FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning ladies and gentlemen and welcome to the Temenos Group quarter three 2008 results conference call. My name is Rachel and I will be your coordinator for today's conference. (Operator Instructions). I am now handing you over to Ben Robinson to begin today's conference.

Ben Robinson - *Temenos Group AG - IR Manager*

Thank you Operator. Hi everyone and thanks for joining us this morning to discuss Temenos' Q3 2008 results. With me on the call are Andreas Andreades, CEO, David Arnott, CFO, and Max Chuard, Director of Corporate Finance and Investor Relations. The presentation to accompany the results can be downloaded from our website. As usual, our prepared remarks will be followed by a Q&A session.

However, before I pass you over to the speakers, I would just like to draw your attention to the disclaimer statement on slide three of the presentation. Various factors may cause actual results to differ materially from Company estimates and, indeed, may cause Company estimates to change. Therefore undue reliance should not be placed on the forward-looking statements made during this call which reflect Company opinions only as of today.

I will now hand you over to David Arnott who will give an update on financial performance.

David Arnott - *Temenos Group AG - CFO*

Thank you Ben. If you all turn to slide five of the presentation, I'd like to start with a quick look at our Q3 financial highlights.

We grew licensing by 26% in the in the quarter, to $35m, giving further evidence we have not seen any weakness as a result of the credit crisis. Given that most Q3 business is signed in September and during this September we saw the collapse of Lehmans and a number of other financial institutions in the second half of the month, we were very pleased to have delivered so strongly in the third quarter. We've now got between 85% and 90% of our full year revenue outlook locked in.

Total revenues grew by 42% in the quarter. Due to our continued strong operating leverage and good cost control, EBIT for the quarter was $11.2m compared to $6.2m in Q3 last year, a 79% increase, up from 36% in the second quarter. So profit is still accelerating. Cash flow from operations was $10.7m for the quarter, compared to minus $6.4m in Q3 2007, a swing of $17m, reflecting our good project execution, shorter implementations and better payment terms.

Slide six shows the full P&L down to operating profit. All revenue lines show a continued strong growth both for the quarter and the last 12 months. And we continue to demonstrate good leverage and margin improvement, which in Q3 was 240 basis points, even in the quarter where we've purchased and hadn't yet taken out costs on two acquisitions. Following the two acquisitions we've done in this quarter, it's quite difficult to compare this reported third quarter with Q3 of last year. So I'm going to use the following slides to discuss the underlying performance on cost and revenues.

If you turn to slide seven, that shows our third quarter revenues adjusted both for acquisitions and the impact of exchange. On a like-for-like basis, our revenues have grown 29% in the quarter, up from 25% in Q2, so a continued acceleration. Revenue growth across all three lines was strong.

Licensing, the lead indicator line, grew 22% compared to 13% in Q2, so ahead of both our medium-term outlook rate, driven by our strong signings. This is especially good if you consider that it's -- the comparative is [108%] up on 2006. Strong service revenue growth reflects the impact of our strong signings in the last year.

Let's move to costs. Slide eight shows our success in controlling costs over the summer. When you strip out the impact of acquisitions and exchange, you can see that we've reduced costs by 3% in the quarter. Because we could see the global economy was becoming increasingly unpredictable, we decided to implement a hiring freeze already at the start of August.

You'll see in the appendices there's detailed slides for each of the four cost lines that split out foreign exchange, non-cash and acquisition numbers from the base and give you a lot of visibility into the underlying leverage line by line. We continue to control costs very tightly despite our strong Q3 licensing growth going into the fourth quarter and Andreas is going to elaborate on this in a minute.

Slide nine explains the below-the-line P&L items. Adjusted EPS is down 24% in the quarter and up 43% in the last 12 months. There's really three drivers for this and I'd like to go over each of them.

Firstly financing costs which you can see have increased sequentially now that we've drawn down on debt to fund our two acquisitions. Max will summarize the financial impact of these two acquisitions in a minute. But in summary, both are strongly accretive when all revenues and costs are taken into account, although clearly if you look just across the interest expense line alone there's an increase in financing costs.

The second item is ForEx. The dollar strengthened in the quarter against most other currencies which is excellent news for us as we're long dollar, as we have more costs in Europe, Asia and other non-dollar countries that are not fully covered by our dollar inflows. We've hedged around 60% of our 2009 exposure and these instruments have clearly lost value with the dollar appreciation. And this is resulting in a non-cash mark-to-market adjustment in the third quarter, combined with a balance sheet retranslation impact totaling $2.3m.

At this time last year the dollar was weakening so our instruments were increasing in value, giving a $4.7m gain in Q3 of last year. We've held off from hedging the remainder of our 2009 exposure, so the last 40%, and have not yet hedged at all 2010 to allow us to benefit from any continued strengthening in the dollar. If the dollar reverses, of course, we'll be locking in the remainder of our exposure. We estimate that the impact of the stronger dollar just at the end of September rates will improve 2009 operating profit by $5m compared to 2008 and we'll firm up this upside when we give our 2009 outlook in February.

