TEMENOS

THE BANKING SOFTWARE COMPANY

Temenos AG

Interim Report 2021

Temenos at a glance

THE **WORLD'S #1** BANKING SOFTWARE COMPANY

Temenos software is proven to enable its top-performing clients to achieve cost-income ratios of **26.8%**, half the industry average, and returns on equity of **29%**, three times the industry average.

1.2bn

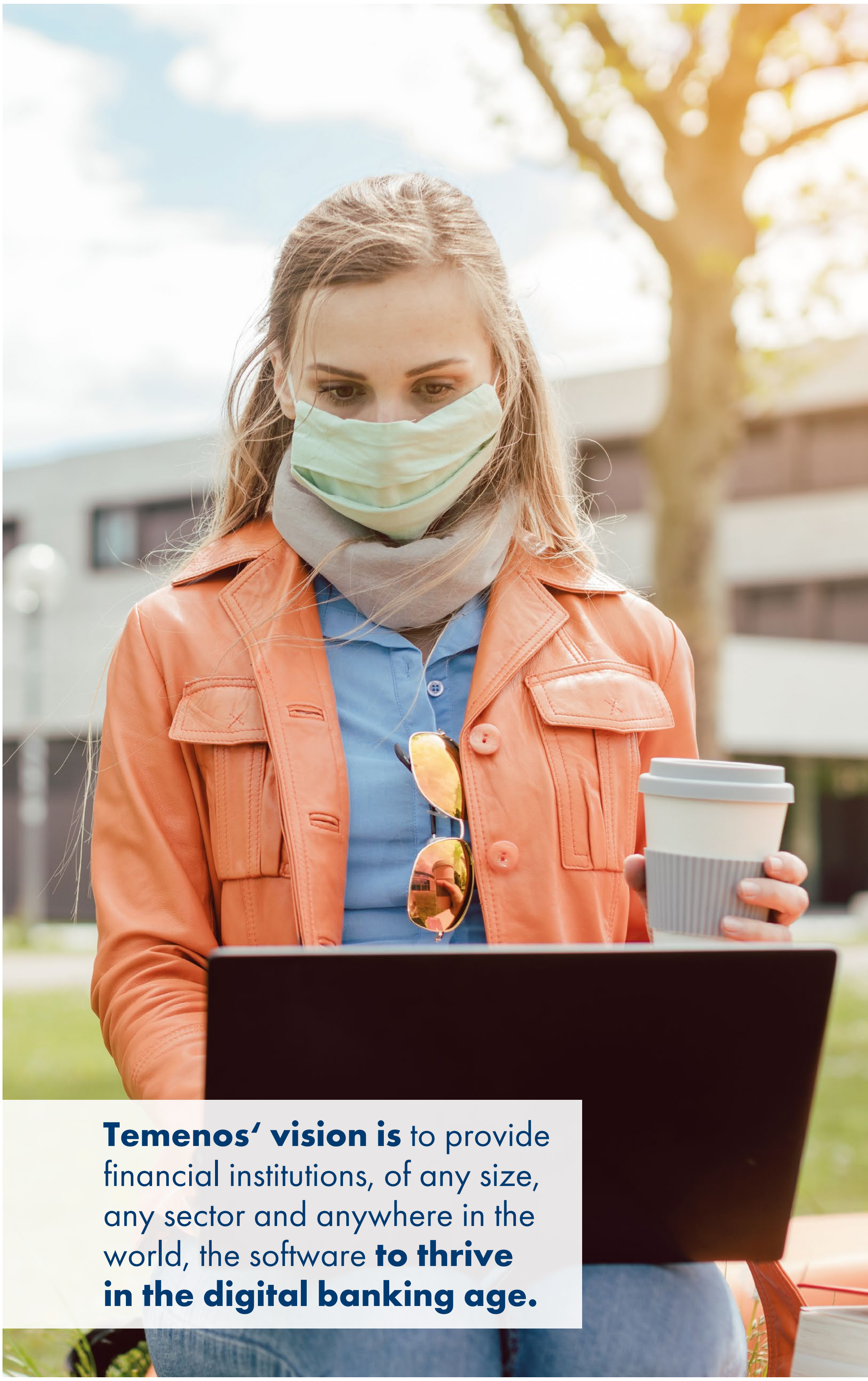
Individuals, families and businesses rely on Temenos. That's 30% of the world's banked population

41

Our 3,000 banks include 41 of the top 50 global banks

#1

They rely on the world's #1 cloud-native intelligent banking platform



Temenos' vision is to provide financial institutions, of any size, any sector and anywhere in the world, the software **to thrive in the digital banking age.**

