Annual Report and Accounts 2004

TEMENOS™

Corporate Profile

TEMENOS is a global leader in providing financial institutions with integrated banking systems that increase productivity and profitability and allow them to respond to changing market conditions. The Group's solutions, TEMENOS T24 and TEMENOS CoreBanking, are utilised in a variety of segments including retail, wholesale, universal, international corporate banking, wealth management and private banking as well as microlending. TEMENOS has 34 offices in 29 countries and over 300 installed client bases. The Group had revenues of US$ 153.6 million for the year ended 31 December 2004. In June 2001, TEMENOS became a public company, quoted on the SWX Swiss Exchange.

Trading details

Listing: SWX Swiss Exchange
Symbol: TEMN
Swiss security number: 124 5391
ISIN: CH 00124 53913
Common Code: 13169144

Key Figures (31 December)

All financial units in thousands of US dollars except earnings per share, operating margin and EBITDA margin

	2004	2003
Employees (including consultants)	1,179	1,224
Revenues	153,575	146,191
Operating profit	15,325	10,722
Operating margin	10.0%	7.3%
EBITDA	31,330	25,195
EBITDA margin	20.4%	17.2%
Net profit	15,368	10,887
Cash generated from operating activities	15,934	16,422
Total assets	164,050	151,790
Shareholders' equity	83,460	66,157
Basic earnings per share	US$ 0.28	US$ 0.20
Diluted earnings per share	US$ 0.26	US$ 0.19

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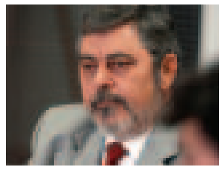
Financial Highlights

(in millions of US dollars except earnings per share)

	2004	2003	2002	2001	2000*
Revenues	153.6	146.2	113.3	140.9	95.3
Operating costs	139.3	135.5	157.7	125.3	79.7
Other operating income	1.0	–	–	–	–
Operating profit (loss)	15.3	10.7	(44.4)	15.6	15.6
Profit (loss) before taxation	17.6	12.7	(47.1)	9.9	13.8
Net profit (loss) after tax	15.4	10.9	(49.5)	5.9	11.2
EBITDA	31.3	25.2	(31.6)	23.3	20.2
Basic earnings (losses) per share (in US$)	0.28	0.20	(0.95)	0.13	0.20
Diluted earnings (losses) per share (in US$)	0.26	0.19	(0.95)	0.12	0.19
Cash generated from operating activities	15.9	16.4	(4.8)	(0.3)	2.5
Current assets	114.5	108.2	69.4	132.7	47.4
Non-current assets	49.6	43.6	53.0	38.7	18.0
Total assets	164.1	151.8	122.4	171.4	65.4
Current liabilities (excluding deferred revenues)	36.8	49.5	32.3	24.6	24.7
Deferred revenues	34.6	35.9	22.2	16.6	20.0
Total current liabilities	71.4	85.4	54.5	41.2	44.7
Non-current liabilities	8.5	0.2	15.2	30.1	62.4
Total liabilities	79.9	85.6	69.7	71.3	107.1
Minority interest	0.7	–	–	2.5	0.7
Shareholders' equity (deficit)	83.5	66.2	52.7	97.6	(42.4)
Total equity and liabilities	164.1	151.8	122.4	171.4	65.4

(*) The accounting year end of the Group was changed from 30 June to 31 December effective from the financial year ending 31 December 2001. Comparatives for the full year ended 31 December 2000 have been compiled.



Chairman's Statement

I am delighted to be in the position to look back on the year which has just closed and report on another very good year for TEMENOS: a year when we confirmed both our position of leadership in the banking software industry and celebrated a solid financial performance – all against a fairly unsettled economic background. In retrospect, 2004 was a year in which TEMENOS continued to grow substantially.

Although 2004 has been a challenging year for most companies and markets, TEMENOS has continued to gain traction due to a strong business model, plus product superiority and distribution. Indeed, when most of our competitors were talking about 'deal slippage' or 'challenging market conditions', TEMENOS continued to grow its initial licence fees (ILFs) at 22% more than in 2003! The growth in signings for 2004 has been driven by a very strong performance in Asia, where TEMENOS almost tripled signings compared to 2003 and in Europe, Africa and the Middle East, where signings grew at more than 20%. Our signings year on year in North America remained more or less the same. More importantly, the growth we have pursued is profitable and sustainable. As a result we have been able to continue to invest significantly in our products and our organisation, and outpace the competition around the world.

Andreas Andreades, our CEO, established a consolidated management structure and set up strongly managed regions consisting of: EMEA (including Europe, Middle East and Africa) headed by Jean-Michel Hilsenkopf who has been with TEMENOS since November 1993; Asia-Pacific managed by Mark Cullinane the newest Regional Director at TEMENOS, having spent more than 16 years with MISYS in the Pacific; and the Americas consisting of North America managed by Mark Gunning, 6 years with TEMENOS and South America led by Enrique O'Reilly, almost 11 years of experience with TEMENOS. The Regions are well managed by a blend of experienced and motivated individuals.

The EMEA region which represents 72% of our revenues in 2004 had a successful year with some significant new name wins as well as cross selling to our installed base. New single and multiple site licence contracts were additionally signed with Raiffeisen Krekova Banka d.d in Slovenia; with Bank of Botswana in Botswana; with the Joint Stock Commercial Bank for Social Development (Ukrsotsbank) in Ukraine and with Banco Sabadell for private banking in Barcelona and Miami. Europe has also been the cradle of exciting events. Indeed, one of the privileges of my position in 2004 was to be able to welcome so many banks and financial institutions as new users of our systems. I had the opportunity to meet our new clients at a number of TEMENOS events during the year, which included the TEMENOS CLIENT FORUM (TCF) in Prague and a special dinner in Athens to mark the opening of our new Greek office.

In the Asia Pacific region, we achieved excellent results from both a financial and business perspective, as has been demonstrated by our success in this fast growing market. Indeed, we strengthened our commitment to this world's fastest growing region where we opened an office in Shanghai, where we already have one client, Bank of Shanghai, currently implementing TEMENOS T24, and in conjunction with Oracle and HP we have made a commitment to increase our collective market share in China. Asia Pacific offers some exciting opportunities for TEMENOS and we signed a number of deals in the region with high profile banks, such as BAAC (for TEMENOS CoreBanking) and Sacombank (for TEMENOS T24).
The Chinese market represents exciting opportunities since, with banks gearing up for the entry of foreign organisations in 2007, China's financial services industry has eclipsed most markets in Asia Pacific to become the region's second largest and fastest growing market for IT products and related services.

We signed interesting contracts in the Americas; in the United States, a noteworthy addition to our client base was the United Nations Federal Credit Union (UNFCU) – a project which positions us very strongly in the US domestic credit unions market. In South America, at the 'Convention de Intermediarios Financieros Especializados' in Acapulco, IT support services group, FESI (Fomento Empresarial de Servicios Informáticos) announced a powerful new banking solution to support financial intermediaries in Mexico. FESI is the result of a strategic initiative between TEMENOS and FIRA (Fideicomisos Instituidos en Relación con la Agricultura), a financial and technical support institution created in 1954 as an adjunct to the Central Bank of Mexico. The new solution was built on TEMENOS T24, based on the TEMENOS eMerge platform. The role of FESI is to help the intermediaries to reduce their IT investment and help them to run their key business processes, through use of the

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most advanced technology. FESI will offer itself as an ASP (application service provider) via the internet, on a payment per use (PPU) basis. The FESI philosophy is very much, 'You take care of your business, we will take care of the technology!' With this concept of 'e-Service', FESI adds a further dimension to the practices of e-Business and e-Commerce.