The last item I briefly wanted to mention is tax, where once again we have a zero tax rate. And there's a slide in the appendices detailing our tax structure.

Slide 10 shows our DSOs in the quarter dropped to 167 days, in line with our trend towards achieving DSOs by the end of 2008 of between 157 and 162 days. We didn't see any impact of banks delaying payments in September as some others in the sector have been saying. On the contrary, through simple good execution of chasing invoices for payment we had an excellent cash flow quarter and expect this to continue into Q4.

Certainly October has already started strongly. The trend in DSOs remains firmly downwards, in line with our outlook statement, based on shorter projects and better payment terms. On average, deals signed in the first nine months of 2008 have more than 50% cash upfront and more than 30% on fixed dates which will drive further DSO reduction and also gives us visibility into cash flows of the last quarter of this year.

The majority of our Q4 cash collection comes from collecting annual maintenance bills and fixed-date invoices which further de-risk our Q4 cash collection. Therefore our full year outlook is unchanged from previous guidance.

Our second cash flow slide, slide 11, shows that our EBITDA conversion rebounded in the third quarter and we remain on target to achieve a 75% EBITDA conversion for the full year, which is in line with our run rate over the last three years. I'd like to point out that if you back out the $7m of acquired payables and the movement on mark-to-market instruments, the actual increase in payables is less than the growth in costs.

In the last 12 months expenses have grown by 42% and payables by 33% on an underlying basis, which means that we have in fact been paying our suppliers faster than a year ago. Creditor days are 124 days in September, compared to 134 days last September. Similarly for the quarter, if you look at the movement in payables excluding acquired AP, revaluating of instruments and non-cash OpEx accruals, creditor days are flat on June.

With outflows firmly in control through our reduced cost base, our full year EBITDA conversion will come from our usual Q4 cash collection which includes a significant annual maintenance component.

Slide 12 talks about our buyback. In 2008 we have takeover board approval to buy back in total $60m of shares and we have executed already 60% of this. This leaves us with the possibility to spend just over another $25m. And subject to normalization of credit markets we'd like to reconfirm that this is our intention. We're tracking three months dollar LIBOR as the lead indicator of easing credit markets.

The last slide talks about the balance sheet and available finance. At the end of 2007 we have $93m of cash on our balance sheet. During 2008 we will generate approximately $60m of free cash flow which we will return to shareholders. That will leave us with $93m of cash at the end of the year. We've drawn down $69.6m of debt to cover our two recent acquisitions, and still have $150m of additional facilities. This means that we have both debt and equity available for future acquisitions and we will review the suitability of each based on conditions at the time.

Just to highlight that our facility is with a wide syndicate of banks and has been reconfirmed this week. The margin grid and covenant basket of the facility which is irrevocable by the banks and in place until the end of 2012 are excellent. The syndicate of seven banks includes Deutsche, CSFB, RBS and Bank of Ireland as lead arrangers.

Note that included in reported debt on our balance sheet is our bond which has a coupon of 1.5%, so from a cash flow a perspective should be modeled differently from the rest of the debt included in the number.

That ends the financial update part of the presentation. So now I'd like to hand over to Max for an update on acquisitions.

Max Chuard - *Temenos Group AG - Director of Corporate Finance and IR*

Thank you David. First I would like to give you an update on the status of integration of the two acquisitions we did this year which are going to contribute on a pro forma basis of $50m of revenues in 2008, and this is on slide 15.

We acquired the banking assets of Informer Group on July 18. Integration process is largely completed. Clients and employees have been integrated into their respective operating areas. We are in a position to reiterate our expected contribution for 2009 which are for revenues of $20m, EBITDA of $6.5m, and adjusted EPS of $0.08.

The integration of Financial Objects is on track and will be completed during Q4. Since the acquisition on September 11 we met with most of the banking clients which have welcomed the transaction and expressed interest in T24. We now start to anticipate revenue synergies for 2009. We are in a position to reiterate our expected contribution for 2009 which are for revenues of $40m, EBITDA of $9.4m and adjusted EPS of $0.08.

On slide 16 we list our acquisition criteria which remain unchanged from previous communication. The acquisition pipelines continue to be strongly and the current market environment present interesting opportunities.

With this, I pass you over to Andreas for the operating strategy.

Andreas Andreades - *Temenos Group AG - CEO*

Thank you, Max. Good morning to all. Thanks for joining us this morning. I'd like to take you through the business update and strategies [and sales]. Start on slide 18, which gives some metrics of license sales.

As you can see, adding 13 new clients in the quarter means we are well ahead of last year. So far in '08 we have added 35 new name clients against 30 at the same stage last year. This is up 17% and it clearly demonstrates that the volume of activity remains high in the period despite everything that was happening in the credit markets, all of the uncertainty, especially in the last two weeks of the quarter.

