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PRESENTATION

Operator

Welcome to the Temenos Group Quarter Three 2009 Results Conference Call. My name is Sara, and I will be your coordinator for today's conference. For the duration of the call, you will be on listen only. However, at the end of the call, you will have the opportunity to ask questions.

(Operator Instructions)

I'm now handing you over to Ben Robinson to begin today's conference.

Ben Robinson - *Temenos Group AG - Associate Director - IR & Business Strategy*

Thank you, Sara. Hi, everyone, and thank you for joining us this afternoon to discuss Temenos's Q3 2009 results. With me on the call are Andreas Andreades, CEO, David Arnott, CFO, and Max Chuard, Head of Corporate Finance and Investor Relations.

The presentation to accompany these results can be downloaded from the investor relations section of the website. As usual, our prepared remarks will be followed by a Q&A session. Before I hand you over to the speakers, I just need to make you aware of the legal disclaimer statement on slide two 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 the Company's opinions only as of today.

With that, I now hand you over to Andreas for the business update.

Andreas Andreades - *Temenos Group AG - CEO*

Thank you, Ben. Hi to everybody, and thank you for joining the call today. I would like to start by turning to slide five of the presentation and give you a short business update. We clearly had an outstanding quarter, with licensing growing by 6% like for like, bring the year-to-date growth to 3%.

Considering where the world was only nine months ago, we are very pleased with this performance. The changes we made in the business model resulted in lower costs for the fourth quarter in a row, and we now expect full-year cost structure will fall below previous outlook.

In the quarter, we saw a reduction in third-party sales due to sales mix, which, if you take into account when interpreting our net license performance, our quarterly performance on licensing actually becomes 16% growth, compared to one year ago. The combination of solid revenue and good cost control resulted in margins growing to above 20%, and EBITDA reaching a substantial 28%, approaching industry standards.

Moreover, we have now managed to change the quarter seasonality, with the first nine months of the year representing more that 50% of full-year profit, compared to 43% last year and 29% in 2007.

Finally, cash generation was also outstanding, trebling from last year and bringing the cash conversion for the last 12 months to 99%. That's of EBITDA. This is consistent with prior communications and even exceeding our forecast at this time in the year.

Now, over on slide six, I would like to remind all on the changes we made to our model, which have contributed to the success. We are developing a network of [digit] partners so that we grow our services business largely through those partners over the next few years. With both our products on a Java platform in an SOA world, we bring them closer today, utilizing our development factories more efficiently.

We mature an implementation model, with 70% of the effort done offshore and 30% onshore, bringing economies and efficiencies of scale, as well as margin improvement to our services business. Our Model Bank offering, which is designed to shorten implementations, is also maturing, now being the basis for all of our projects.

We are able to extract better payment terms, as we focus our offering to Model Bank and repeatable package projects and our geographic expansion matures. And we finally streamlined our processes, following a tremendous growth period from 2004 to 2008, and we are now able to gain economies of scale across our business, given our size.

In terms of sales, on slide seven, we give more details on our performance. We are now growing licenses across the board, both in new accounts and existing business. Our ARC and Insight products now regularly draw about 10% of total licensing and our tier one penetration is increasing very rapidly.

Year to date, we have grown in all the regions, with more strong growth in emerging markets, while our Misys replacement program accounted for 8% of last 12 months' licenses. We are winning pure retail deals, such as SinoPac, which we announced earlier in the quarter. All in all, we are well placed for the future, and while year-to-date conversion rates are still below crisis levels, they are materially above the levels experienced for the last Q4.

The pipeline continues to grow and this is such that when confidence improves, licensing will grow strongly in the future. We are in fact beginning to make strategic investments in our sales organization to deliver growth next year.

On slide eight, I want to give you a short update on services. You can see that our capacity remains intact, while we have taken margins up, even with lower revenues. In fact, we are completing a much larger number of projects than last year over the same period. This is a key measure of success in our business.

