Costs associated with equity transactions | – | – | (217) | – | – | (217) |
| | 14,880 | 15,020 | (23,044) | (6,592) | (4,650) | (4,386) |
| **Balance at 30 June 2016** | **225,654** | **(4,666)** | **(171,560)** | **(116,676)** | **438,159** | **370,911** |
| **Balance at 1 January 2017** | **226,058** | **(66,487)** | **(154,249)** | **(131,168)** | **524,985** | **399,139** |
| Profit for the period | – | – | – | – | 37,376 | 37,376 |
| Other comprehensive income for the period, net of tax | – | – | – | 19,396 | – | 19,396 |
| Total comprehensive income for the period | – | – | – | 19,396 | 37,376 | 56,772 |
| Dividend paid (note 15) | – | – | – | – | (39,506) | (39,506) |
| Cost of share options | – | – | 9,386 | – | – | 9,386 |
| Exercise of share options | 6,134 | 50,184 | (56,318) | – | – | – |
| Costs associated with equity transactions | – | | (146) | – | – | (146) |
| Acquisition of treasury shares | – | (38,127) | – | – | – | (38,127) |
| | 6,134 | 12,057 | (47,078) | 19,396 | (2,130) | (11,621) |
| **Balance at 30 June 2017** | **232,192** | **(54,430)** | **(201,327)** | **(111,772)** | **522,855** | **387,518** |

Notes on pages 13 to 21 are an integral part of these interim consolidated financial statements.

# Notes to the consolidated interim financial statements for the period ended 30 June 2017

**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. The registered office is located at 2 Rue de L'Ecole-de-Chimie, 1205 Geneva, Switzerland.

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 2017 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 2016 which have been prepared in accordance with the International Financial Reporting Standards (IFRS).

## 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 2016.

**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 2017 consisted of tax on profits and deferred tax movements due to the reversal of timing differences.

**New Standards, amendments and interpretations relevant to the Group's operation and adopted by the Group as at 1 January 2017**

- IAS 7 (amendment) 'Statement of Cash Flows'
- IAS 12 (amendment) 'Income Taxes'

The adoption of these amendments that became applicable for the financial reporting period commencing on 1 January 2017 had no significant effect on the Group's consolidated financial statements or on the Group's accounting policies.

**Updates on new Standards relevant to the Group's operation and not yet adopted by the Group**
On the 1 January, 2018, IFRS 15 'Revenue from Contracts with a Customer' will come in to effect. The new standard replaces the current IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. It establishes principles for recognising, measuring and reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Under IFRS 15, revenue from contracts with customers is recognised based on a five-steps model and the transaction price is allocated to each distinct performance obligation on the basis of the relative stand-alone selling prices. Revenue is no longer recognised upon the transfer of risks and rewards but when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. The standard also provides guidance on the treatment of any costs to obtain and/or fulfil a contract that may be recognised as assets.

The Group will adopt IFRS 15 with an effective date as of 1 January, 2018. The Group intends to apply the modified retrospective method and recognise the cumulative effect of the initial application of the standard as an adjustment to the opening balance of retained earnings on the effective date. We are currently in the process of finalising our future IFRS 15 revenue recognition policies.

The following differences have been noted between the current accounting standard and IFRS 15:

- Subscription software contracts are currently recognised rateably over the life of the contract. Following adoption of IFRS 15, the Group will separate out the revenue due under licensing performance obligations and the revenue due under maintenance service obligations. The revenue due under licensing performance obligations will be recognised at the point control of the software is given to the client. The revenue due under maintenance service obligations will be recognised rateably over the life of the contract. In effect, the total amount of revenue from subscription contracts will not change, only the pattern of recognition over the term of contract will be modified.
- Non-generic development fees are currently recognised on a percentage of completion basis as noted in our current policies. IFRS 15 requires that licensing revenue be recognised upon delivery of the software, with any costs incurred to fulfil the contract to be deferred until such milestone is reached. This may result in some deferral of revenue recognition.
- In certain circumstances IFRS 15 requires that the cost of acquiring a contract be capitalised. On certain contracts and commission plans this could lead to additional cost capitalisation.
- Under current accounting practise, the Group would consider all amounts in a contract that are contractually fixed when making the initial revenue recognition assessment. IFRS 15 requires the assessment of potential variable consideration from the outset, which could include such items as right of refund, credits, price concessions, performance bonuses and penalties. This may result in some deferral of revenue recognition.