Now, in particular we saw very strong growth in retail and investment banking which we believe will intensify as a trend as the need to secure more deposits will lead banks to invest in further retail banking. Please excuse me. Apologies.

Now, in terms of regional performance, we saw strong growth in all parts of the world. Even good growth in Europe, which for the nine months has grown by more than 20%. Clearly Middle East, Africa, Asia Pacific grew much faster, but this was anticipated.

Over on slide 19 you can see the proportion of T24 license revenue coming from tier 1 banks fell to 14% in the last 12 months from 32% in the corresponding period in 2007. However, as I said during the Q2 results, that to make our license number for this year we needed no mega-deals. And as I predicted, the shortfall in tier 1 deals has been more than compensated by an increase in the number of deals from smaller banks. Furthermore, because we have been able to take up per-user module pricing by something like 20% this year, our average deal size is practically unchanged on 2007.

Now, just to note that although tier 1 deals are bigger, higher profile and promise more opportunity for downstream revenue through up-selling, there are some benign consequences of the shift in favor of smaller banks. To start with, the first is cash flow. We can command a greater upfront payment percentage from smaller banks and if this trend is sustained, you should expect better cash conversion and an even faster improvement in DSOs. And the second is pricing, of course.

Now, I will give a quick update on growth drivers, and firstly on slide 20. I wanted to reiterate that even in the current environment, increasing sales distribution is still the most important driver. The acquisitions we completed over the summer in addition to the strong growth organically have taken our client base to well over 650 banks. But this is still small in the context of the 22,000 banks that exist globally. It is our intention to keep growing the sales force to continue to grow then our coverage and the aim is to reach 60 quota-carriers sales people by the end of the year.

In those countries where it would be too difficult or too slow or too costly for us to enter by ourselves, we continue to pursue more Metavante-type country deals. A recent example is Australia where we announced our partnership with Rubik Corporation two weeks ago that will deliver the software as a service to a large number of credit dealers.

Over on slide 21, in terms of the Metavante agreement, I'd like to give you the following update. Clearly the tier 1 market in -- clearly, like the tier 1 market in Europe, the market for our high-end subsidiary product is experiencing difficulties in the United States and the regional banking market is tough. That said, we were able to announce our first direct T24 client win earlier this month at EverBank, and we continue to expect further deals for both TCB and T24 this year.

I will come back to this later, but EverBank is not unique. It needed a new system in its wealth market division because its old system simply could not cope with the demands being placed on it by the growth. There are many such banks in a similar position even in this market.

Over on slide 22 I'd like to talk briefly about ARC, which is our front-office product and which is a key growth initiative for us. 52 clients have now acquired ARC, 10 in Q3. We are really very excited by the progress we are making. Take-up among T24 clients has always been strong, but I'm pleased to report that adoptions by the installed base is picking up strongly. And in fact, in the last 12 months, more than half of ARC sales have been to existing T24 customers. Penetration rates are still low, they are around 2%, so there is still a long way to go.

In terms of licensing contribution, ARC is now about 5% of last 12 months' T24 licenses, with a deal size of about $200,000. And the license of that product is a key growth initiative for us. What is more is that that the average deal size will continue to grow, not just as the product gains more acceptance in the market, but also because customers are adopting more modules, especially on the CRM side of the business.

Now, slide 23 gives you an update on our service strategy. This was, services was again the fastest growing revenue line in Q3, up 48% year on year on a likefor like basis, 69% including acquisitions, thanks to initiatives like the Model Bank and Temenos Application Management which now comprises more than 350 people. We have reached a truly impressive scale, captured by the fact that we have at present 147 active projects. We reiterate the full year margin target and David has explained the mechanics I will not spend more time on it.

Not mentioned on the slide, but worth highlighting is the fact that we have appointed a new director to manage the partner program. We recognize the need to grow the partnering network in order to scale the organization. And his appointment is a vital first step and already we are seeing good levels of interest.

Slide 24 is one of two slides that we have added especially this quarter to demonstrate the resilience of the business in spite of the environment, and slide 24 actually confirms our strong visibility. The length of the sales cycle, which is pretty much unchanged in '08, means we are monitoring main deals after 12 months out, which is pretty unique in our industry. Our win rate which has traditionally been above 80% was actually above 85% in the quarter.

And lastly, the pipeline for the next 12 months is 35% higher than at the start of the year. And going into Q4 our level of pipeline cover, that's the cushion if you like, to our forecasted licensing number, is 18% higher than last year.

So, the key forward-looking sales metrics show no reason for us to change our outlook assumptions. Clearly the unknown is conversion rates in the future.