Over on slide nine, I'd like to say a few words on our partnership initiative. With respect to our strategic partnership with Cognizant, we've already started training and were are jointly pursuing a number of deals, which are in our pipeline.

The partner program is expanding, and we expect to conclude our second strategic partnership in the fourth quarter. Already, we are delivering a greater proportion of services through our partners than one year ago, and clearly more than we anticipated at the beginning of the year. On acquisitions, we remain highly active, looking at several different opportunities and the strong level of free cash generation in the business should enable us to fund those that we choose to pursue.

The criteria of our acquisitions remain the same, most notably that they must be accretive within the first 12 months. Now, with this, I'd like to pass over to David for a look at the numbers.

David Arnott - *Temenos Group AG - CFO*

Thank you, Andreas. If you turn now to slide 11, I'd like to start with a look at the third quarter financial highlights. Profit grew by 81% in the quarter and EPS by 162%. Reported licensing was lower than in the comparative, but, s Andreas has already pointed out, this is wholly because of Metavante and ForEx. T-24 licensing grew strongly in the quarter.

Overall, revenues were lower by 12% on a reported basis. If you turn to the next slide, what I've tried to do is to show the underlying business performance across our revenue lines by adjusting out Metavante, as well as foreign exchange and acquisitions, and you can see that on this basis all of the lines are performing very well.

Service revenues continue to decline year on year, following lower signings in Q4 2008, and, as you'll see in our press release, services margins reached 16% in the quarter. Maintenance grew by 10%, off of an increasingly strong base level. If we do not lose clients, maintenance therefore accumulates at 18% of our cumulative T-24 signings, give or take a small amount of ForEx movement.

Licensing is up 6%, which is a very good performance against a challenging comparative, because last year we didn't see a slowdown until mid Q4. In fact, as I'll discuss on the next slide, the underlying performance is more like 16%. The next slide shows the different revenue lines and operating profit and cash for the quarter in LTM.

I'm not going to go through the whole thing, but there's just a few things I'd like to highlight, which are the numbers I've circled here. Maintenance grows strongly, as we don't lose clients. All our contracts have CPI, and with the impact of acquisitions, maintenance has grown by 20% in the last 12 months and is now at $114 million.

We'll see their operating costs are down for the fourth quarter in a row. Cost declined sequentially due to lower cost of sales in the sales and marketing line, but also on the full quarterly impact of restructuring taken in Q2 around the convergence of TCB and T-24, as we continue to restructure our TCB business and move toward more offshore-based development work.

In fact, as Andreas has already explained, when you consider the third-party sales cost as a reduction in revenues, which is how we look at it internally, our third-party licensing revenues really increased by 16% in the quarter. You can see this through our sequentially lower sales and marketing costs.

EBIT continued to grow in the quarter, up 81% on last year, and 6% in the LTM, due to excellent cost control, strong T-24 sales and strong maintenance growth. We reached an EBIT margin of 23% in the quarter and 20% in the LTM, and we're already getting towards industry standard EBITDA margins.

Operating cash flow trebled in the quarter due to our lower cash cost base following our restructuring, as well as collection from Metavante and good execution on projects and a reduction in DSOs. This is especially good in what is a seasonally low quarter for cash over the summer, with lower maintenance payments in go live, which trigger cash payments. We've also been absorbing a reduction in payables over the year as we move towards more of an offshore and partner-led model, meaning that our previous payables to externals are now replaced with salaries, which clearly we pay in the month.

This is a one-off swing and it has been totally absorbed within the first nine months of this year. If you split out Metavante T-24 operating cash flows in the quarter and adjust for the payables movement, T-24 operating cash flows were up over seven times Q3 last year and were more than $30 million in the quarter.

We've converted 100% of our last 12 months' EBITDA into operating cash flow, and were it not for the payables swing, this would have been something like 140%. Let's move to the below the line P&L items on slide 14.