Contents

OVERVIEW

Highlights of H1 2021

STRONG MOMENTUM
IN THE FIRST HALF OF THE YEAR

SaaS ACV

H1 2021 USD 29.6m
H1 2020 USD 8.8m

234%

SaaS and subscription revenue

H1 2021 USD 57.5m
H1 2020 USD 45.8m

26%

Total software licensing

H1 2021 USD 167.7m
H1 2020 USD 137.4m

22%

Maintenance

H1 2021 USD 195.7m
H1 2020 USD 189.2m

3%

Total Bookings

H1 2021 USD 292.7m
H1 2020 USD 140.6m

108%

Annual Recurring Revenue

H1 2021 USD 514.5m
H1 2020 USD 475.4m

8%

Total revenue

H1 2021 USD 445.4m
H1 2020 USD 409.4m

9%

EBIT margin

H1 2021 32.0%
H1 2020 29.4%

2.6% pts

Earnings per share

H1 2021 USD 1.47
H1 2020 USD 1.25

18%

LTM operating cash conversion

H1 2021 107%
H1 2020 115%

107%

Free cash flow

H1 2021 USD 132.1
H1 2020 USD 105.5

25%

H1 2021 non-IFRS financial highlights

- SaaS ACV growth of 234%
- SaaS and subscription revenue growth of 26%
- Total Bookings growth of 108%
- Total software licensing growth of 22%
- Maintenance growth of 3%
- Recurring revenue growth of 8%
- Total Group revenue growth of 9%
- EBIT margin of 32.0%, up 2.6 percentage points
- EPS of USD 1.47, up 18%
- LTM operating cash conversion of 107%, with DSOs down to 106 days
- Free cash flow growth of 25%
- Dividend of CHF 0.90 per share, totaling USD 71 million, paid to shareholders
- USD 194 million share buyback launched and completed in H1 2021.

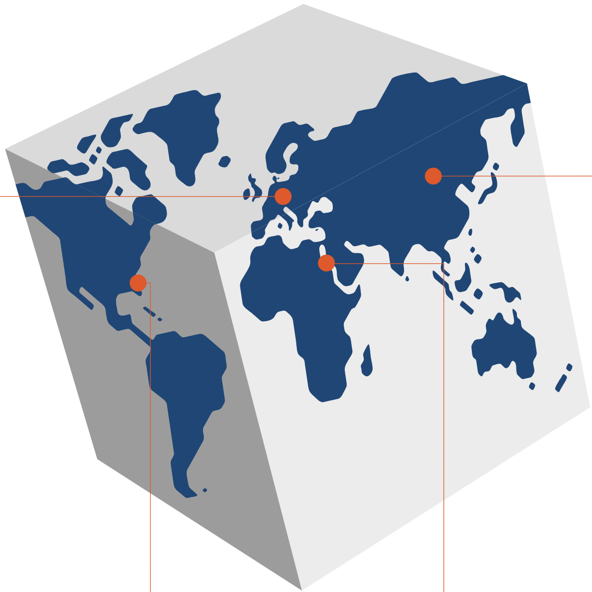
H1 2021 operational highlights

- Strong momentum in H1 2021
- Significant growth in SaaS ACV in particular
- Excellent growth in Total Bookings
- All regions delivered double digit growth in the quarter
- US continued to be the largest contributor to total software licensing
- US SaaS and cloud was particularly strong across new clients and growth in existing clients
- Europe recovery is following the US with a short time lag, deal pipeline is building with strong sales growth expected in H2
- Temenos' leadership position reconfirmed by industry analysts.

For more information
Check out our website
www.temenos.com

Our market opportunity

GROWING OUR **GLOBAL OPPORTUNITY**



	EUROPE	THE AMERICAS	MIDDLE EAST & AFRICA	ASIA PACIFIC
Offices in the region	20	15	8	19
Total revenue	33%	30%	18%	19%
Total software licensing revenue	21%	42%	16%	21%

Note: percentages are for H1 2021.

Our strategy

KEY STRATEGIC INITIATIVES TO DRIVE GROWTH

Profitable SaaS acceleration

- Leverage cloud-native and SaaS-ready product
- Leverage the sales organization for customer success
- Hyper-scale operations.

Game-changing strategic partnerships

- Invest in a global integration and technology partner program to drive strategic growth:
  - Partnership with Salesforce based on integration of Temenos Infinity and Salesforce CRM platforms to create new Digital Workspace
  - Partnership with DXC to accelerate digital transformation of DXC's existing large bank customers.

Product growth engines

- Maintain market leadership across our growth engines:
  - Temenos Infinity
  - Temenos Transact
  - Temenos Payments
  - Temenos Fund Administration.

Accelerating our North America growth

- Invest in sales leadership across all key segments
- Proven localization of software with US regulations
- Scale cloud operations
- Build successful references.

Industry recognition

A MARKET **LEADER**

11 times

Recognized as a Leader eleven times[1] in Gartner Magic Quadrant for Global Retail Core Banking

15 years

Classed "Global Power Seller" for new business[2]

16 times

Ranked best-selling core banking system[4]

Gartner[1]

- Recognized as a Leader eleven times in 'Magic Quadrant for Global Retail Core Banking.'

Forrester[2]

- Leader in Forrester Wave for Digital Banking Processing Platforms (Corporate Banking), Q3 2020
- Leader in Forrester Wave for Digital Banking Processing Platforms (Retail Banking), Q3 2020
- Forrester Wave for Digital Banking Engagement Platforms, Q3 2021
- Forrester Wave for Digital Banking Engagement Hubs, Q3 2021
- Classed as "Global Power Seller" for new business for the 15th consecutive year
- "Top Global Player" for new and existing business deals for 9th consecutive year and Top Global Cross-Seller for the 1st year (new category)
- Leader in Forrester Wave for Low-Code Development Platforms for AD&D Professionals (Q1, 2019).

Omdia (formerly known as Ovum)[3]

- "Market Leader" in core banking and "Market Leader" in digital banking platforms
- "Market Challenger" in Anti-Financial Crime solutions.