So what we have done on slide 25 is to show really the drivers behind this decision-making, and what we call the compelling event. What the graph shows by percent of deals is that the biggest drivers are existing clients taking new licenses. If a client exceeds the number of permitted users, for example, this license fee is unavoidable. Replacement of obsolete systems, quite simply the system can't cope with transaction volumes or whatever, this too is unavoidable. And cost reduction and, last, the growth.

If a bank wants to trade its way out of trouble then it has little choice but to invest in those parts of the business that are still performing well. And so we would argue that this spend is also unlikely to be severely curtailed. But the point to really emphasize here is that the drivers underpinning decisions in Q4 are almost identical and therefore there is no reason for us to anticipate materially different conversion rates.

And so moving on to slide 26, again, this is for 2008 outlook. This is our formal slide. We still anticipate our outlook for '08 is unchanged. We still anticipate 35% revenue growth and 42% growth in EBIT, which are the same numbers communicated post inclusion of Financial Objects and Informer as made in September of this year.

Now, I'd like to look a little bit further ahead on slide 27 and really explain a significant change in the way Temenos does business. The three acquisitions that Temenos has made in the last 18 months, together with the last five years of very rapid growth, has left the Company at the size and scale almost $0.5b of revenue on a pro forma basis for 2008, where we can start actually to raise margins. Put quite simply, we can now be confident that we can deliver industry-standard margins from now on with sustainable growth rates.

Or to put it another way, the profit equation has changed. Whereby before we relied on significant license growth to deliver margins, now we can deliver industry-standard margin without anticipating growth. In other words, until now we had to invest heavily before the year has even started to deliver the growth for the year, we're now able to deliver the growth for the year and then invest in parallel.

How can we be so confident in this statement? Well, the exercise of integrating two acquisitions and introducing efficiencies to drive out cost have made us aware of where there are duplicates or excess cost, and also room for better processes that are taking place offshore instead of onshore and in the right organization. This initiative has already been initiated and will be largely completed before the end of November 2008.

We are also taking our strategic initiatives on services like Model Bank and TAM to the next level, further challenging margins in '09 and relying less on experiments [on CapEx] to deliver our business, but also delivering a much more agile organization in terms of its ability to respond to demand changes.

Those initiatives, as well as the circa 4% expected growth areas, will leave us with a $20m lower cost base going into '09 compared with the pro forma cost base for '08.

Now, on slide 29 we re-evaluate the assumptions that we have previously given for 2009, revenue and margins, taken together with the accretion from acquisitions. Our assumption for '09 is around 40% EPS growth. This may well sound unrealistic now given the environment, but given that what we see in the business as of now, so higher pipeline cover, unchanged visibility, continued full conversions, we see no reason to change this. What is more, and yes the environment may well have become more uncertain, but as we illustrate on the next slide, that's number 30, given the change in our approach in more general market we will be confident with 40% levels of EPS growth, even in a more challenging environment.

This very bold statement reaffirms what I said earlier about scale and margin expansion ahead of investments. We show here on this slide an illustration of the kind of EBIT we could expect next year, even if we saw no license growth, thanks to the level of locked-in maintenance and the lower locked-in 2009 cost base.

Effectively, this is a defining moment for Temenos. Given no license growth, we would be delivering a margin of 26%. Clearly if there is stronger license growth we will invest in the business further and the margin is unlikely to be at this level. But from now on, our investors can expect margins that are materially higher than 2008. Just to mention that in the scenario of zero license growth, we would clearly be delivering much higher cash flow conversion than in 2008.

And now just to close to the loop, margin is not at the expense of growth but rather a function of the size we have become and our leadership position, capacity to price correctly and scale of the organization. Our assumptions, let me say, are not for zero license growth. This is just an illustration. And on slide 31 I set out some of the reasons that will permit us to continue to be optimistic about future licensing growth over the medium term.

And for us, this is clearly the big picture in our markets. There are certain challenges that banks are facing that are common to all of them, and they are indisputable. I list these as being higher credit cost, a slowdown in high margin business, more regulation, more scrutiny on size as the regulators are unlikely to let what are already huge institutions to become bigger and therefore riskier in the event of a crisis, lower IT budgets, uplifting percentage growth terms but may also be in absolute terms.

To my mind, these challenges only reinforce the structural case for product placement. All the reasons for replacing all the expensive to maintain inflexible systems will become that much more pressing as banks are obliged to cut costs to make profit, grow their retail business to secure funding and rationalize their IT spending. And so I think that prospects for the future are truly very exciting. Structural drivers are more relevant than ever and we will turn more of our growth into profit now that we have obtained greater scale and solidified our leadership position.

Now, with that, I'd like to open the call to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). The first question comes from the line of [Michael Studer] from Bellevue. Go ahead please.

Michael Studer - *Bank am Bellevue - Analyst*

Hi there. First of all, congratulations to Q3 figures. I just wanted to know your outlook on '09. What makes you so confident?