Adjusted EPS is up 122% in the quarter and up 25% in the last 12 months. We've got very good management of below-the-line items, including excellent rates on our financing, a very efficient tax structure and good management of below-the-line foreign exchange and really these are the three drivers for strong EPS accretion, other than clearly the strong EBIT.

On slide 15, I wanted to show you some metrics around cash flow for the quarter and the last 12 months. We converted 113% of our EBITDA into cash flow for the quarter, bringing the last 12 months to 99%. This was partly driven by Metavante, although our underlying T-24 performance continues to be very strong, as well. Note that our LTM operating cash flow of $104 million is already very close to our full-year outlook of 110, giving us confidence that we will at least achieve our full-year outlook.

On my last slide, I've shown some metrics around cash and debt. Our debt comprises $134 million of convertible bond, with a coupon of 1.5%, which matures in 2013, by which time we expect it to convert into equity. We have drawn down $61.5 million of debt for our acquisitions, which will be a consortium of seven banks and have fixed repayment schedules up to 2012, so in total this gives us $197 million of debt, even if the likelihood that the bond converts is minimal.

We've got $100 million of cash on our balance sheet and a further $151 million of facilities in place, which we can draw down on up to 2010 and repay up to the end of 2012. This gives available funding of $251 million at the end of the quarter, which will increase as we generate significant free cash flows for the rest of the year.

We anticipate generating in excess of $80 million of free cash flow for the year. We will use these free cash flows to either buy back shares, repay debt or undertake further acquisitions. So that ends the financial part of the presentation. I would like to hand you back now to Andreas for some comments on the outlook.

Andreas Andreades - *Temenos Group AG - CEO*

Thank you, David. On slide 18, I would like to recap briefly on the points I made at the start of the presentation. Licensing has turned to growth, conversion rates have established and pipeline is growing even in an uncertain environment. Margins are actually exceeding where we targeted them to be at the beginning of the year. The business is starting to throw off cash in a way that the software business that has achieved critical mass is expected to, and the new business model [terms] is starting to mature and take firm hold.

Now, this leads me to the outlook, which is on slide 23. With one quarter to go and visibility on costs, we are turning our outlook to an absolute dollar EBIT number. While we leave maintenance revenues at the same level, we take both service costs and revenues down by $10 million each. This results in full-year costs of $300 million, an EBIT of between $75 million and $80 million, which is a higher margin than our prior outlook.

We leave our operating cash flow unchanged at $110 million, resulting in $80 million of free cash flow. Finally, on slide 24, I'd like to close with two thoughts. Firstly, Temenos has proven that it can grow profits and margins in both good times and more difficult times.

I believe our management of the downturn and Q4 Lehman collapse show -- as well as events like the termination of our Metavante partnership has been very sound. In the second one, with 2009 ironically looking like our best year ever, and with the changes we have made to our model, we are right now firmly in position to start growing profitably and with strong margins and cash generation for the next few years.

Now, with that, I'd like to pass the call over to Q&A, please.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). The first question comes from the line of Raimo Lenschow from Bank of America-Merrill Lynch. Please go ahead.

Raimo Lenschow - *Bank of America-Merrill Lynch - Analyst*

Hey, thank you, and congratulations to a great quarter. A few questions I have now. Let's start with first on the cost side, can you maybe talk how you managed to achieve in slightly more detail again in terms of how did you bring the R&D and sales and marketing costs down? I know you mentioned it, but maybe go in more detail. I'm especially trying to understand how sustainable the whole thing is as we go into next year.

Then, on the cash flow side, you're really starting to throw off very decent free cash flow levels. How do I need to think about that in next year? Obviously, you want to start growing again, there's working capital financing needs. Does that mean that the cash trends are going to go back in the wrong directions again, or is that something you can maintain going forward? Thanks.