We have continued to enhance our products in recent years and 2004 saw us reap the rewards of this investment: TEMENOS™ CoreBanking enabled us to add a number of tier one and tier two retail financial institutions to the TEMENOS family – Bank Thai and the Bank for Agriculture and Agricultural Cooperatives (BAAC) to name but two. 2004 saw also our first clients going live on TEMENOS™ CoreBanking (henceforth referred to as TCB) – indeed we now have six clients who have chosen TCB, three of whom are now live, an encouraging situation given that our products are designed to be implemented quickly compared to competitive products.

While signing record levels of new contracts we also completed the successful migration of our first clients from TEMENOS GLOBUS™ to TEMENOS T24™ – Sri Lanka's Hatton National Bank providing a good example of a major retail Bank adopting breakthrough technologies; and more clients are going through upgrade projects to TEMENOS T24 with a target conversion date early 2005. The TEMENOS eMerge™ product has continued its quiet success – as demonstrated by the first client forum held in Nairobi and the existence of 46 implementations in over 30 countries. Clearly, TEMENOS is viewed as a serious and reliable supplier, but we must not let this success go to our heads! With each new contract comes the responsibility to provide the appropriate level of support to each client to ensure a successful implementation. We have continued to strengthen support in 2004 for both TEMENOS T24 and TEMENOS CoreBanking.

Apart from the business highlights, we will also remember 2004 for our association with the Swiss skipper, Dominique Wavre, an extraordinary sailor and wonderful person. In his TEMENOS boat, Dominique had his own challenges to meet – in the course of the Transat race, where he performed magnificently to take second place, and from November, in the Vendée Globe round-the-world race, where I had the privilege of welcoming Dominique at the Sables D'Olonne as he finished number 4 after 92 days in the seas. This is a particularly gruelling race, requiring superlative levels of seamanship and personal stamina. Like TEMENOS, Dominique persevered and excelled.

Before I conclude, I would like to send all my thoughts to the victims of the terrible events following the tsunami in the Indian Ocean. None of our people or offices were directly affected, however, some clients and millions of people who bore the brunt of the tsunami suffered immensely and we are doing our best to support and offer our assistance to the people affected in those areas.

I am convinced that the foundations we have put in place will propel us to our next level of growth and I am confident of success in 2005 and in the years beyond. The growth we are achieving this year is quite exceptional for any player in our industry, especially one of our size. I would like to take this opportunity to extend my thanks and gratitude to all our employees, the management and Directors for making TEMENOS a success. The relentless TEMENOS pursuit of success, dedication, loyalty and commitment are what makes TEMENOS so special and different from other suppliers.

I look forward to sharing with you all 2005 and all its challenges, alongside its new opportunities!

George Koukis Chairman

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Product Summary

2004 represented a fresh challenge for TEMENOS. It was a year of consolidation for both of our product initiatives, TEMENOS™ CoreBanking and TEMENOS T24™. Throughout the year, we have supported and marketed successfully two flagship products and have established their superiority.

With regards to TEMENOS T24™ we continued our success in partnering with industry leaders. TEMENOS T24™ successfully passed some important benchmarks. IBM and TEMENOS tested TEMENOS T24™'s non-stop processing capability in a simulated high volume retail environment using a multitier, distributed architecture. Also, recent benchmark tests have demonstrated that TEMENOS T24™ can deliver increased operational efficiency and business agility to banks, using Oracle technology and HP Integrity and Superdrome servers. This benchmark established proof points for two key system requirements – performance and scalability

During 2004, TEMENOS reported strong uptake in terms of new sales including: UBS Investment Bank in Switzerland; Sacombank, Ho Chi Minh, Vietnam; United Nations Federal Credit Union (UNFCU) in New York, US; Anglo Irish Bank in London, UK and Dublin, Ireland; Overseas Private Investment Corporation (OPIC), Washington, US; Banque de France in Paris, France; Raiffeisen Krekova Bana, Ljubljana, Slovenia; Bank of Botswana, Gaborone, Botswana; Joint Stock Commercial Bank for Social Development, Kiev, Ukraine.

The migration of existing clients from TEMENOS GLOBUS™ to TEMENOS T24™ has continued during 2004. The migration team has developed and evolved tools and routines to assist the smooth migration from earlier versions of TEMENOS GLOBUS™ to the latest version of R4 and R5 of TEMENOS T24™ products. During the year eight banks completed their migration from TEMENOS GLOBUS™ to TEMENOS T24™. A number of others are either in the process or planning their migration projects. Black spot areas such as dealing with UniVerse local code have been overcome with the assistance of the migration tools.

We have successfully made the leap from a single product to a multi-product company, with TEMENOS™ CoreBanking now reaping the benefits of two years of integration and development work. TEMENOS™ CoreBanking represents a significant share of our revenues and of our future strategy. We have been focusing strongly on packaging TEMENOS™ CoreBanking and we have developed a clear road map for its evolution in the future, including taking it to the open J2EE world.

TEMENOS™ CoreBanking is an established product in the IBM mainframe (z-series) sector of the market and, in its classic form, it uses all of the elements that would be expected in a large scale CoreBanking solution based on leading technologies. Traditionally targeted at the larger retail banks (where mainframe processing forms an integral part of the overall systems strategy), the system is now being made available within the J2EE framework. This will provide a scalable and portable solution across a much wider range of hardware and software platforms. This will also make the system accessible to a far greater number of banks which, for reasons of size, cost or technological choice, would not choose a traditional mainframe. This past year, we have been maintaining a strong focus on quality and have also devoted a significant part of our development resources to ensuring the delivery of a high quality product. We have reshaped client services across all regions, with the aim of delivering consistent and high quality professional services.

We are now entering into our next phase of growth, with a clear product and market position and strong, transparent financials.

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Business Report

on corporate governance, results, financial position and future developments

The directors present their annual report and the audited financial statements of the TEMENOS GROUP for the year ended 31 December 2004. This report should be read in conjunction with the Chairman's Statement.

Review of Developments

When we started the year our main objectives were to:

- Bring T24, the successor to GLOBUS, to market, ensure its acceptance by both clients and prospects and continue to lead the industry with a modern, technologically advanced product
- Establish TEMENOS CoreBanking (TCB) as a winning product in the Tier 1 retail segment of the market

When we look back on the year we feel justified in celebrating on our success in achieving both objectives. We signed in excess of 25 new clients for 2004, including two new TCB deals, and a significant number of our GLOBUS clients have already migrated to T24 with tremendous success. We can boast six TCB clients in total, with three already using the system in production.

As discussed elsewhere in the report, 2004 has contained a number of other significant events for TEMENOS, notably: the acquisition and successful subsequent integration of our former joint venture businesses in eastern Europe, which has already yielded its first two deals; the establishment of our Executive Board as the primary board for the day to day running of the company; the organisation of our global presence under well managed regions; and the success of our Business Partner model, evidenced by our stronger relationships with IBM, HP, and Oracle in particular, as well as a number of other increasingly TEMENOS focused implementation partners.