Can you give us some insight in your pipeline in the meaning of what kind of geographically -- in what geographics are the customers situated or potential customers? What size do they have? What is their main reason for choosing you? Just give us please some flavor on your confidentiality in your Q -- 2009 outlook. Thanks a lot.

Andreas Andreades - *Temenos Group AG - CEO*

Thanks Michael. As I said earlier, first of all, what gives us the confidence for '09 and the way things are is the level of pipeline activity at this point in time. The cover within the pipeline, we track this 12 months out. The cover compared to our forecast is increasing.

The geographical mix clearly is more skewed towards emerging markets even though Europe is quite strongly represented as well. We have a good mix of existing clients and new clients.

And the drivers are very similar to what we see today and we saw in Q3. They are technology drivers in terms of availability of software to do basic transaction processing. It is about cutting costs. It is about expanding the use of the products within banks and therefore having to pay additional licensing. It is about growth initiatives where banks feel that they need to be investing for growth.

So the drivers are quite similar to what we see today. We do not see any perceptual change in what is happening, and I think the pipeline compares to let's say Q3.

Michael Studer - *Bank am Bellevue - Analyst*

So you'd say the actual financial crisis banks are facing they are actually more acting quite proactively and so are working on IT projects. Is that what you see?

Andreas Andreades - *Temenos Group AG - CEO*

We don't see any change on our projects. I confirm we have not lost projects out of the recent if you like turmoil in the markets. So the projects are progressing, the sales campaigns are progressing. So for us it's business as usual.

Michael Studer - *Bank am Bellevue - Analyst*

Okay. Thanks.

Operator

Thank you. The next question comes from the line of Josep Bori from Deutsche Bank. Go ahead please.

Josep Bori - *Deutsche Bank - Analyst*

Hi, good morning guys. Thanks for taking my call. Let me ask you, the first question we have here is you've indicated in your prepared remarks that the pipeline for the fourth quarter has more cover than you had in the last year and also you've beat the numbers for the third quarter. However you are not raising the guidance for fiscal year '08. Is that just because you want to add some extra layer of conservativeness here, or maybe you're seeing some concerns around your customers in the same way as SAP saw in the third quarter, maybe financing issues etc.?

Andreas Andreades - *Temenos Group AG - CEO*

Could I answer with a question back? Does the market believe our current guidance?

Josep Bori - *Deutsche Bank - Analyst*

I'm sorry, could you say that again?

Andreas Andreades - *Temenos Group AG - CEO*

I'd like to answer with a question back to you, which is does the market believe our current guidance?

Josep Bori - *Deutsche Bank - Analyst*

I don't think the market believes it at this point. I think there is fear that license growth is going to be difficult to achieve. And I think that's why you're getting these type of questions.

Andreas Andreades - *Temenos Group AG - CEO*

So what would the basis be for an increase in our outlook in this point in time?

Josep Bori - *Deutsche Bank - Analyst*

Okay, I see your point. I see your point. Okay, very well.

Let me then ask you a second question here and then I'll pass over to somebody else. You indicated that on the buyback program you're probably going to wait a little bit to see whether the credit markets stabilize a little bit before continuing on the program. Does that apply as well to your acquisition strategy? Are you on a hold-on on that a little bit until you see that credit markets are recovering?

Andreas Andreades - *Temenos Group AG - CEO*

No actually, actually on the opposite. What we are seeing is that there are good acquisition opportunities in this market and in many ways our pausing on the buyback, pending if you like following the credit markets and the credit markets coming back, is our concern that we might not be able to do both to the extent that we would like to be doing both. If the current credit crunch lasts for a year or 18 months we'd like to be able to do the strategic projects which are clearly more accretive than buyback -- buyback stock. And that's why we are -- we've paused on that.

Josep Bori - *Deutsche Bank - Analyst*

Okay. Very well. Thank you very much.

Operator

Thank you. The next question comes from the line of Rajesh Bala from Credit Suisse. Go ahead please.

Rajesh Balasubramanian - *Credit Suisse - Analyst*

Hi. Thank you for taking my questions. This is on streamlining program, on cost reduction that you outline. First, would this involve any cost upfront? In the event of a deceleration, if you had to adjust the cost base, would it come at the cost of something?

And a couple of questions on Metavante. You've signed the first deal, the T24, when can we expect the first TCB deal?

And more importantly, the signing of the T24 deal in Q4, will this improve -- will this lead to improved cash collection and therefore better working capital in Q4? Thank you.

David Arnott - *Temenos Group AG - CFO*

Hi Rajesh. This is David. Let me take the first question on the cost restructuring. As Andreas has said, the majority of this exercise will take place in the next -- by the end of November. But -- and there is an impact on costs this year but we've been able to absorb that in our outlook.

Rajesh Balasubramanian - *Credit Suisse - Analyst*

Thank you.

Andreas Andreades - *Temenos Group AG - CEO*

I did confirm in my prepared remarks that we do expect (inaudible) anticipated from the US market for 2008 so I think that gives you the clarity that you are looking for.