IBS Intelligence[4]

- Ranked best-selling core banking system for the 16th time and top two positions for over 20 consecutive years
- Ranked best-selling digital banking and channels system
- Ranked #1 for Neo Banks & Challenger Banks
- Ranked best-selling payments system.

Celent[5]

- Temenos' client, Varo Bank, received the Model Bank of the Year Award at the 2021 Celent Model Bank Awards
- Temenos' client, EQ Bank, received the Celent Model Bank 2020 Award for Banking in the Cloud.

IDC (International Data Corporation)[6]

- Winner of 'Agility & Efficiency' category of IDC Real Results Awards 2021 for Temenos & client, Comerica
- Temenos also recognized as joint overall winner of IDC Real Results 2021
- Recognized as a 'Leader' for Worldwide Integrated Payment Platforms
- Recognized as a 'Leader' for North America Digital Banking Customer Experience Platforms for Kony DBX, now Temenos Infinity
- Recognized as a 'Leader' for Know Your Customer (KYC) Solutions in Financial Services and as a 'Major Player' for Anti-Money Laundering (AML) Solutions in Financial Services. Recognized as a Leader in global core banking, European mobile banking and wealth management front and middle office.

Aperture: The Market Map – Best WealthTech Providers 2021[7]

- The only vendor recognized as a Leader and a Transformer (the two highest categories) for WealthTech.

FStech Awards 2021

- Awarded 'Cloud Computing Innovation of the Year' alongside Temenos' client, Flowe.

Aite Group[8]

- Recognized as 'Best in Class' (the highest ranking) for Investment and Fund Accounting Systems.

A "Market Leader" in core banking and a "Market Leader" in digital banking platforms.[3]

1 The Gartner Report(s) described herein (the "Gartner Report(s)") represent(s) research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Interim Report) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

Gartner, 'Magic Quadrant for Global Retail Core Banking', Vittorio D'Orazio, Don Free, 05 August 2020. (This report was previously titled 'Magic Quadrant for International Retail Core Banking' from 2009-2014. Temenos was recognized as Temenos Group from 2010-2013, and Temenos Group (T24) in 2009.)

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Software

COMPREHENSIVE, **CLOUD-NATIVE, CLOUD-AGNOSTIC,** MICROSERVICES ARCHITECTURE

Temenos' software is centered around two main products: Temenos Infinity and Temenos Transact.

Both of these are available as independently deployable products, together with several other more specialist products. Their value to clients is, however, increased when they are deployed together to form an end-to-end digital banking solution. All of the software enjoys the benefit of continuing functional investment by Temenos, ensuring that Temenos' clients can access the latest banking functionality, as well as the years of functional enhancements which have been packaged into the products.

Temenos' products are also being increasingly deployed as domain Microservices. The boundaries between services are defined according to business areas and banking functions. This technology change provides a series of strategic benefits to banks who use the software. In particular, the independently deployable nature of each service means that banks can progressively go live with different business areas by implementing different services, reducing the time to implement and the associated risks. Unlike a standalone best-of-breed approach, the various service components also sit together to build an integrated offering. This enables banks to undertake large transformation exercises in a more flexible manner which delivers benefits more quickly. It also allows banks to retain key items of in-house technology and to manage upgrades on a partial ("module level") basis going forward.

All of Temenos' software products can be deployed natively on the main commercial cloud platforms; this means that they take the full benefit of the lower operating costs and elastic scalability of these services, as well as enjoying in-built operational resilience. They are also available on a Continuous Deployment basis which enables banks to reduce the cost of implementation and maintenance by the use of modern DevOps approaches and technology, as well as making it faster for banks to deploy innovations into their live operating environments and to benefit from a shorter time to market.

Temenos Infinity

Temenos Infinity is an independent digital banking product built on a market leading multi-experience digital platform. It focuses on customer engagement and the distribution of banking products and services on an omni-channel basis by means of an integrated "conversational banking" customer engagement module, cutting-edge digital customer acquisition and onboarding functionality and an integrated product origination capability. The market leading low-code channel capability of the software is backed by an independently deployable series of Distribution Services, which enable banks to offer a seamless omni-channel experience across multiple core and other product manufacturing systems. During the pandemic, banks were forced to move more of their branch services online, and this meant a significant number of digital features rolled out in short durations. By avoiding complex point-to-point connections, Temenos Distribution Services future-proof a bank's capabilities in this area, allowing for different channel solutions to be deployed as needed, and for core systems to be changed without needing to rebuild large and complex integration layers.

Temenos Infinity can be deployed on any combination of back office systems by means of its Open API framework and definitions in a quick and cost effective manner, allowing access to all of the underlying product manufacturing and servicing capabilities which those platforms offer. Even greater benefit can be gained when the solution is deployed with Temenos Transact, as the bank can then make use of the end-to-end product design and distribution capabilities to gain significant benefits in the areas of customer insight and new product go-to-market agility.

Temenos Transact

Temenos Transact is the market leading core banking product which incorporates the broadest and deepest set of functionality available in the market. Temenos has invested in expanding the functionality of the product for over 27 years which, when allied with our policy of producing standard packaged software, provides a functional footprint which is without parallel in the industry.

This functional depth is supported by the use of the domain Microservice-based architecture. This allows for the solution to be deployed and upgraded on a functional component basis, which means that banks can more easily engage in transformation programs that deliver early benefits and allow for changing business priorities during the implementation process.