From a market perspective, during 2004 we continued to benefit from a sustained recovery in spending as general economic conditions improve and financial institutions once again focus on addressing the twin problems of outdated and expensive legacy systems coupled with the demands of the increased regulatory environment. Bank executives are slowly coming to the conclusion that a strategic cost reduction beyond today's levels, and improvement in the ability to retain and cross sell to customers, can only take place if core systems are radically overhauled.

The Group continued to improve its financial performance with increasing profitability and net free cash flow generation for the second year in a row. Largely as a result of a 22% increase in initial licence fee (ILF) signings during 2004, revenues were US$ 153.6 million in 2004 compared to US$ 146.2 in 2003. Despite the increase in revenues the Group managed to reduce costs by 6% at constant currency rates through operational leverage. As a result of these achievements the Group's EBIT for the year reached US$ 17.6 million, an increase of 64% compared to 2003 and earnings per share reached US$ 0.26 compared to US$ 0.19 for 2003. Operating cash flow for the year was US$ 15.9 million leaving a closing cash position as at 31 December 2004 of US$ 30.8 million.

A. Andreades
Chief Executive Officer 11 March 2005

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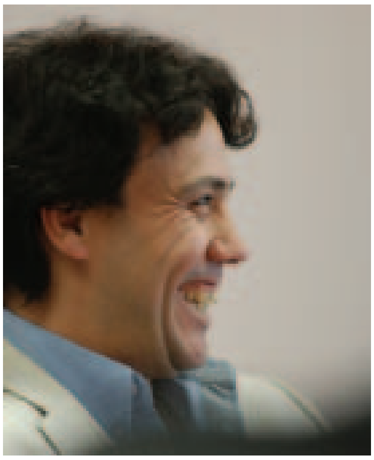


Corporate Governance

Introduction

This report has been prepared in compliance with the Directive on Information Relating to Corporate Governance (hereafter "DCG") issued by the SWX Swiss Exchange and entered into force on 1 July 2002.

In the present Annual Report, the corporate governance information has been summarised in a separate section, whereas references to other parts of the Annual Report have been included in certain instances in an effort to avoid duplication.

In order to enhance readability, the present corporate governance section follows the suggested structure as described in the DCG's annex.

If there is a specific disclosure listed in the DCG that is not addressed in the following statements, the given item does not apply to TEMENOS Group AG (hereafter "TEMENOS", "the Group" or "the Company") or is considered immaterial.

Unless otherwise indicated, the information provided in this report reflects the situation as at 31 December 2004.

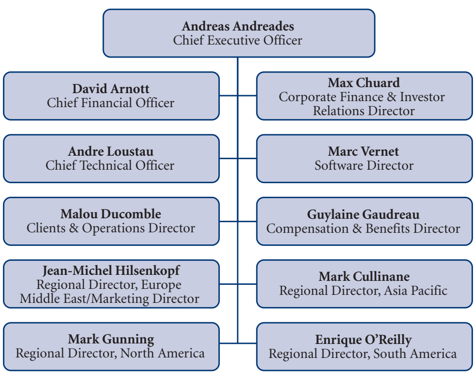
Group structure and shareholders

1.1 Group structure

The ultimate holding company, TEMENOS Group AG, has been registered in Glarus since 7 June 2001 and its shares have been listed on the SWX Swiss Exchange since 26 June 2001 (Symbol: TEMN; Swiss Security Number: 1245391; ISIN: CH0012453913). TEMENOS is headquartered in Geneva.

1.1.1 Operational Group structure

The TEMENOS Group is organised and managed by the Chief Executive Officer (CEO) who is the head of the Executive Board as shown on the organisation chart below.



1.1.2 TEMENOS Group AG is the sole listed company and owns all companies belonging to the TEMENOS Group.

1.1.3 Under the direction of the CEO, the Executive Board is responsible for managing, coordinating and executing the Company's business operations. The Executive Board includes directors of the Group's software products and services businesses, its main regional sales and services organisations and the principal corporate functions.

In particular and without limitation, the Executive Board has the following responsibilities:

- Implementation of the strategy and policies agreed upon by the Board of Directors;
- Management of the Company on a day to day basis;
- Managing the performance of the Company;
- Ensuring efficient operational performance and attainment of the business targets.

The Group is managed using a matrix of global business functions supported by regional sales and service operations, incorporating activities of product development, product and services marketing, key customer relationship management and product support functions.

Operationally, the Group's product sales and services operations are divided into three main geographic regions: Europe, Middle East, Africa, Russia & Baltic States (EMEA), Asia Pacific (APAC) and Americas (composed of North America [NA] and South America [SA]). Each region is headed by a Regional Director, who is also a member of the Executive Board.

India and Spain are the Group Product Support and Development centres, where the Help Desk and Development departments are located.

With the exception of FOMENTO EMPRESARIAL DE SERVICIOS INFORMATICOS SA de CV (a 51% owned Mexican joint-venture) all the subsidiaries are, either directly or indirectly, wholly owned by TEMENOS Group AG, as the ultimate parent company of the Group.

Please refer to note 3 of the consolidated financial statements for the list of all the principal group companies belonging to the Group.

Please refer to the Information for Investors section on page 54 for statistics on TEMENOS shares.

As of 31 December 2004, the market capitalisation amounts to CHF 577,000,567.

1.2 Significant shareholders

Please find below the list of major shareholders (who hold more than 5% of the voting rights) as at 31 December 2004.

George Koukis:	26.1%
Kim Goodall*:	10.4%
Global Capital Investors:	10.1%
Schroders**:	5.3%

*to the best of our knowledge, 9,1% (out of 10,4%) are deposited shares (art.689d CO)
**deposited shares (art. 689d CO)

Please also refer to note 3 of the unconsolidated financial statements of TEMENOS Group AG.

In 2004, the following publications were made in the Swiss Commercial Gazette (SHAB):

Publication of 22 December 2004

- Schroders PLC, (London EC2V 7QA) holds 5,3% of the voting rights (2,913,701 registered shares).

Publication of 27 September 2004

- Admerex (Ireland) Limited (Bray-Co Wicklow-Republic of Ireland) holds an option to acquire up to 5,000,000 registered shares in TEMENOS Group AG (9,1% of the voting rights) from Mr. Kim Goodall at any time over the next 36 months (beneficial owner of Admerex: Kim Goodall).
- Upon exercise of Admerex option, Kim Goodall will hold less than 5% of the voting rights.

Publication of 08 July 2004

- Fidelity International Ltd (Bermuda) and its direct and indirect subsidiaries hold 4,95% of the voting rights (2,696,496 registered shares).

1.3 There are no cross-shareholdings to report.

Capital structure

2.1 Capital

On 31 December 2004 the ordinary capital amounts to CHF 274,762,175, consisting of 54,952,435 registered shares, each with a nominal value of CHF 5. All the shares are fully paid-up. Each recorded share entitles its holder to one vote. TEMENOS has an authorised capital totalling CHF 134,756,635 and a conditional capital totalling CHF 63,535,970 for shares that may be issued on the exercising of share options granted to employees of the Group. Additional conditional capital totalling CHF 69,653,400 exists for shares that may be issued in conjunction with financial instruments.

2.2 Authorised and conditional capital

Authorised capital

Pursuant to the Articles of Association, the Board of Directors is authorised to increase the share capital to a maximum aggregate amount of CHF 134,756,635 through the issuance of a maximum of 26,951,327 fully paid-in registered shares with a nominal value of CHF 5 per share. An increase in partial amounts is permitted. This power expires on 27 June 2006.