Andreas Andreades - *Temenos Group AG - CEO*

Hi, Raimo. I'll take the first one on the costs. First, the R&D. Pretty much the difference on the R&D side represents the reduction in R&D spend coming out of the termination of our Metavante partnership and they represent lower costs with respect of that. Now, clearly, from our perspective, with both products now in the open Java SOA world, we are able to leverage finances between the products and we're able to utilize our product factories more efficiently.

So we believe that the changes we have made there are sustainable. On the sales and marketing, the reduction -- and, by the way, the biggest delta in the costs quarter on quarter is actually from the sales and marketing side. The R&D is smaller. On the sales and marketing, they represent a lower third-party sales cost, sometimes in geographies where we might not have local presence. We may be working with local partners so that we execute sales campaigns and the sales mix in our deal sometimes causes variation and there's variable cost quarter on quarter. And, in actual fact, we internally look at net revenue, if you like, coming from the business and they just happen this quarter to be lower than both the prior quarter and actually one year ago.

I wouldn't say that this is totally sustainable. It might be a little bit on the high side to assume that all of it is going to be permanent, because, in fact, next quarter we might have higher sales costs from third parties. But it's good when it comes, because it increases net revenue, and that's where we get the 16% growth on the licenses.

Now, David, maybe you take the cash flow one?

David Arnott - *Temenos Group AG - CFO*

Okay. Raimo, thanks for your comments on cash flow. You're right. For this year, we are generating significant cash, despite absorbing a reduction in payables. I don't see any reason why this wouldn't at least continue to the end of the year. If you're looking to 2010, clearly we're not guiding at this stage on operating cash flows, but I can't see any reason why we would be converting anything less than 100% of EBITDA into cash flow.

So if you take the drivers on EBITDA that Andreas has been talking about, the good leverage, the return to growth, you can assume that EBITDA will continue to grow strongly and that at least 100% of that will turn into cash flow.

The main driver for this is that this year we've been converting 100% of EBITDA into cash flow, and within that absorbing quite a sizable reduction in payables as we ship the business model, as I talked about. That, that one-off, if you like, reduction in payables, means our underlying EBITDA conversion is something like 140% this year, which gives us a lot of headroom next year as we go back into growth to deliver at least 100% EBITDA conversion of cash.

Raimo Lenschow - *Bank of America-Merrill Lynch - Analyst*

Perfect, thank you.

Operator

The next question comes from the line of Josep Bori from Deutsche Bank. Please go ahead.

Josep Bori - *Deutsche Bank - Analyst*

Hi, good afternoon. Thanks for taking my call. I have a question about your outlook statement. Just a minor clarification, but you've changed the way you provide that guidance. Instead of a margin, you're giving now the operating profit number, which is very helpful, but I'm just kind of wondering what's the license number we should be thinking of on the back of that, because obviously before we could work that out, and now you could get to the same EBIT number coming from a low license number with higher margin or vice versa.

Could you give us a sense of how you feel with respect of the market consensus, which I think is sitting around $125 million for licenses in fiscal '09?

Andreas Andreades - *Temenos Group AG - CEO*

Sure. This is Andreas. I'll take this one. First of all, regarding the change in the outlook, we believe with one quarter to go and, if you like, absolute cost visibility at this point in the year, it is our capacity to lower costs, fixed costs at this point, is not there. It was there at the beginning of the year. It does not make any sense to give a margin outlook, because, if you think about it, with the fixed costs in the business fixed, pretty much, margin turns to profit. That's why we move to profit, for no other reason.

Now, let me comment on the licensing point. In exactly the same way as the previous three quarters, we have not been providing a licensing outlook.

We are not providing a licensing outlook today, either. Conversion rates have indeed stabilized and they are indeed much better than they were last Q4. They are not at the level of pre-crisis, for sure, so we are, if you like, more confident about our business. Nevertheless, the reason we are able to give a confident profit outlook is because of the level of variable costs in Q4 of 2009.

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We've indicated that there is about $20 million of variable cost in the fourth quarter, which effectively gives us the confidence to be guiding on profit.