Now the third question was regarding working capital in Q4. Could you repeat the last one?

Rajesh Balasubramanian - *Credit Suisse - Analyst*

Yes. Because of the Metavante deal -- Metavante deal gives you more cash upfront than possibly the other deals. So will this have a significant impact on cash collection in Q4?

David Arnott - *Temenos Group AG - CFO*

Not particularly. If you were wondering whether we were going to make the number through collecting a large chunk of cash from our upfront deal on Metavante that's definitely not the answer. Our cash number is our normal base business.

Rajesh Balasubramanian - *Credit Suisse - Analyst*

Fair enough.

David Arnott - *Temenos Group AG - CFO*

Probably not, no.

Rajesh Balasubramanian - *Credit Suisse - Analyst*

Okay. Perfect. Thank you. Thank you.

Operator

Thank you. The next question comes from the line of Rajeev Bahl from Piper Jaffray. Go ahead please.

Rajeev Bahl - *Piper Jaffray - Analyst*

Thanks. My question was around how you're thinking about the operating leverage in the business. I can assume you're going into next year with a fairly conservative set of planning assumptions but if conditions are better for example do you have R&D projects, areas that you'd like to invest in in sales and marketing where we might see costs increase? Or if we do see better than expected market conditions are you more likely to let that drop through to the operating profit line?

Andreas Andreades - *Temenos Group AG - CEO*

Okay, let me step back for a minute and explain what we are doing because it's a significant change to the way we've been doing things the past five years. We started in 2003 with a P&L with a revenue base of about $100m and margins of 8%. We knew we had to get scale and get it fast. We knew we had to get to a leadership position where we could price properly. So we went for aggressive growth and we went for investment ahead of that growth in a significant way, and when you think about it that was the only available strategy to Temenos at that point in time.

At the size we are today, at the $0.5b in revenues, what -- and we've really reached this size before people even blinked. Suddenly there is a $0.5b size company in front of them. We are able to achieve the service and R&D investment and investment in sales programs by delivering an industry standard margin without relying on licensing growth of 40% to 50% to deliver that incremental margin in a given period.

So in many ways we've flipped the model and what we are, what we are therefore saying is that we can deliver margins up to 22% next year in the event of a worst case scenario of zero licensing growth. But clearly our outlook remains for significant licensing growth and therefore we still intend to invest in the business. What is different to prior years is that we now do have the margin visibility to time the investments properly so that we can secure the margins while we also deliver growth for the future.

And the investment would continue today on the lines of what we've been doing. We need to be growing the sales organization. We are still a small company by comparison to the global market. We are still committed to R&D investment ahead of our peers. We are still committed to excellent support for the clients. So you'll see us investing all around.

Rajeev Bahl - *Piper Jaffray - Analyst*

Okay, thanks. And one quick follow-up. In terms of your base of maintenance revenue, how much of it is billed in US dollars relative to other currencies?

David Arnott - *Temenos Group AG - CFO*

It's a very good question. Around 75% to 80% of our maintenance, almost -- the vast majority of our maintenance was in dollars. What brings the average currency mix down is over the last couple of years we've been signing new business in euro and non-dollar currencies. Your total revenue mix is about 65% US. But on the maintenance alone the majority is in dollars which is, which is why I'm so happy that the dollar is starting to appreciate again.

Rajeev Bahl - *Piper Jaffray - Analyst*

Yes. Okay. Thank you.

Operator

Thank you. The next question comes from the line of Marc Rode from Mainfirst Bank. Go ahead please.

Marc Rode - *Mainfirst Bank - Analyst*

Yes thank you. I've got a couple for Andreas and maybe one for David. Can you say first on the '08, Q4 '08 target how many transactions you would expect or you would need to get to your license number and your full year number?

And as an aside to that, you said that 85%, 90% is locked in. I was just wanting to double-check whether that's an end of September or end of October type figure. That's the first one.

And then on the adjustments, going from reported to adjusted EPS, David, maybe you can talk us through what exactly and what the amounts were that you adjusted for in the quarter? Thanks.

Andreas Andreades - *Temenos Group AG - CEO*

Okay, I'll take the first one on Q4 deal activity. Clearly as I said before we do not expect mega deals in Q4. So we should assume same pricing dynamics, maybe a little bit better in Q4 than Q3. Typically a higher level of existing customer licensing and you'll get to the number of deals, which would be maybe around 15% compared -- higher than what we had one year ago. So that's the kind of activity for Q4.

Marc Rode - *Mainfirst Bank - Analyst*

Okay.

Andreas Andreades - *Temenos Group AG - CEO*

David?

David Arnott - *Temenos Group AG - CFO*

Okay. Let me take the second two questions. So the 85% to 90% locked in 2008 revenue visibility is an end of September position. So clearly it's increased since then. It's just to tie in with the quarterly reported numbers.