The product is further enriched by an extensive set of Country Model Banks. This combination of global product capability, off-the-shelf regional functionality and the underlying flexibility enables banks to implement the solution in a cost-effective manner and to continue to innovate, and to deploy these innovations at speed and on an efficient economic basis. The cloud-native and SaaS-ready capabilities which underpin the product also enable banks to operate at scale in an elastic and agile manner.

Products

Temenos organizes its products into five key areas, reflecting the needs of its customers.

Technology platform

Technology is strategy. We say this because our technology products and frameworks make banks more agile, competitive and profitable, and help them thrive in complex, margin-pressured environments.

Sector specific solutions

Temenos offers software solutions to banks and financial institutions of all types and sizes.

Overview of IFRS vs non-IFRS

USDm, except EPS	Non-IFRS H1 2021	Non-IFRS H1 2020*	Non-IFRS Change	IFRS H1 2021	IFRS H1 2020	IFRS Change
Software licensing	110.2	91.6	**20%**	110.2	91.6	**20%**
SaaS and subscription	57.5	45.8	**26%**	57.5	37.3	**54%**
Total software licensing	**167.7**	**137.4**	**22%**	**167.7**	**129.0**	**30%**
Maintenance	195.7	189.2	**3%**	195.7	189.2	**3%**
Services	82.0	82.7	**-1%**	82.0	82.7	**-1%**
Total revenues	**445.4**	**409.4**	**9%**	**445.4**	**400.9**	**11%**
EBIT	**142.3**	**120.4**	**18%**	**96.7**	**67.3**	**44%**
EBIT margin	32.0%	29.4%	**3%pts**	21.7%	16.8%	**5%pts**
EPS (USD)	**1.47**	**1.25**	**18%**	**0.94**	**0.63**	**49%**
Recurring revenue	**253.3**	**235.0**	**8%**	**253.3**	**226.6**	**12%**

* Share-based payments including related social charges, costs and associated tax impact have been adjusted in line with the new non-IFRS definition adopted as of 1 January 2021 for comparability purpose with current year.

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 write-down
Fair value adjustments (write-down) made to deferred revenue resulting from acquisitions under IFRS is adjusted back for non-IFRS.

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 out credits or charges.

Acquisition-related finance cost
Mainly relates to fees incurred on acquisition funding.

Amortization of acquired intangibles
Amortization 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 mainly on deferred revenue write-down and amortization of acquired intangibles, and on the basis of Temenos' expected effective tax rate.

Share-based payment charges
Adjustment made for share-based payments and social charges, applicable only to non-IFRS numbers and guidance from 2021 onwards.

Reconciliation from IFRS to non-IFRS – EBIT/EBITDA

USDm

	H1 2021	H1 2020*
IFRS EBIT	**96.7**	**67.3**
Deferred revenue write-down	–	8.5
Amortization of acquired intangibles	**28.0**	33.9
Restructuring	**4.8**	17.5
Acquisition-related credits	–	(20.4)
Share-based payments	**12.9**	13.5
Non-IFRS EBIT	**142.3**	**120.4**
IFRS EBIT	**96.7**	**67.3**
Depreciation and amortization	**72.5**	74.9
IFRS EBITDA	**169.2**	**142.2**
Deferred revenue write-down	–	8.5
Restructuring	**4.8**	17.5
Acquisition-related credits	–	(20.4)
Share-based payments*	**12.9**	13.5
Non-IFRS EBITDA	**186.8**	**161.3**

Reconciliation from IFRS earnings to non-IFRS earnings

USDm

	H1 2021	H1 2020*
IFRS EBIT	**96.7**	**67.3**
Finance cost – net	**(14.1)**	(14.6)
Taxation	**(14.5)**	(6.7)
IFRS net earnings (Profit)	**68.1**	**46.0**
Number of shares – Diluted (000)	**72,716**	73,092
IFRS EPS (USD)	**0.94**	**0.63**
IFRS net earnings (Profit)	**68.1**	**46.0**
Deferred revenue write-down	–	8.5
Amortization of acquired intangibles	**28.0**	33.9
Restructuring	**4.8**	17.5
Acquisition-related credits	–	(20.4)
Share-based payments	**12.9**	13.5
Taxation	**(7.11)**	(7.8)
Non-IFRS net earnings (Profit)	**106.6**	**91.2**
Number of shares – Diluted (000)	**72,716**	73,092
Non-IFRS EPS (USD)	**1.47**	**1.25**

* Share-based payments including related social charges, costs and associated tax impact have been adjusted in line with the new non-IFRS definition adopted as of 1 January 2021 for comparability purpose with current year.

Alternative performance measures (APM)

The performance of the Group is assessed using certain financial performance measures that are not defined under IFRS and are therefore classified as non-IFRS. The key performance measures used by the Group are explained as follows:

Annual contract value (ACV)

Annual value of incremental business taken in-year. Includes new customers, up-sell/cross-sell. Only includes the recurring element of the contract and excludes variable elements.

Annual recurring revenue (ARR)

Annual recurring revenue committed at the end of the period for both SaaS and Maintenance. Includes new customers, up-sell/cross-sell and attrition. Only includes the recurring element of the contract and excludes variable elements.

Total bookings

Includes fair value of license contract value, committed maintenance contract value on license and SaaS committed contract value. It must all be committed and evidenced by duly signed agreements.