Whilst the above items will result in changes to the classification and timings of the revenues, the Group does not expect a material impact at the net earnings level. The Group continues to assess any other impact the new standard might have on Group's consolidated financial statements.

Throughout the second half of 2017, the Group will finalise the implementation of all policy, systems and process changes required to report the new standard.

# Notes to the consolidated interim financial statements for the period ended 30 June 2017

**Unaudited**

IFRS 9 (standard) 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018. This new standard replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement' and introduces revised guidance on the classification, recognition, derecognition and measurement of financial assets and financial liabilities as well as a new expected credit losses model for calculating impairment on financial assets. It also introduces new rules for hedge accounting. For classification and measurement of financial assets and liabilities as well as the impairment principles, the Group will apply this standard retrospectively with the use of the expedient so that prior periods need not to be restated and the effect of the initial application will be recognised as an adjustment to the opening retained earnings of the annual period ending 31 December 2018. For hedge accounting, the Group will apply this standard prospectively.

The application of the new standard will have a limited impact on the classification and measurement of the Group's financial instruments and it is expected that the hedging relationships that would be existing at the date of initial application would be regarded as continuing hedging relationships.

With regards to the new impairment principles, the Group is analysing the impact of its application throughout the second half of 2017.

IFRS 16 (standard) 'Leases', effective for annual reporting periods beginning on or after 1 January 2019 with early adoption permitted. The Group is assessing the option to early adopt this standard for the financial reporting period commencing 1 January 2018. The Group intends to apply modified retrospective method with the cumulative effect of the initial application of the standard as an adjustment to the opening balance of retained earnings on the effective date. The Group plans to use the practical expedients offered by the standard (short term leases, low value leases and separation of non-lease component of a contract).

The Group has identified all the leases that are currently in use and majority of these leases are for office rentals. The application of new standard will result in an increase in non-current assets and borrowings on the Consolidated Statement of Financial Position, however the impact on net assets will not be material. On the Consolidated statement of profit or loss the Group does not anticipate a significant impact on net earnings however, there will be a reallocation of its current operating lease expense between operating profit and financing expenses.

## 4. Seasonality of operations

The Group's software licensing revenue, profit and cash collection tend to been stronger in the second half of the year and specifically the final quarter, therefore interim results are not necessarily indicative of results for the full year.

## 5. Significant events and transactions during the period

In April 2017, the Group issued a senior unsecured bond with a nominal value of CHF 150 million and a coupon of 1.75% paid annually on 5 April. The bond will mature on 5 April 2024 at a redemption price of 100% of the principal amount.

In May, 2017, the Group acquired 100% of the share capital of Rubik Financial Limited, a leading software provider to the Financial Services sector in Australia, for an acquisition price of A$70.6 million (USD 52.6 million). Please refer to note 7 " Business combination" for detailed information.

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

There have been no substantive changes in the Group's exposure to financial risks and the Group has not suffered from significant adverse effect. Nature of the risks as well as the Group's policies and objectives reported in the consolidated financial statements at 31 December 2016 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 2016.

## 7. Business combination

**Rubik Financial Limited**
On 22 May 2017, the Group acquired 100% of the share capital of Rubik Financial Limited based in Australia.

Founded in 2007, Rubik is an Australia based software company providing banking, wealth management and mortgage broking solutions, primarily in Australia and also internationally across Asia and the Middle East. Rubik has more than 150 employees servicing 930 direct clients.

The combination of Rubik and Temenos will create a leader in the Australian market, enabling Temenos to benefit from increased scale and to accelerate growth across its key target segments. The Australian market represents a significant opportunity for Temenos, with spending on banking software forecast to grow at an 8% CAGR in the medium term and with the 4th largest investment market globally driven by the superannuation scheme.

The goodwill arising from the acquisition is mainly attributable to the cross-selling opportunities with the acquired customer base and the expansion of the Group' presence into the Australian market.

The goodwill recognised is not tax deductible for income tax purposes.