Now, I'm not going to comment on the level of licensing in the consensus. It would not be appropriate, not least because that would be providing quarterly guidance, which we are in any event not doing, let alone in an environment where uncertainty still continues. I don't believe that global markets are out of the woods yet. We've had a good, if you like, run and are confident, but there is still uncertainty there. Yes, we are growing our licensing business, and that differentiates Temenos from other software vendors, and that makes us feel good. However, the future does remain uncertain.

Josep Bori - *Deutsche Bank - Analyst*

Okay, fair enough. Thank you very much.

Operator

The next question comes from the line of Adam Wood from Exane. Please go ahead with your question.

Adam Wood - *Exane BNP Paribas - Analyst*

Hi, everyone. A couple of questions if I could. The first one is on the operating leverage, just coming back to this. First of all, on Q4, coming back to that last question, could you tell us -- I assume that the variable costs are mainly on the licensing side. Could you tell us where that $20 million starts to kick in, the variable side? Is that if we beat licenses from last year, or is it a lower leverage? And then a more general question on the leverage of 2010.

I appreciate you can't give guidance, but could you give us some feel if we have flat license in the next year or if we have 20% growth in licensing next year, what would happen to the variable cost base under those two scenarios, just to give us a feel for how much of the incremental revenues fall through to the bottom line in 2010 and go towards the change in operating model you've been talking about.

And then, secondly, could you just help us also understand how you get to plus six on the licensing side, because obviously there's some M&A in there to compensate for the Metavante loss, and I'm struggling on my model to calculate how FX can make such a large difference. Thank you.

Andreas Andreades - *Temenos Group AG - CEO*

Okay, let me take the variable cost question. Variable cost represents both licensing-related costs but also profit-related cost that might get triggered by achievement of full-year EPS and profit targets. So now we've not provided, if you like, the trigger point, but you should be assuming that delivering our outlook implies delivering to our targets and therefore would be trigging variable costs and payout in Q4.

Now, for 2010, variable sales costs probably amount to about 10% of licensing. That's total variable sales cost, both third party and also external -- internal. Now, profit in variable cost should not be materially different, if you like. Those don't flex with revenue. They are pretty much variable paid figured on achievement of targets.

David Arnott - *Temenos Group AG - CFO*

Do you want me to take the bond owner 6%?

Adam Wood - *Exane BNP Paribas - Analyst*

Can I just follow up with that? That sounds incredibly aggressive to say that -- I assume that there are some fixed costs. The focus on variable wasn't the question. We shouldn't assume that 90% of incremental licenses fall to the bottom line, or should we, because I assume there are going to be some fixed costs that have to go in, as well, if we do start to get some growth coming back.

Andreas Andreades - *Temenos Group AG - CEO*

Well, I never said that there wouldn't be fixed cost increases.

Adam Wood - *Exane BNP Paribas - Analyst*

Sure.

Andreas Andreades - *Temenos Group AG - CEO*

On the contrary, I said that we are starting to invest, especially in sales, for 2010. I just answered the question on variable cost, which is to invest in sales capacity. That's not a variable cost. That's increasing our fixed cost, for sure. But if you think of the model more along the liners of a model that grows around a network of service partners, what we are able to do is grow largely our business around growth in the partner-led revenue, services revenue, and therefore making the sales investment for 2010 represents the vast majority of the investment that we have to make for the year.

And that's why we believe that Temenos can continue to both grow revenue and grow margin, while at the same time cash flows will remain positive. Yes?

Adam Wood - *Exane BNP Paribas - Analyst*

All right, thank you.

David Arnott - *Temenos Group AG - CFO*

Okay, Adam, let me pick up on your 6% question. Okay, there's the three drivers in there we talked about. One is Metavante. I don't know what you have in your model, but it's --

Adam Wood - *Exane BNP Paribas - Analyst*

That's five in the base.