Days sales outstanding (DSO)

Days sales outstanding is the average number of days that receivables remain outstanding. It has been calculated as the closing net trade receivables and contract assets at period end divided by total last 12 months' revenue multiplied by 365 days.

Free cash flow

Net cash flow from operating activities and cash flows from investing activities associated with capital expenditure on non-current assets (property, plant and equipment, intangible assets and capitalized development costs).

Consolidated statement of profit or loss (condensed)

For the six months ended 30 June
Unaudited

	2021 USD 000	2020 USD 000
Revenues		
Software licensing	110,193	91,645
SaaS & subscription	57,527	37,317
Total software licensing	167,720	128,962
Maintenance	195,726	189,249
Services	81,957	82,711
Total revenues	445,403	400,922
Operating expenses		
Cost of sales	(156,795)	(137,018)
Sales and marketing	(76,018)	(71,490)
General and administrative	(40,033)	(39,377)
Other operating expenses	(75,843)	(85,775)
Total operating expenses	(348,689)	(333,660)
Operating profit	96,714	67,262
Finance costs – net	(14,067)	(14,574)
Profit before taxation	82,647	52,688
Taxation	(14,541)	(6,711)
Profit for the period	68,106	45,977
Attributable to:		
Equity holders of the Company	68,106	45,977
Earnings per share (in USD): (note 10)		
Basic	0.95	0.64
Diluted	0.94	0.63

Notes on pages 13 to 19 are an integral part of these interim consolidated financial statements.

Consolidated statement of other comprehensive income (condensed)

For the six months ended 30 June
Unaudited

	2021 USD 000	2020 USD 000
Profit for the period	**68,106**	45,977
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Changes in the fair value of equity investments at fair value through other comprehensive income	–	(564)
	–	(564)
Items that may be subsequently reclassified to profit or loss		
Cash flow hedge reserve	1,690	(440)
Cost of hedging reserve	108	10
Currency translation differences	23,246	(25,454)
	25,044	(25,884)
Other comprehensive income/(loss) for the period	25,044	(26,448)
Total comprehensive income for the period	**93,150**	19,529
Attributable to:		
Equity holders of the Company	93,150	19,529

Notes on pages 13 to 19 are an integral part of these interim consolidated financial statements.

Consolidated statement of financial position (condensed)

Unaudited

	30 June 2021 USD 000	31 December 2020 USD 000
Assets		
Current assets		
Cash and cash equivalents	87,582	110,195
Trade and other receivables	328,012	326,980
Other financial assets (note 8)	5,475	9,123
Total current assets	421,069	446,298
Non-current assets		
Property, plant and equipment (note 11)	63,202	62,930
Intangible assets (note 11)	1,634,019	1,667,704
Trade and other receivables	9,314	10,005
Other financial assets (note 8)	20,480	281
Deferred tax assets	28,745	28,473
Total non-current assets	1,755,760	1,769,393
Total assets	2,176,829	2,215,691
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables	164,135	134,808
Other financial liabilities (note 8)	15,605	10,319
Deferred revenue	344,422	356,787
Income taxes payable	79,889	75,780
Borrowings (note 12)	210,414	21,518
Provisions for other liabilities and charges	2,281	4,799
Total current liabilities	816,746	604,011
Non-current liabilities		
Trade and other payables	–	775
Other financial liabilities (note 8)	132	11,124
Borrowings (note 12)	886,132	956,338
Provisions for other liabilities and charges	714	714
Deferred tax liabilities	99,679	107,231
Retirement benefit obligations	13,284	12,093
Total non-current liabilities	999,941	1,088,275
Total liabilities	1,816,687	1,692,286
Shareholders' equity		
Share capital	251,371	249,535
Treasury shares	(459,077)	(264,608)
Share premium and other reserves	(252,505)	(259,823)
Other equity	(154,478)	(179,851)
Retained earnings	974,831	978,152
Total equity	360,142	523,405
Total liabilities and equity	2,176,829	2,215,691

Notes on pages 13 to 19 are an integral part of these interim consolidated financial statements.

Consolidated statement of cash flows (condensed)

For the six months ended 30 June
Unaudited

	2021 USD 000	2020 USD 000
Cash flows from operating activities		
Profit before taxation	82,647	52,688
Adjustments:		
Depreciation, amortization and impairment of financial assets	76,071	75,746
Cost of share options	9,382	7,915
Foreign exchange loss/(gain) on non-operating activities	2,242	(5,741)
Interest expenses, net	10,220	13,301
Net (gain)/loss from financial instruments	(2,192)	5,539
Other finance costs	2,515	1,926
Other non-cash items	625	(20,241)
Changes in:		
Trade and other receivables	(9,449)	38,257
Trade and other payables, provisions and retirement benefit obligations	23,787	(27,619)
Deferred revenues	(9,670)	11,568
Cash generated from operations	186,178	153,339
Income taxes paid	(7,795)	(7,930)
Net cash generated from operating activities	178,383	145,409
Cash flows from investing activities		
Purchase of property, plant and equipment, net of disposals	(4,055)	(2,978)
Purchase of intangible assets, net of disposals	(2,165)	(1,332)
Capitalized development costs (note 11)	(40,073)	(35,673)
Acquisition of subsidiaries, net of cash acquired	(1,670)	6,160
Escrow deposit for contingent consideration on acquisition	–	21,000
Acquisition of long term loan instruments (note 8)	(19,900)	–
Investment in and settlement of financial instruments	(2,864)	(1,871)
Interest received	70	399
Net cash used in investing activities	(70,657)	(14,295)
Cash flows from financing activities		
Dividend paid (note 14)	(71,427)	(63,355)
Acquisition of treasury shares	(194,470)	–
Proceeds from borrowings (note 12)	317,901	128,367
Repayments of borrowings (note 12)	(158,836)	(201,983)
Payment of lease liabilities (note 12)	(9,340)	(9,973)
Interest payments	(10,067)	(12,890)
Payment of other financing costs	(1,715)	(2,163)
Net cash used in financing activities	(127,954)	(161,997)
Effect of exchange rate changes	(2,385)	(658)
Net decrease in cash and cash equivalents in the period	(22,613)	(31,541)
Cash and cash equivalents at the beginning of the period	110,195	152,785
Cash and cash equivalents at the end of the period	87,582	121,244