**Fair value of the consideration transferred at acquisition date**

| | USD 000 |
|---|---|
| Cash consideration | 52,645 |
| **Total** | **52,645** |

**Fair value of the identifiable assets acquired and liabilities assumed**

| | Total USD 000 |
|---|---|
| Cash & cash equivalents | 827 |
| Trade and other receivables | 6,375 |
| Property, plant and equipment | 1,818 |
| Intangible assets | 34,038 |
| Deferred tax asset | 4,780 |
| Trade, other payables and provision | (9,112) |
| Deferred tax liabilities | (4,480) |
| Borrowings (note 13) | (11,618) |
| Deferred revenues | (2,418) |
| **Total** | **20,210** |
| Goodwill | **32,435** |
| Acquisition-related costs included in 'General and administrative' line in the statement of profit or loss | **1,288** |
| Consideration paid in cash | 52,645 |
| Cash and cash equivalents acquired | (827) |
| **Cash outflow on acquisition** | **51,818** |

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 acquire in the period between the date of acquisition and the reporting date are USD 3.2 million and USD 0.1 million profit, respectively. This information includes the amortisation of the acquired intangible assets and the fair value adjustment of the acquired deferred income liability with the related tax effect.

Had the acquisition occurred on 1 January 2017, the Group's consolidated statement of profit or loss would have reported a pro-forma revenue of USD 328 million and a pro-forma profit of USD 35.5 million. These amounts reflect the adjustment of the acquired deferred income liability and the amortisation of the acquired intangible assets with the related tax effect, assuming that the fair value adjustments applied from 1 January 2017.

The initial accounting has been provisionally completed at 30 June 2017. The Group is still evaluating the fair value of the net assets which includes acquired intangible assets.

# Notes to the consolidated interim financial statements for the period ended 30 June 2017

**Unaudited**

## 8. 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 to how to allocate resources. These two reporting segments are the Group's only operating segments, hence there is no segmental aggregation.

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 and subscription arrangements. The 'Services' segment represents various implementation tasks such as consulting and training.

The CODM assesses the performance of the operating segments based on the operating contribution. This measure includes the operating expenses that are directly or reasonably attributable to the reporting segments. Unallocated expenses mainly comprise of restructuring costs, termination benefits, acquisition-related costs, share-based payment expenses, offices-related expenses and any other administrative or corporate overheads that cannot be directly attributable to the operating segments. Segment revenues provided to the CODM exclude the fair value adjustment recognised on deferred income liability acquired in business combination and hence total revenues allocated to the two segments exceed the IFRS reported figures.

The table below summarises the primary information provided to the CODM:

| | Product | | Services | | Total | |
|---|---|---|---|---|---|---|
| | **Half-year 2017 USD 000** | Half-year 2016 USD 000 | **Half-year 2017 USD 000** | Half-year 2016 USD 000 | **Half-year 2017 USD 000** | Half-year 2016 USD 000 |
| External revenues | **249,900** | 221,360 | **67,515** | 61,843 | **317,415** | 283,203 |
| Operating contribution | **112,986** | 96,836 | **11,850** | 7,435 | **124,836** | 104,271 |

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 2016.

**Reconciliation to the Group's consolidated interim financial statements**

| | **Half-year 2017 USD 000** | Half-year 2016 USD 000 |
|---|---|---|
| Total operating profit for the reportable segments | **124,836** | 104,271 |
| Fair value adjustment on acquired deferred income liability | **(638)** | (530) |
| Depreciation and amortisation | **(38,835)** | (38,700) |
| Unallocated operating expenses | **(31,957)** | (23,672) |
| Finance costs – net | **(9,701)** | (10,135) |
| Profit before taxation | **43,705** | 31,234 |

## 9. 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 2017**

| | Level 1<br>USD 000 | Level 2<br>USD 000 | Level 3<br>USD 000 | Total<br>USD 000 |
|---|---|---|---|---|
| **Financial assets at FVTPL** | | | | |
| Forward foreign exchange contracts | **–** | **1,215** | **–** | **1,215** |
| **Derivatives used for hedging** | | | | |
| Forward foreign exchange contracts | **–** | **1,665** | **–** | **1,665** |
| **Total** | **–** | **2,880** | **–** | **2,880** |

| | Level 1<br>USD 000 | Level 2<br>USD 000 | Level 3<br>USD 000 | Total<br>USD 000 |
|---|---|---|---|---|
| **Financial liabilities at FVTPL** | | | | |
| Forward foreign exchange contracts | **–** | **739** | **–** | **739** |
| **Derivatives used for hedging** | | | | |
| Forward foreign exchange contracts | **–** | **2,057** | **–** | **2,057** |
| Cross currency swap | **–** | **16,135** | **–** | **16,135** |
| **Total** | **–** | **18,931** | **–** | **18,931** |