The Board of Directors shall determine the date of issue of such new shares, the issue price, type of payment, conditions of exercising pre-emptive rights, and the beginning of the dividend entitlement. The Board of Directors may issue new shares by the means of a firm underwritten by a banking institution or syndicate with subsequent offer of those shares. The Board of Directors may allow the expiry of pre-emptive rights which have not been exercised or it may place these rights as well as shares, the pre-emptive rights for which have not been exercised, at market conditions.

The Board of Directors is authorised to restrict or withdraw the pre-emptive and subscription rights of existing shareholders and allocate them to third parties if (i) the shares are to be used for the take-over of another company or enterprise, of parts of an enterprise or of participations for the financing of such transactions; or if (ii) the shares are to be used for the purpose of expanding the scope of shareholders in connection with the quotation of shares on national and foreign stock exchanges.

Conditional capital for employee participation

Pursuant to the Articles of Association, the company's share capital shall be increased by a maximum aggregate amount of CHF 65,535,970, through the issuance of a maximum of 12,707,194 registered shares, which shall be fully paid-in, with a nominal value of CHF 5 each, through TEMENOS Holdings N.V., a subsidiary of the Company ('the Subsidiary') or through the Company itself, to officers, directors and employees at all levels of the Company and group companies. The pre-emptive rights as well as the right for advance subscription of existing shareholders are precluded.

The issue of shares or respective option rights through the Subsidiary or through the Company, to officers, directors and employees of the Company and group companies, is subject to one or more regulations to be issued by the Board of Directors on the basis of the following general rules:
(i) new shares may only be issued to the Subsidiary or to the Company for purposes of distribution to directors, officers or employees of the Company and group companies;
(ii) new shares to be issued through the Subsidiary or through the Company, to employees of the Company or group companies shall be issued at a nominal value of CHF 5 per share.

Conditional capital for financial instruments
Pursuant to the Articles of Association, the share capital may be increased by an amount not exceeding CHF 69,653,400 by issuing up to 13,930,680 registered shares – to be fully paid-in with a nominal value of CHF 5 each – through the exercise of conversion and/or option rights which are granted in connection with bonds or similar debt instruments of the Company or one of its group companies.

The conditions of the option rights, including the exercise period and the exercise price, are to be determined by the Board of Directors whereby the exercise price may be fixed at a price lower than the market or intrinsic value. The pre-emptive rights, as well as the right for advance subscription of existing shareholders, are precluded.

2.3 Changes in capital
TEMENOS Group AG was incorporated on 7 June 2001 and has succeeded TEMENOS Holdings N.V., as the ultimate holding company of the Group.

Statutory accounts

in thousands of CHF	31.12.2004	31.12.2003	31.12.2002
Share capital	274,762	272,362	270,666
Share premium and reserve for treasury shares	175,034	174,852	175,006
Profit (loss) carried forward	(19)	51	(340,923)
Total equity	449,777	447,265	104,749

2.4 Shares
All equity securities of TEMENOS are in the form of registered shares, each with a nominal value of CHF 5. Each share confers the right to one vote at the Annual General Meeting of Shareholders and all shares are fully entitled to receive dividends. The Company did not pay any dividend in 2004. TEMENOS does not currently anticipate paying any dividends, as it intends to retain future earnings to finance the development and growth of its business.

2.5 Profit sharing certificates
As above-mentioned, the Company does not issue such equity securities.

2.6 Limitations on transferability and nominee registrations
There are no restrictions on the transfer of shares. Only shareholders entered in the share register as shareholders or as usufructuaries may exercise the voting rights linked to the shares or the other rights connected with these voting rights. The Company shall recognise only one representative for each share. Nominee registrations are permitted.

2.7 Convertible bonds and warrants/options
Regarding stock options granted to employees, please refer to note 16 of the consolidated financial statements and to section 5.6 (below).

Board of Directors

The Board of Directors is elected by the shareholders and holds the ultimate decision-making authority of the Company for all matters except those reserved by law to the shareholders. The Board of Directors shall manage the business of the Company insofar as it has not been delegated to the CEO, who chairs the Executive Board of the Company. The Board of Directors exercises inalienable and non-transferable functions as provided by the law, by the Company's Articles of Association and by this Charter.

3.1 Members of the Board of Directors

As at 31 December 2004 the Board of Directors comprises six members, four of whom are non-executive. The non-executive members of the Board have no material business dealings with TEMENOS.

a) Status as at 31 December 2004

George Koukis (58) *Chairman, executive director*

Mr. George Koukis received his degree in commerce from the University of Technology in Sydney, Australia and is a registered CPA. Mr. Koukis has been active in the software industry for more than 20 years, having begun at Qantas where he was heavily involved with the computerisation of the company's management accounting department. He then spent six years with Management Science America (MSA) in Australia where he held various management positions, including that of the managing director.

As Chairman and founder of TEMENOS, Mr. Koukis manages certain key client relationships and participates actively in the strategy of the Group. Mr. Koukis is a Greek and Australian national and continues to hold positions on the Board of Directors of a number of operating companies within the Group. Mr. Koukis remains the largest shareholder in TEMENOS Group AG as mentioned in section 1.2. Mr. Koukis was elected in 2001, re-elected in 2002, and is due for re-election at the forthcoming Annual Meeting of Shareholders.

Paul Selway-Swift (61) *Vice Chairman, non-executive and independent director*

Mr. Paul Selway-Swift has many years of experience in the financial services industry with The HSBC Group where he held senior management positions in both Hong Kong and London. He is currently Non-Executive Chairman of Singer & Friedlander Group PLC, an independent financial services group of SVB Holdings PLC, a specialist insurance group and is also a non-executive director of Alba PLC; all of which are quoted on The London Stock Exchange. He is Chairman of The Atlantis China Fund and a director of Li and Fung Ltd which is quoted on The Hong Kong Stock Exchange.

Mr. Selway-Swift was educated in England and subsequently attended Massachusetts Institute of Technology Program for Senior Executives.

Mr. Selway-Swift is a British national. He holds a small number of shares in TEMENOS but does not hold share options in the TEMENOS Group; he has never held a management position in the TEMENOS Group nor does he have any other business connections with the Group.

Mr. Selway-Swift chairs the Compensation Committee and is a member of the Audit and Nomination Committees. He was first elected in 2001 and was re-elected in 2003 for a three-year term. He was appointed Vice-Chairman of the Board in 2004 for a period of one year.

Andreas Andreades (39) *Chief Executive Officer, executive director*

Mr. Andreas Andreades started his career with KPMG in London in 1988. After spending five years in the accounting profession he joined PepsiCo, where he held a number of strategic, sales and general management positions. Mr. Andreades holds an engineering degree from the University of Cambridge and is a U.K. chartered accountant. He joined TEMENOS in 1999, initially in the position of Chief Financial Officer, before assuming the responsibilities of Deputy Chief Executive Officer and of Chief Executive Officer.

Mr. Andreades is a Cypriot national and holds positions on the Board of Directors of a number of operating companies within the Group.

Mr. Andreades was elected in 2001 and re-elected in 2004 for a three-year term of office. Mr. Andreades is a member of the Nomination Committee.