David Arnott - *Temenos Group AG - CFO*

(inaudible - multiple speakers) we booked in certain quarters, but we did say that we would be booking $100 million of revenue over five years, is not totally mathematically linear. It's a little bit lumpy, depending on dumps of product and certain milestones, so it wavers within maybe one or 1.5, maybe up or down of that depending on any quarter, which may affect your model. The thing probably that you might be missing in your model is foreign exchange.

I don't know how you're calculating the rate, but of course our foreign exchange translation is based on our hedging program, so for the last year, for example, the rates weren't the market rates in 2008. They were the hedges we took out in 2007 for 2008.

Adam Wood - *Exane BNP Paribas - Analyst*

Okay, so it's the hedging follow through that's moving me away from what's stated.

David Arnott - *Temenos Group AG - CFO*

And that give or take the rounding should take you to your number.

Adam Wood - *Exane BNP Paribas - Analyst*

Okay, great. Thank you.

Operator

The next question comes from the line of Chris Grundberg from UBS. Please go ahead.

Chris Grundberg - *UBS - Analyst*

Yes, hi, sorry. Just a quick one, first of all, following up from an earlier question on R&D. Just to understand you correctly, so resources of $13 million or so in the quarter. What would you expect that to be in absolute terms, if you can give some sense there, going forwards, on a quarterly basis? Is that about right, or do you expect that to grow?

Andreas Andreades - *Temenos Group AG - CEO*

Depending on what the time horizon is, clearly. In the short term, that's probably the number. In the medium term, yes, you are going to see R&D grow, but not tomorrow.

Chris Grundberg - *UBS - Analyst*

Okay, that's helpful. Thanks. And then I suppose a few further questions. Are you able to give a quantification for how much your hedging gains or losses were in the quarter. I understand they're now being taken as operating gains or losses.

David Arnott - *Temenos Group AG - CFO*

Okay, we have a hedging program which means that at the operating profit level, there is no impact of foreign exchange, so our hedging program creates a structural mismatch between inflows and outflows and takes out in advance instruments to cover that delta, which are cash flow hedges, which means they get revalued in reserves and they drop into the P&L in the quarter when the costs are incurred. So at the EBIT level there's absolutely no impact of foreign exchange.

Clearly, however, you get a gross up on the revenues and costs to come down to that, which is why we've given you a like-for-like on the revenue side to help you deal with the real growth drivers on the three lines. But at the EBIT level, just to be clear, no impact of foreign exchange.

Chris Grundberg - *UBS - Analyst*

Okay, that's really helpful. And then just a further question. You commented, obviously, 8% of your licenses over the last 12 months have come from Misys replacements, which on my calculation is at $10 million. Do you have any sense to the linearity of that? I mean, has that been increasing or decreasing through the 12 months? Is there any trend there at all?

Andreas Andreades - *Temenos Group AG - CEO*

It's been increasing and, in fact, if you go 12 months before, they would be lower. But, again, our business is large deal size business, so it can be lumpy from one quarter to the next, but the trend has been towards larger deals. That's clear.

Chris Grundberg - *UBS - Analyst*

That's great. And do you have any sense, then, on whether or not the specific products that you're replacing there, or is there no real trend. Are you sort of deemphasizing that as a growth area going forwards?

Andreas Andreades - *Temenos Group AG - CEO*

Usually, when we replace competitive products, we replace a multitude of products within the same installation, so typically a client would be running five or six different products, and we would go in with T-24 and pretty much replace all of them, and I suppose that's also why that business case works. It's -- you've got different technologies and different systems interfacing with each other and we go with one integrated proposition. So pretty much across the board.

Chris Grundberg - *UBS - Analyst*

Thanks, and then just further on the services side of things, are you able to give any quantification around the number of deals that you're currently pursuing with Cognizant, or maybe just how many more you've encountered since Q2? And then, finally, just on the comment that you're delivering more -- a higher proportion of services via partners, are you able to give that proportion?