**Balance at 31 December 2016**

| | Level 1<br>USD 000 | Level 2<br>USD 000 | Level 3<br>USD 000 | Total<br>USD 000 |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| Forward foreign exchange contracts | – | 1,859 | – | 1,859 |
| Equity securities | 64 | – | – | 64 |
| **Derivatives used for hedging** | | | | |
| Forward foreign exchange contracts | – | 2,097 | – | 2,097 |
| **Total** | 64 | 3,956 | – | 4,020 |

| | Level 1<br>USD 000 | Level 2<br>USD 000 | Level 3<br>USD 000 | Total<br>USD 000 |
|---|---|---|---|---|
| **Financial liabilities at FVTPL** | | | | |
| Forward foreign exchange contracts | – | 943 | – | 943 |
| Contingent consideration | – | – | 1,542 | 1,542 |
| **Derivatives used for hedging** | | | | |
| Forward foreign exchange contracts | – | 2,363 | – | 2,363 |
| Cross currency swap | – | 18,319 | – | 18,319 |
| **Total** | – | 21,625 | 1,542 | 23,167 |

There were no changes in the first six months of the year in the valuation techniques used for financial instruments nor were there transfers between levels 1 and 2.

# Notes to the consolidated interim financial statements for the period ended 30 June 2017

**Unaudited**

**Assets and liabilities in level 2**
**Forward foreign exchange contracts:**
Discounting cash flow method. The expected future cash flows are based on forward exchange rate (provided by brokers) that is discounted over the contractual remaining period using a free-risk yield curve adjusted for credit risk.

**Cross currency swaps:**
Discounting cash flow method. The future cash flows are discounted using forward interest yield-curves attributable to each currency (including the currency basis spreads). The resulting fair value of the leg measured in foreign currency is translated using the spot exchange rate.

**Assets and liabilities in level 3**
**Contingent consideration:**
The Group reversed the last portion of the contingent consideration related to the acquisition of Akcelerant Software LLC for the period covering the financial year ending 31 December 2017 as the annual target under the terms of the Sale and Purchase agreement will not be achieved according to the latest Group's forecast.

**Reconciliation from the opening balances to the closing balances:**

| | USD |
|---|---|
| Balance at 1 January 2017 | 1,542 |
| Amount reversed within 'Cost of sales' | (1,598) |
| Earn out true-up to 'Cost of sales' | 31 |
| Unwinding of discount to 'Finance costs' | 25 |
| **Balance at 30 June 2017** | – |

## 10. 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 as their carrying amounts represent a reasonable approximation of their fair values.

| | **30 June 2017** | | 31 December 2016 | |
|---|---|---|---|---|
| | **Carrying amount USD 000** | **Fair value USD 000** | Carrying amount USD 000 | Fair value USD 000 |
| **Financial assets** | | | | |
| Non-current trade and other receivables | **11,136** | **10,815** | 16,296 | 15,864 |
| **Total** | **11,136** | **10,815** | 16,296 | 15,864 |
| | | | | |
| **Borrowings** | | | | |
| Other loans | **264** | **257** | 101 | 101 |
| Bank borrowings | **1,422** | **1,389** | – | – |
| Unsecured bonds | **551,193** | **561,031** | 371,861 | 373,320 |
| **Total** | **552,879** | **562,677** | 371,962 | 373,421 |

## 11. 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.

| | **Half-year 2017** | Half-year 2016 |
|---|---|---|
| Profit attributable to equity holders of the Company (USD 000) | **37,376** | 27,083 |
| Weighted average of ordinary shares outstanding during the period (in thousands) | **69,879** | 68,254 |
| Basic earnings per share (USD per share) | **0.53** | 0.40 |

**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 2017 and 30 June 2016, this category was fully dilutive.

| | **Half-year 2017** | Half-year 2016 |
|---|---|---|
| Profit used to determine diluted earnings per share (USD 000) | **37,376** | 27,083 |
| Weighted average of ordinary shares outstanding during the period (in thousands) | **69,879** | 68,254 |
| Adjustments for: | | |
| – Share options (in thousands) | **1,882** | 3,021 |
| Weighted average number of ordinary shares for diluted earnings per share (in thousands) | **71,761** | 71,275 |
| Diluted earnings per share (USD per share) | **0.52** | 0.38 |