In terms of the adjustments to EPS there's two, just to be clear. To get down to the normal adjusted -- the normal diluted EPS, you have to decide whether the bond is debt or equity. It's equity and therefore -- I can run the math through with you offline -- but we add back the interest expense related to the bond and replace that with 7.3m shares. That gets you to diluted EPS.

Then to get to adjusted EPS, which is our key metric, we add back the amortization on acquired assets. So for example the two acquisitions we've done, a certain amount of the assets become intangibles like acquired maintenance stream, acquired services profit, and those get amortized over the life of those revenue streams. And we add that back to -- we make adjusted EPS a cash proxy. And the amount, it's in fact on the bottom of our Financial Objects press release, is $5.6m add back for this year's guidance. Does that help?

Marc Rode - *Mainfirst Bank - Analyst*

Yes, no, it helps of course. I was familiar with the arithmetic. I was just wondering what the specific numbers were for the quarter. That was really all.

And there was also some talk, when you talked about Financial Objects whether you were going to readjust for certain restructuring charges you talked to. I'm not sure if I remember that correctly, but there was at least some implication -- indications where that would be adjusted back or not. I'm not sure.

David Arnott - *Temenos Group AG - CFO*

I'm just trying to understand. Okay, there were some restructuring charges, you're right. We're taking costs out of the business as we talked about at the time of both acquisitions. To the extent that they've happened and they largely have, those have been absorbed within our numbers. We guided on EPS impact for this year and '09 in both cases and obviously the restructuring cost was absorbed in those guidance numbers.

Marc Rode - *Mainfirst Bank - Analyst*

Okay. I just notice -- I've got one additional point I wanted to ask you, David, if I may, which is on the ForEx charge. Again it's understood how it works in principle, but can you remind me or us of what the total value is of the underlying assets that we're talking about? The other one that was mark to market appreciated last year and written down this year, just to get a sense of the magnitude and maybe, by the way, address what sort of similar charge current FX assumed we should be putting in for Q4?

David Arnott - *Temenos Group AG - CFO*

Sorry, we were having a little chat there. Let me go back to the first part of your question. In fact the other add-back, you're absolutely right, is $1m of restructuring charge related to the acquisitions in this year's EPS outlook.

Marc Rode - *Mainfirst Bank - Analyst*

Okay. Yes, so that's (inaudible). Yes that's (inaudible).

David Arnott - *Temenos Group AG - CFO*

You're absolutely right. Could you repeat your FX question, sorry?

Marc Rode - *Mainfirst Bank - Analyst*

Yes, no, sure. Just the underlying asset, one is always talking about the change in the asset which comes into the P&L, but I was just wondering whether you could remind us what the total value is of what was written up last year and written down this year through the P&L. And maybe also comment by the way on whether we should be assuming, current FX assumed, a similar item for Q4?

David Arnott - *Temenos Group AG - CFO*

Okay. We have on our -- there's two types of -- there's two impacts if you like. One is a retranslation of our balance sheet. And we have net about EUR40m -- dollars worth of euros monetary assets which is largely net receivables which are getting retranslated through the base of the balance sheet.

In addition to that we have our 2008 and 2009 hedging program which in total is around $70m. And those are obviously, part of those are obviously being mark to mark -- mark to market. We've hedged 60% of next year's net structural mismatch and that's -- those are the instruments that have become less valuable. Obviously as the dollar appreciates the instruments we've got are more underwater. But clearly the remaining 40% of next year is full upside and going into 2010 it'll also be full upside.

So we said that consistent with the FX downside we've taken this year, there'll be -- there'll be at September closing rates a $5m operating profit upside as a result of it. I can help you with the math offline on the volume of hedges multiplied by the rates if you want to build a model, but the key point is that the dollar coming back is excellent news for us once our hedges are washed out.

Marc Rode - *Mainfirst Bank - Analyst*

No I guess that's understood. Okay, well thanks very much and obviously a good quarter.

David Arnott - *Temenos Group AG - CFO*

Thank you.

Operator

Thank you. The next question comes from the line of Raimo Lenschow from Merrill Lynch. Go ahead please.

Raimo Lenschow - *Merrill Lynch - Analyst*

Thank you, thanks for taking my question. Andreas, as you know, probably the whole market still thinks something is going to happen to you at some point. Can you maybe remind us of what happened last time around in 2001/2002 in terms of deals getting canceled?

Was that like SAP just saw at the last week of the quarter, deals that were very certain of signing just get pushed out? Or has banks spending behavior on core banking where you have a two-year sales cycle, is that slightly different so they let you know slightly more in advance that projects are pushed out? So at what point do you get a lot more confident -- well or should we get more confident on Q4 as well? Thanks.

Andreas Andreades - *Temenos Group AG - CEO*

Thank you, Raimo. Okay, first of all just a comment. The markets have been telling us that we don't understand it for five quarters now and clearly we've proven that we do. So just putting that aside, we've been operating in this environment now for four, five quarters as I said and we feel we've got a good understanding of where the business is going.