Andreas Andreades - *Temenos Group AG - CEO*

Sure. I think we can answer both. It's a -- we are actually working on a large number of deals. I'd say we should think about it in terms of double digits, and across the world, pretty much every region of Temenos. So the corporation has really progressed and we are at the point where we should start seeing deals getting done, where actually Cognizant has a significant role in the projects. They already have a significant role in the sales campaigns.

Now, in terms of partner-led, if you like, capacity, we would like to think about that in terms of how big it is in relation to our business, and it's probably today as big as our services business, and what we want to be seeing that get to within a -- within let's say a 12 to 15-month timeframe is probably grow by in excess of 50%, 60%.

We believe there is a significant revenue potential within the -- if you like, the Temenos world of clients. And also to support our growth, already growing revenues at plus 16 in the quarter or plus three in the year to date means that 2010 will definitely be a growth year from a service perspective, so we need to be creating space for that growth.

Chris Grundberg - *UBS - Analyst*

Excellent, thanks very much. Just one very last question if I may, I just note on the balance sheet that your treasury shares ticked down from 17.3 million to 7.5 million. I was just wondering if you have any color around that at all.

David Arnott - *Temenos Group AG - CFO*

Treasury shares we hold for meeting stock option obligations and there was a small number of options exercised at the start of the quarter, for which we used treasury shares, so you'll see the treasury shares coming out for that, so it's exercise of options, basically.

Chris Grundberg - *UBS - Analyst*

That's fantastic. Thanks very much for all your answers.

Operator

The next question comes from the line of Panagiotis Spiliopoulos from Bank Vontobel. Please go ahead.

Panagiotis Spiliopoulos - *Bank Vontobel - Analyst*

Yes, thanks. Three questions from my side. Number one would be service margin at 14%. Do you see that as being sustainable or even able to trend higher? The number two would be you got around 10% of licenses from ARC and Insight. What is your mid to long-term target, say, in two or three years out for let's say the non-T-24 products.

And the third one would be an update on the competitive landscape, as we have seen some of your peers reporting dismal numbers. Thanks.

Andreas Andreades - *Temenos Group AG - CEO*

Okay, Panagiotis, I'll take the service one. If you recall, earlier in the year we talked about service margins of between 10% and 15%, so for the 10% we are reporting the LTM is consistent with the range we gave. Could it go up in the future? I think it could, and we are certainly planning for higher margins in our numbers. But, again, from our perspective we see the service business as an add-on business and one that, while improving margins is great, the most fundamental point about the service business is the capacity to support the license and the maintenance growth.

So, yes, we are planning for margin improvement around a growing service business, but, again, you should probably see the services business as a percent of total go down slightly over the next few years.

Now, percent of licensing in the extension products, it really -- it's a really difficult question, because it really depends how much the core business, if you like, the T-24 business, is going to grow. If we are thinking of T-24 and we like the Temenos business, growing from a license perspective over the medium term maybe 15% to 20%, which is what we've always said and we clearly stand by the statement. We believe in the medium term, even including downturn years, we could be getting on average 15% to 20% license growth. Then increasing the percent of ARC and Insight into the business becomes a bigger challenge than in a static business.

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So I think for the time being I'd say I would leave it around 10%, given that the broader, if you like, T-24 business, is going to grow at the rate that we have said. And see how this number changes, maybe around the deal size improvement, but I wouldn't today start projecting a higher percent from that.

Now, I admit that I missed the third part of your question. Could you please repeat that?

Panagiotis Spiliopoulos - *Bank Vontobel - Analyst*

Yes, it was about the competitive landscape. Have you seen any changes, as some of your peers reported dismal numbers? Any trends you see there, some players maybe exiting or focusing more on the services side or orders coming in or changing focus? Thanks.

Andreas Andreades - *Temenos Group AG - CEO*

Clearly, with the kind of numbers we are putting on the T-24 side we are gaining market share. There is no question about that. The question is how fast. If I were to look at the reported numbers the last quarter from our competitors, clearly, from a licensing perspective, there are difficulties even in (inaudible) like i-flex. Today, even within the i-flex product business, 60% of the revenue is services, so I think that does tell a story.