Notes on pages 13 to 19 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 other reserves USD 000	Other equity USD 000	Retained earnings USD 000	Total USD 000
Balance at 1 January 2020	241,858	(264,608)	(258,384)	(143,742)	869,956	445,080
Profit for the period	–	–	–	–	45,977	45,977
Other comprehensive loss for the period, net of tax	–	–	–	(25,884)	(564)	(26,448)
Total comprehensive income for the period	–	–	–	(25,884)	45,413	19,529
Dividend paid	–	–	–	–	(63,355)	(63,355)
Hedging gains transferred to deferred revenues	–	–	–	(549)	–	(549)
Cost of share options	–	–	7,915	–	–	7,915
Exercise of share options	5,458	–	(5,458)	–	–	–
Costs associated with equity transactions	–	–	(56)	–	–	(56)
Acquisition of treasury shares	–	–	–	–	–	–
	5,458	–	2,401	(26,433)	(17,942)	(36,516)
Balance at 30 June 2020	**247,316**	**(264,608)**	**(255,983)**	**(170,175)**	**852,014**	**408,564**
Balance at 1 January 2021	**249,535**	**(264,608)**	**(259,823)**	**(179,851)**	**978,152**	**523,405**
Profit for the period	–	–	–	–	68,106	68,106
Other comprehensive income for the period, net of tax	–	–	–	25,044	–	25,044
Total comprehensive income for the period	–	–	–	25,044	68,106	93,150
Dividend paid (note 14)	–	–	–	–	(71,427)	(71,427)
Hedging loss transferred to deferred revenues	–	–	–	329	–	329
Cost of share options	–	–	9,382	–	–	9,382
Exercise of share options	1,836	–	(1,836)	–	–	–
Costs associated with equity transactions	–	–	(228)	–	–	(228)
Acquisition of treasury shares	–	(194,469)	–	–	–	(194,469)
	1,836	(194,469)	7,318	25,373	(3,321)	(163,263)
Balance at 30 June 2021	**251,371**	**(459,077)**	**(252,505)**	**(154,478)**	**974,831**	**360,142**

Notes on pages 13 to 19 are an integral part of these interim consolidated financial statements.

Notes to the consolidated interim financial statements

For the period ended 30 June 2021
Unaudited

1. General information
Temenos AG formerly named '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 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 months ended 30 June 2021 has been prepared in accordance with IAS 34 'Interim financial reporting' and is unaudited. The consolidated interim financial report should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2020 which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3. Accounting policies
The accounting policies are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2020, except as described below:

Taxation
Income tax is recognized based on the best estimate of the Group annual income tax rate for the full financial year, as applied to specific period profits and adjusted for specific period items as required to be consistent with IAS 34. The estimated annual income tax rate used for the year to 30 June 2021 is 17% compared to 14% for the six months ended 30 June 2020. The tax rate was lower in 2020 due to changing geographic mix of profits and the recognition of previously unrecognized carried forward tax losses.

New amendments or interpretations effective on or after 1 January 2021 did not have a significant impact on the Group's interim consolidated financial statements or on the Group's accounting policies.

4. Seasonality of operations
The Group's software licensing revenue, profit and cash collection tend to be 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
The Group extended the maturity of its revolving facility by one additional year, to mature on 5 July 2026.

The share buyback program was initiated by the Group on 19 February 2021, and it was completed on 30 July 2021. A total of 1,360,365 registered shares of the company were bought back at an average price per share of CHF 133.8747.

The Group's principal contingent liabilities arise from property rental guarantees, performance guarantees and bid bonds issued in the normal course of business. They exclude contingent consideration on acquisition. The Group is also involved in various lawsuits, claims, investigations and proceedings incidental to the normal conduct of its operations. The Group has agreed a settlement of an ongoing contractual dispute highlighted in the last Annual Report, for a cash consideration of USD 3.7 million, to be paid in two equal installments in July 2021 and January 2022. The total amount agreed to be paid has been recorded as a liability in the interim financial statements.

With the exception of the dispute settlement, there are no other material changes in respect of the Group's contingent liabilities, including litigation settlements, 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 effects. The Group's policies and objectives reported in the consolidated financial statements at 31 December 2020 remain the same.

6. Estimates and judgments
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 expenses. 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 have taken into consideration the uncertainties raised by the COVID-19 pandemic. Any forward-looking assumptions required to assess recoverability of financial instruments include the impact of COVID-19 where applicable, and no impairments have been identified. As the pandemic continues to evolve, it is difficult to predict the magnitude of its impact on assets, liabilities, and business operations. The Group continues to closely monitor the situation, and has seen strong momentum in the first of half of this year as more banks drive towards digital transformation in response to the pandemic.