Chris Pavlou (60) *Non-executive and independent director*

Mr. Chris Pavlou has formerly served as the Treasurer of Barclays Bank in London and New York, of the Hong Kong & Shanghai Banking Corporation in Hong Kong and of HSBC Midland in Tokyo. He was the Asia Pacific Regional Delegate of the International Forex Association. He retired from HSBC in 1998 and currently delivers speeches and writes articles on treasury and foreign exchange operations. He also serves as Chairman of Popular Investments Corporation and as a non-executive director of the Popular Banking Group.

Mr. Pavlou is a British national and does not hold share options in the TEMENOS Group. Mr. Pavlou has never held a management position in the Group and has no business connections with the Group. Mr. Pavlou was elected in 2001, re-elected in 2002 and is due for re-election at the forthcoming Annual Meeting of Shareholders.

Mr. Pavlou chairs the Nomination Committee and is a member of the Audit and Compensation Committees.

Lewis Polk Rutherfurd (61) *Non-executive and independent director*
Mr. Lewis Polk Rutherfurd holds a bachelor's degree in East Asia Studies from Princeton University and an MBA with distinction from Harvard Business School. Mr. Rutherfurd is co-founder and managing director of Inter-Asia Management, Inter-Asia Venture Management II Partnership and Inter-Asia Capital III. He is a former Governor and Vice President of the American Chamber of Commerce in Hong Kong. He is a co-founder and past chairman of the HK Venture Capital Association.

Mr. Rutherfurd is an American national and does not hold share options in the TEMENOS Group. Mr. Rutherfurd has never had a managing position in the TEMENOS Group and has no business connections with the Group. Mr. Rutherfurd was elected in 2001 and re-elected in 2003 for a three-year term of office.

Mr. Rutherfurd chairs the Audit Committee and is a member of the Nomination Committee

Kim Warren Goodall (49) *Vice Chairman, executive director**
Mr. Kim Warren Goodall began his career as a financial management trainee with Qantas. After leaving Qantas, Mr. Goodall joined Management Science America (MSA) where he worked in the support and marketing areas in the Sydney, Singapore and Hong Kong offices. He is a member of the Institute of Directors and a Justice of the Peace. Mr. Goodall is an Australian national. He has a substantial equity interest in TEMENOS Group AG, as mentioned in section 1.2.

Mr. Goodall was elected in 2001 and re-elected in 2003 for a three-year term of office.

*Mr. Goodall resigned on 02 February 2005 (please refer to point b) below.

b) Changes in the course of 2005
The Board of Directors has been advised of and accepted Mr. Kim Goodall's resignation from the Board of Directors as of 2nd February 2005. Mr. Goodall has resigned to concentrate on the management of ADMEREX (please refer also to above section 1.2).

3.2 Other activities and vested interests
Please refer to the information provided in section 3.1.

3.3 Cross-involvement
Mr. Kim Goodall sits on the Board of Directors of Admerex limited, a company listed in Australia (ASX: ADL). There are no other cross involvements among the members of the Board of Directors and boards of other listed companies.

3.4 Elections and term of office

3.4.1 Principles of the election procedure and term limits
The members of the Board of Directors are elected by the General Meeting of Shareholders for a term of office of three years, whereby one year shall be understood to be the period from one ordinary General Meeting of Shareholders to the next ordinary General Meeting of Shareholders. Upon the expiration of their terms of office the members may be re-elected immediately and without limitations. Moreover, the Board of Directors shall organise the election of its members in such a way as to ensure that at each ordinary General Meeting of Shareholders approximately one-third of the members shall complete their term of office. Members newly appointed during a term of office shall complete the term of office of their predecessor. At the Annual General Meeting of Shareholders, the Board members are individually (re)-elected.

3.4.2 First election and remaining term of office of each director
Please refer to the information provided in section 3.1.

3.5 Internal organisational structure

3.5.1 Allocation of tasks within the Board of Directors
The Board of Directors, together with its Audit, Compensation and Nomination Committees, exercises inalienable and non-transferable functions as provided by the law, by the Company's Articles of Association and by its Charter. The Board of Directors of TEMENOS decides in particular on significant acquisition, disposal, strategic alliances, share repurchase program and change in the Group's structure and organisation, though is not limited to this.

Once a year, the Board reviews its conformity to corporate governance rules and evaluates its own performance as a whole. During this exercise the non-executive directors evaluate the performance of each executive director and vice versa.

Five members currently compose the Group's Board of Directors, three being non-executive and independent.

The Board meets as often as business matters require, but at least four times a year.

Based on Article 17 of the Articles of Association of TEMENOS Group AG, and on Article 3.5 of the Organisation By-Laws of the Company, the Board of Directors has delegated the entire operational management of the Company to the Chief Executive Officer, except where the law, the Articles of Association, the Organisation By-laws or the present Regulations provide differently.

Please refer to section 3.1 for complementary information.

3.5.2 Composition, tasks and areas of responsibility for each Committee

The Audit, Compensation and Nomination Committees are governed by terms of reference defining their purpose, obligations and compositions. As mentioned in section 3.1, these Committees comprise mainly non-executive and independent directors. These committees report regularly to the Board of Directors.

Audit Committee

The Audit Committee is required to meet at least twice a year to consider the Group's public reports, to liaise with the external auditors, and to review the Group's internal controls, compliance with corporate governance rules and any other matter that may be brought to its attention by the internal and/or external auditors.

The external and internal auditors are systematically invited to the Audit Committee meetings.

Compensation Committee

The Group reviews on an ongoing basis, the compensation of its employees worldwide, by reference to the prevailing market norms, at each of the locations in which it operates.

At least twice a year, the Compensation Committee reviews, approves and makes recommendations on compensation practices and policies designed to help develop a competitive, equitable and performance based package allowing TEMENOS to attract and retain top talent within the Group. The Compensation Committee also reviews, approves and makes recommendations on compensation packages concerning the executive Board of Directors members and members of the Executive Board and seeks to confirm that such compensation is in line with market norms.

Nomination Committee

A Nomination Committee of three members has been set up by the Board of Directors in its December meeting. The first Nomination Committee meeting will take place in May before the Annual General Meeting of Shareholders. The main duties of this Committee are (i) to annually review the structure, size and composition required of the Board and make recommendations to the Board with regard to any changes, (ii) to establish qualification criteria for Board membership and (iii) to give full consideration to succession planning for both Board members and members of the Executive Board.

3.5.3 Work methods of the Board of Directors and its Committees

During 2004 the following numbers of meetings were held:

Board of Directors	4
Audit Committee	5
Compensation Committee	3
Nomination Committee	0 (established by the Board on 15 December 2004)

The average attendance at the meetings of the Board of Directors was 80%. Each Board meeting lasted between 3 and 4 hours. The average attendance at the Committee meetings was 93% (Audit Committee) and 100% (Compensation Committee).

All directors may take independent professional advice, at the Company's expense, if they deem such a course of action necessary or appropriate for discharging their duties adequately.

At the meetings of the Board and of its Committees, those members of the Executive Board who have the relevant information and expertise required for the respective body to perform its duties are normally present. Such persons do not take part in any resolutions.

Furthermore, and during each Board of Directors meeting, an updated business report is systematically prepared and presented by the Chief Executive Officer. Together with the

Financial Report, prepared and presented by the Chief Financial Officer, this information enables the Board members to assess the course of the Company's business activities on a current basis.