Now, there are product announcements out, and we feel that from a product perspective people are, and if you read the product announcements which are coming out today, it's kind of catch-up in the sense that we've announced more than three years ago, for example, and we are three years ahead in the game of prepackaging industry standard processes, if you like. So I haven't seen anything which would unduly, if you like, concern me. At the same time, we've got our focus on the market and we are executing well. So we believe we are at least maintaining our advantage, if not growing it.

Panagiotis Spiliopoulos - *Bank Vontobel - Analyst*

Okay, thanks. Great job.

Operator

I have a question from the line of Rajeev Bahl from Piper Jaffray. Please go ahead.

Rajeev Bahl - *Piper Jaffray - Analyst*

Thanks, and three very quick questions from me. First of all, going back to the R&D questions, of the step-down in R&D that we've seen, obviously, there's been an element of offshoring and consolidation there. Have you had to make any particular sacrifices, any projects or areas of functionality that you would have liked to have developed that maybe we see come back next year as you've got more budget to play with?

Second question, on the Cognizant relationship, initially, I understand that has been the world except for US. Has that now been extended to cover the US market as well, and how has that tracked for you? And then, finally, and this is probably just me forgetting the detail, but how has the Metavante settlement been booked through the accounts? I understand there's a cash side, but where's the other side of that equation?

Andreas Andreades - *Temenos Group AG - CEO*

Okay, R&D. No, we haven't had -- I haven't had any requests that I haven't been able to satisfy. On the contrary, I'm challenging my people to think harder and longer on how we can develop more product and better product and faster. So the constraint is simply the speed with which one develops product, is not a budgetary constraint. So, as I said, over the middle term, you will see us put money in R&D consistent with the growth in the size of the business, even though for the short term you could take the number and project it forward.

Now, for as far as the United States and Cognizant are concerned, let me say that from a US perspective we are developing our options. We are working on the market and we are keeping our options open and Cognizant is a worldwide partnership, so it never really excluded the United States. Now, if you take a different shape in the United States, I can't tell and I can't comment on that, but definitely from a US perspective we are in the process of developing internally.

Now, for Metavante, I'll pass on to David to deal with the accounting.

David Arnott - *Temenos Group AG - CFO*

Okay, Rajeev, on Metavante, we reached a settlement shortly after the quarter end for the second quarter, which allowed us, because we haven't closed our books, to [drive] any P&L impact, which I need to say was non-material. It was very small within the second-quarter numbers. So the third quarter is totally clean of any impact in Metavante. There is a very small impact in the second quarter.

In the third quarter, clearly, costs are starting to come down and there's a restructuring charge you've seen taken for lower Metavante cost base. However, the cash was received in the third quarter, and that's why I did all the like-for-like comments on the cash flow to explain why, excluding the Metavante cash, our T-24 cash was still very strong in the third quarter. So P&L in the second quarter, cash in the third.

Rajeev Bahl - *Piper Jaffray - Analyst*

Okay, understood. Thank you.

Operator

That's the end of the Q&A session, so I'll now hand the call back to Ben Robinson for any closing remarks.

Ben Robinson - *Temenos Group AG - Associate Director - IR & Business Strategy*

Thank you for participating on the call. Just before we close the call, I just want to remind everyone of the investor event that we're running in London on the morning of the 11th of November. The venue for the event is the London Stock Exchange, and the theme of the event is core banking, market drivers and customer perspectives. And in addition to two very high-profile Temenos customers, we have two speakers from Boston Consulting Group attending. There are details on the website, or send me an e-mail and I can send you the details. Okay, with that, call is finished. So thank you very much for your attendance.

Andreas Andreades - *Temenos Group AG - CEO*

Thank you.

David Arnott - *Temenos Group AG - CFO*

Thank you.

Operator

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