The question regarding 2001 and 2002, let me first explain a little bit that period then and put it in the context. First of all, from a Temenos perspective, Temenos was entirely different at that point in time. It was geographically restricted with 90% of its business in Europe. It was segment restricted with more than 80% of its business in wealth management. It was much smaller and without a clear leadership position and ability to price, with win ratios clearly lower than what they are today and with a sales organization which was at its infancy, so a very different, a very different set-up.

Now, let's go into actually what happened with respect to the market. In 2001 pretty much we had a complete freeze of the market around the September 11 event. Up until that point in time things were progressing reasonably well. There was some shortness around maybe Q1 or Q2 in the broader market, not within Temenos. But in Q3 around the event of September 11 pretty much the market stopped and given that September was the highest quarter in Q3 that caused sales in Q3 to be very low.

However, the market came back very, very quickly, and if you look at Q4 in 2001 as well as Q2 -- sorry, the full year 2002, in 2002 we actually grew signings by 26%. We were booking revenues very differently at the time, 100% of completion, and therefore you need to go into the published material in detail to appreciate what I'm saying, but signings actually grew by 26% in 2002. What we clearly as a company got wrong at the time was the cost side of the business in 2001 and did not adjust it appropriately.

So that is what has happened in 2001/2002. So putting it into context, it makes us feel confident and comfortable with what we're saying both for Q4 and 2009. Nobody's arguing that '09 is going to be difficult from a GDP perspective.

What we are arguing is that banks will continue and maybe they're more so trying to fix their businesses, get their funding base right and get sustainable growth out of servicing retail customers. Low margin business, transaction business, it's the only chance they have. The high margins in the credit is gone so we truly believe that the market will not necessarily be a bad market for Temenos.

Raimo Lenschow - *Merrill Lynch - Analyst*

Perfect, thank you. And pardon me, one more question. We see -- we saw the services margins coming up in Q3 as well, but we still require a little -- quite a bit of a jump in Q4 to make that 10% plus for the full year. Can you maybe talk us through, is there some more completion going on in the fourth quarter which gives you a higher revenue booking or is it really just a function of lower subcontracting? Thanks.

David Arnott - *Temenos Group AG - CFO*

Raimo, this is David. Let me take that one. There's really the two or three drivers to it which we've talked about. Significant reduction in externals, who on a per head basis are much more expensive. Then there's also the normal seasonality that we see every quarter gives us quite an up-tick. That's driven by a flurry of activity around large projects going live towards the year end or hitting big milestones over the year end. They're really the two main drivers.

Raimo Lenschow - *Merrill Lynch - Analyst*

Perfect. Thank you very much.

David Arnott - *Temenos Group AG - CFO*

And so you're absolutely right, mathematically we need a 24% plus margin in the fourth quarter to get to the guidance but our internal forecasts definitely deliver that.

Raimo Lenschow - *Merrill Lynch - Analyst*

Perfect. Thanks and well done again.

David Arnott - *Temenos Group AG - CFO*

Thank you.

Operator

Thank you. The last question comes from the line of Takis Spiliopoulos from Vontobel Bank. Go ahead please.

Panagiotis Spiliopoulos - *Vontobel Bank - Analyst*

Yes. Just one question from my side. We have seen that -- if we look at the current customer landscape we have seen that some of your customers are in change of ownership situations, talking about a Fortis or a Dresdner Bank. Does that in any way affect your business relationships? Maybe I don't know delayed projects or more business or less business or what is happening at those companies? Thanks.

Andreas Andreades - *Temenos Group AG - CEO*

Thank you Takis. I confirmed in my prepared remarks that the current -- the recent market developments have not impacted our relationships or projects. And that's a general statement applying across the business and clearly includes the ones you're referring.

So -- now, looking into the future, how we get affected, it could be two ways. For example in the Dresdner, Commerzbank situation actually both Commerzbank and Dresdner are clients of Temenos so we see that as an opportunity to be honest. In the case of Fortis and BNP, actually BNP is not a client of Temenos so it really depends on the circumstances.

Historically in the cases of a change in ownership Temenos has been on the net gain. In the sense that more of our clients have been on the acquisition side and have been able to take the contract with them if you like, either in new markets or in new geographies. So from a big strategy perspective that does not unduly concern us. In the short term let me just say that our contractual arrangements are surviving change of ownership events so for us it's business as usual today.

Panagiotis Spiliopoulos - *Vontobel Bank - Analyst*

Okay. Thanks.

Operator

Thank you. There are no further questions so I'll hand you over to your host to wrap up today's conference.

Ben Robinson - *Temenos Group AG - IR Manager*

Thank you everyone for participating in the call. We will speak to you again after the Q4 results. Thank you.

Operator

Thank you for attending today's conference. You may now replace your handsets.