3.6 Definition of areas of responsibility

The Board of Directors has delegated the entire operational management and conduct of business operations to the Chief Executive Officer, who chairs the Executive Board. With the active participation and guidance of the Company's Chairman, the Executive Board is responsible for managing, coordinating and executing the Company's business operations. The members of the Executive Board are appointed by the CEO. Moreover, the Executive Board may delegate some of its responsibilities to the Operating Board and Development Board.

3.7 Information and control instruments

The Board of Directors is responsible for the Group's system of internal control, which covers, among others, objectives to ensure effective and efficient operation, accurate financial reporting, compliance with laws and regulations and safeguarding of assets.

A qualified Internal Auditor has been appointed in March 2004, who reports directly to the Audit Committee and administratively to the Chief Executive Officer.

A key control procedure is the day-to-day supervision of the business by the executive directors, members of the Executive Board and management. In discharging this duty, the above-mentioned persons travel extensively and regularly visit the operating entities within the Group.

Financial results are monitored by the Board of Directors on a quarterly basis. The executive directors monitor financial results on the basis of a formal monthly financial reporting system and on an ad hoc basis, whenever circumstances demand.

Towards the end of each financial year, detailed budgets for each area of business are prepared for the following year and then reviewed by the Board. Responsibilities for financial performance against plans and for capital expenditure are delegated, with limits, to line management. A significant part of the Group's financial and management information is processed by, and stored on, computer systems. Accordingly, the Group has established controls and procedures over the security of data held on computer systems. The Board confirms that measures continue to be taken to reinforce internal controls and to deal with necessary improvements that come to managements' and the Board's attention. This is a goal, which is pursued on an on-going basis while ensuring that equilibrium is maintained between the minimisation of risk and of the costs associated with controls.

Executive Board

4.1 Members of the Executive Board

Andreas Andreades, *Chief Executive Officer*
Please refer to the information provided in section 3.1.

David Arnott (35) *Chief Financial Officer*
Mr. Arnott has served as the Chief Financial Officer of the TEMENOS GROUP since April 2001. Prior to joining the Group he worked as Chief Financial Officer of Société Européenne de Communication in Luxembourg. From 1996 to 1999 Mr. Arnott held a number of senior finance positions at Anglo-American plc, a mining and precious metals trading company. Mr Arnott holds a BS from the University of Southampton and a Masters Degree from the University of Freiburg. Subsequently Mr. Arnott spent three years with Touche Ross where he qualified as a chartered accountant. Mr. Arnott is a British national.

Mr. Arnott holds positions on the Board of Directors of a number of operating companies within the Group

Max Chuard (31) *Corporate Finance & Investor Relations Director*
Mr. Chuard joined TEMENOS in 2002, initially responsible for acquisitions and special projects; he then assumed responsibilities for Corporate Finance and Investor Relations. Prior to joining TEMENOS Mr. Chuard spent five years in investment banking, initially at JP Morgan and then at SWICORP, a Swiss merchant bank. Mr. Chuard graduated from HEC Lausanne in Switzerland with a degree in business administration and a major in corporate finance. Mr. Chuard is a Swiss national.

Mr. Chuard holds positions on the Board of Directors of a number of operating companies within the Group.

Malou Ducomble (49) *Clients and Operations*
Mrs. Ducomble holds a Business degree and a Financial Management diploma from New York University. Prior to joining TEMENOS in 1995 she held a number of operating and managerial positions in MPCT Solutions Limited (now Aleri Inc.) and Winter Partners. She was an auditor at First

Chicago International Corp. (now BankOne) and had been an IT Manager with Commerzbank, New York. Mrs. Ducomble has wide ranging experience in large projects management and multinational account relationships. Mrs. Ducomble is an American national.

Guylaine Gaudreau (36) *Compensation & Benefits Director*
Mrs. Gaudreau joined the TEMENOS Group as the Worldwide Compensation & Benefits Director in 2002. Prior to joining the Group she held various positions as consultant and manager for Towers Perrin in Canada, France and Geneva. Mrs. Gaudreau is an actuary, holds a MBA and is qualified both in Canada (FCIA) and the USA (FSA). Mrs. Gaudreau is a Canadian national.

Jean-Michel Hilsenkopf (41) *Regional Director, Europe Middle East / Marketing Director*
Mr. Hilsenkopf holds an engineering degree from a French business school and has an MBA (International Marketing) from Geneva University. He started his career as a banking consultant for a large international French bank. Mr. Hilsenkopf joined TEMENOS when it was incorporated in 1993. His expertise and experience in the sales organisation, and as regional general manager during the past 10 years at TEMENOS, has given him the vision and understanding of the business and market to drive the marketing efforts forward. Mr. Hilsenkopf is a French national.

Andre Loustau (46) *Chief Technical Officer*
Mr. Loustau has been with TEMENOS and its predecessor companies since 1984, serving in a variety of positions, including Development Manager and Chief Technical Officer. Mr. Loustau is a British national.

Marc Vernet (50) *Software Director / Temenos Corebanking*
Mr. Vernet began his career in International Banking, working on various project roles in various countries, before moving into systems selection work as a Principal Consultant. Mr. Vernet joined TEMENOS in 1994 and spent several years in managing the Client Services division, before moving into the product organisation where he has concentrated on scaling the capacity and building product capabilities in both TEMENOS T24 and TEMENOS Corebanking systems. Mr. Vernet holds both Swiss and British nationality.

Mark Cullinane (40) *Regional Director, Asia Pacific*
Mr. Mark Cullinane is a British citizen with a degree in Business Studies (BA Hons.) who has over 18 years of experience in the provision of banking solutions internationally. For the past 12 years he has lived and worked in Asia where he has been responsible for the sale, implementation and support of numerous banking solutions. He joined TEMENOS as Regional Manager for Asia Pacific in February 2004.

Mark Gunning (42) *Regional Director, North America*
Mr. Mark Gunning is a British citizen. He was educated at the London School of Economics before beginning his employment with Kapiti, a predecessor of the Misys group and the developer of the Equation banking system. He then worked for 9 years for HSBC in various capacities involving international IT. These included long term assignments in New York, Paris and Jersey. He joined TEMENOS in 1993 and has worked in Development, Client Services and Sales. He is currently General Manager for North America.

Enrique O'Reilly (42) *Regional Director, South America*
Prior to joining TEMENOS, Mr. O'Reilly worked in Dun & Bradstreet on application software for Sales and Marketing analysis. He is an Engineer and holds a Masters in Business Administration. Mr. O'Reilly is a British National.
Mr. Enrique O'Reilly started his career at TEMENOS as manager for the distribution channel and developed a network of distributors around the world. He then moved to the position of Director of the Northern Europe Region, before becoming CEO of the eMerge division, and is currently heading the Americas South Region, based in Miami.

4.2 Other activities and vested interests

Not applicable to the Executive Board members.

4.3 Management contracts

Other than as disclosed, no member of the Board of Directors or of the Executive Board holds management or advisory positions in any business group, Swiss or foreign, which could in any way give rise to conflicts of interest.

Furthermore, no member of the Board of Directors or of the Executive Board has contractual arrangements with the Group, that could be deemed as onerous or, in the case of the members of the Executive Board, that are substantially different from the terms and conditions under which other senior employees of the Group are engaged.

Compensations, shareholdings and loans

5.1 Content and method of determining the compensations

Please refer to section 3.5.2.