Notes to the consolidated interim financial statements continued

For the period ended 30 June 2021
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7. 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 allocate resources.

The CODM considers the business from a product perspective and, therefore, recognizes the reporting segments as: 'Product' and 'Services'. Other representation of the Group's activities such as regional information is also presented to the CODM but it is not primarily used to review the Group's performance or to make decisions on the allocation of 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 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 recognized on deferred income liabilities acquired in a business combination and hence total revenues allocated to the two segments exceed the IFRS reported figures.

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

	Product		Services		Total	
	Half-year 2021 USD 000	Half-year 2020 USD 000	**Half-year 2021 USD 000**	Half-year 2020 USD 000	**Half-year 2021 USD 000**	Half-year 2020 USD 000
External revenues	**363,446**	326,662	**81,957**	82,710	**445,403**	409,372
Operating contribution	**161,904**	139,251	**15,110**	16,430	**177,014**	155,681

Intersegment transactions are recognized as part of the allocated expenses; they are based on internal cost rates that exclude any profit margin. There have been no changes to the basis of segmentation or measurement of segment profit or loss since the last annual consolidated financial statements. 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 2020.

Reconciliation to the Group's consolidated interim financial statements

	Half-year 2021 USD 000	Half-year 2020 USD 000
Total operating profit for the reportable segments	**177,014**	155,681
Fair value adjustment on acquired deferred income liability	**–**	(8,450)
Depreciation and amortization	**(72,472)**	(74,872)
Unallocated operating expenses	**(7,828)**	(5,097)
Finance costs – net	**(14,067)**	(14,574)
Profit before taxation	**82,647**	52,688

Geographical information

Revenues from external customers	**Half-year 2021 USD 000**	Half-year 2020 USD 000
Europe	**145,031**	134,383
America	**131,676**	115,798
Middle East and Africa	**82,388**	75,226
APAC	**86,308**	75,515
Total revenues	**445,403**	400,922

8. 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 categorized.

- 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 2021	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial assets at fair value through profit or loss (FVTPL)				
Foreign currency forwards	–	3,291	–	3,291
Convertible notes	–	–	19,900	19,900
Derivatives used for hedging				
Foreign currency forwards	–	2,517	–	2,517
Foreign currency options	–	247	–	247
Total	–	6,055	19,900	25,955

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial liabilities at fair value through profit or loss (FVTPL)				
Foreign currency forwards	–	2,745	–	2,745
Contingent consideration	–	–	880	880
Derivatives used for hedging				
Foreign currency forwards	–	891	–	891
Foreign currency options	–	120	–	120
Cross currency swap	–	11,981	–	11,981
Total	–	15,737	880	16,617

Balance at 31 December 2020	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial assets at fair value through profit or loss (FVTPL)				
Foreign currency forwards	–	5,754	–	5,754
Convertible notes	–	–	–	–
Derivatives used for hedging				
Foreign currency forwards	–	3,168	–	3,168
Foreign currency options	–	482	–	482
Total	–	9,404	–	9,404

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial liabilities at fair value through profit or loss (FVTPL)				
Foreign currency forwards	–	7,354	–	7,354
Foreign currency options	–	298	–	298
Contingent consideration	–	–	775	775
Derivatives used for hedging				
Foreign currency forwards	–	2,761	–	2,761
Foreign currency options	–	57	–	57
Cross currency swap	–	10,973	–	10,973
Total	–	21,443	775	22,218

During the first six months of the year there were no changes to the valuation techniques used for financial instruments nor transfers between Levels 1 and 2.

Notes to the consolidated interim financial statements continued

For the period ended 30 June 2021
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8. Fair value measurement (continued)

Assets and liabilities in Level 2

Foreign currency forwards

Discounted cash flow method: The fair value represents the future cash flows that are discounted using a risk-free yield curve adjusted for credit risk. The future cash flows are determined using forward exchange rates at the balance sheet date.

Foreign currency options

Black-Scholes model.

Cross currency swaps

Discounted cash flow method: Future cash flows are discounted using the interest zero yield-curve attributable to each currency (including currency basis spreads). The fair value of the leg measured in foreign currency is translated using the spot exchange rate.

There were no changes in valuation techniques during the period.

Assets and liabilities in Level 3

Convertible note

In June 2021, the Group entered into an agreement to purchase a convertible note for USD 19.9 million, with an option to convert into equity on or before the maturity period. Convertible notes are measured at FVTPL.

Since the convertible note was acquired towards the end of the interim period, the acquisition price was deemed to approximate fair value at the end of June.

Contingent consideration

The contingent consideration balance relates to 'Htrunk Software Solutions Private Limited', and any variances in forecasted revenue and discount rate are not considered to materially affect the fair value at the reporting date.

Reconciliation from the opening balances to the closing balances:

	Convertible note USD 000	Contingent consideration USD 000
At 1 January 2021	–	775
Purchase	19,900	–
Amount true up to 'Cost of sales'	–	31
Fair value change through OCI	–	74
At 30 June 2021	19,900	880

9. Financial instruments measured at amortized cost

The following table provides the fair value and carrying amount of the Group's financial instruments measured at amortized 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 and lease liabilities as exempted in IFRS 7 'Financial instruments: Disclosure'.