## 12. Property, plant and equipment and intangible assets

| | Property, plant and equipment USD 000 | Intangible assets USD 000 |
|---|---|---|
| **Six months ended 30 June 2017** | | |
| **Opening balance as at 1 January 2017 (USD 000)** | 15,788 | 690,097 |
| Additions | 2,632 | 1,945 |
| Acquisition through business combination (note 7) | 1,818 | 66,473 |
| Capitalised development costs | – | 23,062 |
| Charge for the period | (3,037) | (35,798) |
| Foreign currency exchange differences | 640 | 42,070 |
| **Closing net book amount as at 30 June 2017 (USD 000)** | **17,841** | **787,849** |

# Notes to the consolidated interim financial statements for the period ended 30 June 2017

**Unaudited**

## 13. Borrowings

| | 30 June 2017 USD 000 | 31 December 2016 USD 000 |
|---|---|---|
| **Current** | | |
| Other loans | **106** | 33 |
| Unsecured bonds | **108,718** | 102,747 |
| Bank borrowings | **1,422** | – |
| **Total current** | **110,246** | 102,780 |
| **Non-current** | | |
| Other loans | **158** | 68 |
| Unsecured bonds | **442,475** | 269,114 |
| **Total non-current** | **442,633** | 269,182 |
| **Total borrowings** | **552,879** | 371,962 |

### Movements in borrowings is analysed as follows:

| | |
|---|---|
| **Six months ended 30 June 2017** | |
| **Opening balance as at 1 January 2017 (USD 000)** | 371,962 |
| Repayments from borrowings, net proceeds | (10,206) |
| Proceeds from issuance of bond (note 5) | 148,781 |
| Unsecured bond-coupon payments | (5,634) |
| Acquisition of business (note 7) | 11,618 |
| Interest expense | 5,048 |
| Foreign currency exchange differences | 31,310 |
| **Closing net book amount as at 30 June 2017 (USD 000)** | **552,879** |

**Bank facilities**

The Group maintains a multicurrency revolving credit facility with a pool of eight large financial institutions. The pertinent details of the facility available to the Group are as follows:

- Total commitment of USD 500 million.
- Interest at LIBOR plus variable margin, which is calculated by reference to certain financial covenants.
- The facility is repayable on 19 February 2021.
- Commitment fees are due on the undrawn portion.

This agreement is subject to financial covenants, which have been adhered to during the reporting periods.

As at 30 June 2017, a total of nil was drawn under this agreement.

## 14. Share capital

As at 30 June 2017, the issued shares of Temenos Group AG comprised 70,849,924 ordinary 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 2017 are summarised below:

| | Number |
|---|---|
| Total number of shares issued, as at 1 January 2017 | 69,621,124 |
| Treasury shares | (1,133,853) |
| Total number of shares outstanding, as at 1 January 2017 | 68,487,271 |
| Creation of new ordinary shares out of conditional capital for share-based payment transactions | 1,228,800 |
| Issuance of treasury shares for share-based payment transactions | 892,180 |
| Acquisition of treasury shares (share buy-back) | (426,125) |
| **Total number of shares outstanding, as at 30 June 2017** | **70,182,126** |

As at 30 June 2017 the number of treasury shares held by the Group amounted to 667,798 (31 December 2016: 1,133,853).

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

| | |
|---|---|
| Authorised shares available until 10 May 2019 | 13,900,000 |
| Conditional shares that may be issued on the exercise of share-based payment transactions | 2,945,426 |
| Conditional shares that may be issued in conjunction with financial instruments | 6,607,904 |

## 15. Dividend payment

A dividend of CHF 38.8 million (CHF 0.55 per share) in respect of the financial year ended 31 December 2016 was paid during the period.

## 16. Events occurring after the reporting period.

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

# Sources

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6 IDC – 'IDC MarketScape: Worldwide Core Banking Solutions 2015 Vendor Assessment', IDC, Karen Massey, Andrei Charniauski, Michael Araneta, Jerry Silva, January 2015, 'Worldwide Wealth Management Front-and Middle-Office Solutions 2014 Vendor Assessment, IDC, Thomas Zink, January 2015 and 'IDC MarketScape: European Mobile Banking Software Solutions 2017 Vendor Assessment', IDC, Lawrence Freeborn, May 2017.

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