TEMENOS' compensation programs are designed to attract, motivate and retain top talent who can lead the business towards achievement of TEMENOS strategic plan and create shareholder value. The on-target variable element applicable to the members of the Executive Board represents approximately 55% of their total compensation. For the other employees this variable target varies depending on the job position and achievement of specific key performance objectives. Annual bonuses and long-term incentive programmes (e.g. stock option plan) are all conditional upon achievement of key financial performance targets.

No severance payments were made to the members of the Board of Directors or to the members of the Executive Board during the year.

5.2 Compensation for acting members of governing bodies

(exchange rates: US$/UK: 1.9260; US$/CHF: 0.8835; US$/SGD: 0.6106)

The total compensation granted to members of the Board of Directors and members of the Executive Board amounted to US$ 5,185,685. Out of this total US$ 5,085,685 was paid to executive members of the Board of Directors and members of the Executive Board, and US$ 100,000 to the non-executive directors who do not have significant shareholdings in the Company. The emoluments of the non-executive directors are quantified by reference to the time spent on Board and Committees matters. The non-executive directors, who are associated with companies that hold shares in TEMENOS Group AG, are not compensated for serving as members of the Board. No severance payments were made to persons whose duties on the governing bodies had come to an end during the financial year 2004.

5.3 Compensation for former members of governing bodies

No compensation was paid to any former member of a governing body of TEMENOS.

5.4 Share allocation

There was no allotment of shares to executive and non-executive members of the Board of Directors in 2004 or to members of the Executive Board, or parties closely linked to such persons.

5.5 Share ownership

- Number of shares held on 31 December 2004 by executive members of the Board: 14,356,644.
- Number of shares held on 31 December 2004 by members of the Executive Board: 75,000.
- Number of shares held on 31 December 2004 by non-executive members of the Board: 5,718,147 out of which 718,147 are duly registered in the share register.

5.6 Options

- Options held on 31 December 2004 by executive members of the Board of Directors and by members of the Executive Board:

Grant Year	Options outstanding
1997	0
1998	0
1999	17,000
2000	124,000
2001	12,500
2002	26,500
2003	1,132,500
2004	884,000

Total

Number of options	2,196,500
Lowest exercise price	CHF 1.30
Highest exercise price	US$ 15
Earliest exercise date	1 December 2002
Latest exercise date	1 January 2014

- The Company did not allocate stock options or other kinds of options to non-executive members of the Board of Directors.
- Each option entitles the holder to purchase one registered share of the Company (subscription ratio 1:1).
- Options granted prior to 2004 have vesting periods of 3 to 5 years and exercise periods from 5 to 7 years.
- Options granted in 2004 have vesting periods of 1 to 2 years and exercise periods from 8 to 9 years.

Please also refer to note 16 of the consolidated financial statements.

5.7 Additional fees and remunerations

Nothing to report.

5.8 Loans granted to members of governing bodies
As of 31 December 2004 the Company has outstanding loans of a total amount of US$ 157,546 to two members of the Executive Board. These loans bear no interest and will be fully repaid in 2005. No additional loans have been provided to Board members or members of their families in 2004.

5.9 Highest total compensation
Total compensation of the highest paid member of the Board of Directors, Chairman George Koukis, amounted to US$ 775,000 in 2004, out of which US$ 750,000 was paid in cash and US$ 25,000 was provided as car allowance.

Shareholders' participation

6.1 Voting-rights and representation restrictions
There are no voting-right restrictions and no statutory group clauses. Each registered share entitles the holder to one vote at the shareholders' meetings of the Company. At such meeting, shareholders may attend in person or by written proxy. Shareholders who do not attend in person may either appoint a representative by a written proxy, their custodian bank, the Company or the independent proxy holder.

6.2 Statutory quorums
There are no statutory quorums. The General Meeting of Shareholders shall pass its resolutions and carry out its elections by a simple majority of the votes validly cast, subject to the compulsory exceptions provided by law.

6.3 Convocation of the general meeting of shareholders
In compliance with the Swiss Code of Obligations, the General Meeting of Shareholders is convened by publication of the invitation and the agenda, at least twenty days before the date of the meeting in the Swiss Official Gazette of Commerce (*Schweizerische Handelsamtsblatt*). Shareholders representing at least 10% of the share capital may convene an Extraordinary General Meeting.

6.4 Agenda
One or more shareholders representing shares of an aggregate nominal value of at least CHF 1 million may, up to 45 days before the date of the General Meeting, request an item be included on the agenda. Such request must be in writing and shall specify the items and the proposals of these shareholders.

6.5 Inscriptions into the share register
Pursuant to Article 13§1 of the Company's Articles of Association, shareholders entered in the share register as shareholders on a specific qualifying date designated by the Board of Directors shall be entitled to attend and vote at the General Meeting. All shareholders recorded in the share register at the time the invitation is published, i.e. approximately 20 days before the date of the meeting, are entitled to vote.

In order to attend and vote at the Annual General Meeting of Shareholders, proxy holders of deposited shares (according to article 689d CO) are requested to inform the Company of the number of shares represented by them as early as possible, but not later than 3 days before the Annual General Meeting of Shareholders.

The registration of shareholders is subject to the Board's approval. The Board may refuse its consent, if, on request, the applicant fails to confirm that the shares are held in his name and for his benefit or he provides false information. To date, none of the registration requests have been denied by the Board of Directors.

The Fourth Annual General Meeting of Shareholders of the Company will be held in Geneva on 25 May 2005. The AGM agenda is published and sent to each shareholder in German, French and English.

Changes of control and defence measures

7.1 Duty to make an offer
None, other than applicable provisions of the Federal Act on Stock Markets and Securities Trading.

7.2 Clauses on change of control
There are no clauses on changes of control.

Auditors

8.1 Duration of the mandate and term of office of the lead auditor
PricewaterhouseCoopers SA were re-elected as statutory and group auditors at the Annual General Meeting of Shareholders of 25 June 2004, for a period of one year.

Michael Foley took up office as lead auditor for the Group audit engagement.

8.2 Auditing fees

Included in general and administrative expenses is an amount of US$ 630,000 representing audit fees charged to the TEMENOS Group by PricewaterhouseCoopers (these fees are inclusive of the statutory audit fees).

8.3 Additional fees

In addition, other fees of approximately US$ 525,000 have been incurred through the provision of tax advisory and other professional services by PricewaterhouseCoopers.

8.4 Supervisory and control instruments vis-à-vis the auditors

The Audit Committee is responsible for monitoring the performance of external auditors, checking their independence, approving their annual work plan and fees, and reviewing their findings on quality control procedures as well as steps taken by the auditors to respond to changes in regulatory and other requirements. At the end of almost all Audit Committee meetings, the Audit Committee members spent time with the external auditors without the presence of the management.

Information policy

TEMENOS encourages a two-way communication with both institutional and private investors and endeavours to respond promptly to queries.

TEMENOS publishes its annual report as at 31 December and interim consolidated financial statements as at 30 June. All this information and additional company-specific information are available at www.temenos.com.

For more information, please contact Max Chuard, Corporate Finance & Investor Relations Director at mchuard@temenos.com.