	30 June 2021		31 December 2020	
	Carrying amount USD 000	Fair value USD 000	Carrying amount USD 000	Fair value USD 000
Financial assets				
Non-current trade and other receivables	9,314	9,164	10,005	9,887
Total	9,314	9,164	10,005	9,887
Borrowings				
Other loans	147	153	179	155
Bank borrowings	265,352	265,138	110,987	110,845
Unsecured bonds	782,778	798,800	818,534	821,331
Total	1,048,277	1,064,091	929,700	932,331

10. Earnings per share

Basic

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

	Half-year 2021	Half-year 2020
Profit attributable to equity holders of the Company (USD 000)	**68,106**	45,977
Weighted average of ordinary shares outstanding during the period (in thousands)	**71,943**	71,628
Basic earnings per share (USD per share)	**0.95**	0.64

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 periods ended 30 June 2021 and 30 June 2020, this category was fully dilutive.

	Half-year 2021	Half-year 2020
Profit used to determine diluted earnings per share (USD 000)	**68,106**	45,977
Weighted average number of ordinary shares outstanding during the period (in thousands)	**71,943**	71,628
Adjustments for:		
– Share options (in thousands)	**773**	1,464
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**72,716**	73,092
Diluted earnings per share (USD per share)	**0.94**	0.63

11. Property, plant and equipment and intangible assets

Six months ended 30 June 2021	Property, plant and equipment USD 000	Intangible assets USD 000
Opening balance as at 1 January 2021	**62,930**	**1,667,704**
Additions	15,525	2,297
Retirements/Disposals	(1,324)	–
Capitalized development costs	–	40,073
Charge for the period	(12,986)	(59,486)
Foreign currency exchange differences	(943)	(16,569)
Closing net book amount as at 30 June 2021	**63,202**	**1,634,019**

As at 30 June 2021, included in property, plant and equipment is USD 44.1 million (31 December 2020: USD 43.5 million) for right-of-use assets.

Impairment test for intangibles

In the context of COVID-19 and its impact on the economic environment, the Group has been regularly monitoring the existence of any indicators that may require impairment testing in the first half of 2021. The Group has witnessed strong recovery of bookings in the first half of the year with profits and cash flow higher compared to the prior year. Considering the recovery and expected outlook , the Group concludes that no indicators exist since the annual impairment test performed for the year ending 2020, with no impairment test performed in the first half of 2021.

Notes to the consolidated interim financial statements continued

For the period ended 30 June 2021
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12. Borrowings

	30 June 2021 USD 000	31 December 2020 USD 000
Current		
Other loans	56	59
Bank borrowings	–	–
Unsecured bonds	194,425	5,014
Lease liabilities	15,933	16,445
	210,414	21,518
Non-current		
Other loans	91	120
Bank borrowings	265,352	110,987
Unsecured bonds	588,353	813,520
Lease liabilities	32,336	31,711
	886,132	956,338
Total borrowings	1,096,546	977,856

Movements in borrowings are analyzed as follows:

	Six months ended 30 June 2021 USD 000
Opening balance as at 1 January 2021	977,856
Proceeds from bank borrowings	317,901
Repayments of borrowings	(158,836)
Unsecured bond-coupon payments	(6,672)
Interest expense	7,611
Payments of lease liabilities	(9,340)
Net addition to lease liability	9,952
Foreign currency exchange differences	(41,926)
Closing net book amount as at 30 June 2021	1,096,546

Bank facilities

The Group holds a multicurrency committed revolving facility of USD 660 million. The pertinent details are as follows:

- Interest at LIBOR plus variable margin, which is calculated by reference to certain financial covenants;
- The facility terminates on 5 July 2026; and
- Commitment fees are due on the undrawn portion.

As at 30 June 2021, a total of USD 265.5 million (31 December 2020: USD 111.0 million) was drawn under this agreement.

The facility is subject to financial covenants which have been adhered to during the reported periods.

13. Share capital
As at 30 June 2021, the issued shares of Temenos AG comprised 74,540,787 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 2021 are summarized below:

	Number
Total number of shares issued as at 1 January 2021	74,206,266
Treasury shares	(1,804,267)
Total number of shares outstanding as at 1 January 2021	72,401,999
Creation of new ordinary shares out of conditional capital for share-based payment transactions	334,521
Acquisition of treasury shares (share buyback)	(1,323,921)
Total number of shares outstanding as at 30 June 2021	**71,412,599**

As at 30 June 2021 the number of treasury shares held by the Group amounted to 3,128,188 (31 December 2020: 1,804,267).

Temenos AG also has conditional and authorized capital, comprising:

	Number
Authorized shares available until 20 May 2023	7,100,000
Conditional shares that may be issued on the exercise of share-based payment transactions	3,309,137
Conditional shares that may be issued in conjunction with financial instruments	6,607,904

14. Dividend per share
A dividend of CHF 64.4 million (CHF 0.90 per share) was paid in 2021 relating to the 2020 financial year.

15. Events occurring after the reporting period
There were no reportable events that occurred after the reporting period.

Sources

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8. Aite Group, Aite Matrix Evaluation: Investment and Fund Accounting Systems, April 2020.

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Design and Production
www.carrkamasa.co.uk

Temenos Headquarters SA

Rue de L'Ecole-de-Chimie 2
CH-1205 Geneva
Switzerland
Tel: +41 22 708 1150
www.temenos.com