TEMENOS GROUP AG

Financial Statements

31 December 2004

And Independent Auditors' Reports thereon

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REPORT OF THE GROUP AUDITORS TO THE GENERAL MEETING OF TEMENOS GROUP AG

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes) on pages 23 to 49 of TEMENOS Group AG for the year ended December 31, 2004.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

International Financial Reporting Standards (IFRS) vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of consolidated net income for each of the two years in the period ended 31 December 2004 and the determination of consolidated shareholder's equity at 31 December 2004 and 2003 to the extent summarised in the supplemental information described in note 29 to the consolidated financial statements.

PricewaterhouseCoopers SA

M. Foley **T. Randolph**

Geneva, 11 March 2005

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated income statement

for the year ended 31 December

	2004	2003
Revenues		
Software licensing	**62,829**	*59,741*
Maintenance	**39,806**	*32,227*
Services	**50,940**	*54,223*
Total revenues (note 17)	**153,575**	*146,191*
Operating costs and expenses		
Cost of licences	**6,091**	*6,694*
Services	**47,668**	*48,830*
Software development and maintenance	**28,005**	*30,113*
Sales and marketing	**27,023**	*23,458*
General and administrative	**28,796**	*24,679*
Amortisation of goodwill *(note 20)*	**1,687**	*1,695*
Total operating costs and expenses	**139,270**	*135,469*
Other operating income *(note 4)*	**1,020**	*–*
Operating profit	**15,325**	*10,722*
Other income (expenses)		
Reversal of impairment of available-for-sale investment *(note 22)*	**2,100**	*–*
Interest expense	**(350)**	*(583)*
Interest income	**254**	*306*
Income (loss) from financial instruments, net *(note 21)*	**(20)**	*892*
Financial instrument related expenses *(note 21)*	**(406)**	*(449)*
Foreign exchange gains, net	**694**	*1,800*
Total other income	**2,272**	*1,966*
Profit before taxation	**17,597**	*12,688*
Taxation *(note 10)*	**(3,041)**	*(1,763)*
Profit for the year after taxation	**14,556**	*10,925*
Minority interest	**812**	*(38)*
Net profit for the year	**15,368**	*10,887*
Earnings per share (in US$) *(note 24)*:		
basic	**0.28**	*0.20*
diluted	**0.26**	*0.19*

The attached notes form part of these consolidated financial statements.

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated balance sheet
as at 31 December

	2004	2003
Assets		
Current assets		
Cash and cash equivalents *(note 5)*	**30,788**	*31,736*
Accounts receivable *(note 6)*	**52,252**	*39,669*
Available-for-sale investment *(note 22)*	**2,100**	–
Accrued revenues	**22,614**	*30,990*
Prepayments and other assets	**6,751**	*5,819*
Total current assets	**114,505**	*108,214*
Non-current assets		
Tangible fixed assets *(note 7)*	**10,394**	*9,189*
Intangible assets *(note 8)*	**20,651**	*12,830*
Capitalised development costs *(note 9)*	**12,482**	*8,639*
Long-term receivables	**2,637**	–
Guarantees and restricted bank deposits	**1,207**	*11,403*
Deferred tax assets *(note 10)*	**2,174**	*1,515*
Total non-current assets	**49,545**	*43,576*
Total assets	**164,050**	*151,790*
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	**18,449**	*16,937*
Accrued expenses	**15,897**	*14,539*
Deferred revenues	**34,626**	*35,897*
Bank loans	**–**	*15,000*
Income taxes payable	**2,397**	*3,066*
Total current liabilities	**71,369**	*85,439*
Non-current liabilities		
Long-term payables *(note 4)*	**8,274**	–
Liabilities under finance leases *(note 12)*	**224**	*156*
Total liabilities	**79,867**	*85,595*
Minority interest	**723**	*38*
Shareholders' equity		
Share capital *(note 13)*	**157,454**	*155,560*
Treasury shares *(note 13)*	**(124)**	*(33)*
Share premium and capital reserves *(note 14)*	**(70,119)**	*(69,121)*
Fair value and other reserves *(note 15)*	**4,991**	*3,861*
Retained earnings	**(8,742)**	*(24,110)*
Total shareholders' equity	**83,460**	*66,157*
Total shareholders' equity and liabilities	**164,050**	*151,790*

The attached notes form part of these consolidated financial statements.

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated cash flow statement

for the year ended 31 December

	2004	2003
Cash flows from operating activities		
Profit before taxation	**17,597**	*12,688*
Adjustments:		
Depreciation and amortisation *(note 20)*	**13,904**	*14,473*
Reversal of impairment of available-for-sale investment *(note 22)*	**(2,100)**	*–*
Losses on disposal of assets	**102**	*183*
Cost of employee share option scheme *(note 16)*	**123**	*(79)*
Interest expense – net	**96**	*277*
Loss (income) from financial instruments *(note 21)*	**20**	*(892)*
Financial instrument related expenses *(note 21)*	**406**	*449*
Changes in net working capital		
Increase in receivables, accrued revenues and prepayments	**(10,837)**	*(30,789)*
Increase in accounts payable and accrued expenses	**1,065**	*8,587*
(Decrease) increase in deferred revenues	**(3,652)**	*12,940*
Cash generated from operations	**16,724**	*17,837*
Income taxes paid	**(790)**	*(1,415)*
Net cash generated from operating activities	**15,934**	*16,422*
Cash flows from investing activities		
Purchase of tangible fixed assets	**(3,327)**	*(758)*
Disposal of tangible fixed assets	**304**	*435*
Purchase of intangible assets	**(2,070)**	*(1,227)*
Disposal of intangible assets	**864**	*433*
Capitalised development costs *(note 9)*	**(6,558)**	*(2,897)*
Acquisitions *(note 4)*	**(3,511)**	*(2,050)*
Impact of full consolidation of entity previously under proportionate consolidation *(note 23)*	**864**	*–*
Contribution of cash from minority interest	**980**	*–*
Interest received	**244**	*306*
Net cash used in investing activities	**(12,210)**	*(5,758)*
Cash flows from financing activities		
Proceeds of issuance of shares, net of related expenses	**833**	*630*
Acquisition of treasury shares	**(91)**	*–*
Repayment of short-term borrowings	**(15,000)**	*(5,000)*
Restricted cash released from a banking institution	**10,000**	*–*
Interest payments	**(325)**	*(580)*
(Settlement of) proceeds from financial instruments	**(20)**	*913*
Payment of financial instrument related expenses	**(406)**	*(366)*
Payment of finance lease liabilities	**(107)**	*(96)*
Net cash used in financing activities	**(5,116)**	*(4,499)*
Effect of exchange rate changes	**444**	*1,578*
(Decrease) increase in cash and cash equivalents in the year	**(948)**	*7,743*
Cash and cash equivalents at the beginning of the year	**31,736**	*23,993*
Cash and cash equivalents at the end of the year	**30,788**	*31,736*

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated statement of changes in shareholders' equity

for the year ended 31 December

	Share capital (note 13)	Treasury shares (note 13)	Share premium and capital reserves (note 14)	Fair value and other reserves (note 15)	Retained earnings	Total
Balance at 31 December 2002	**154,190**	**(5,486)**	**(62,829)**	**1,850**	**(34,997)**	**52,728**
Profit for the year	–	–	–	–	10,887	**10,887**
Cost of employee share option scheme *(note 16)*	–	–	(79)	–	–	**(79)**
Exercise of share options *(note 16)*	1,337	5,453	(6,072)	–	–	**718**
Shares issued in relation to acquisitions	33	–	(28)	–	–	**5**
Share issuance costs	–	–	(113)	–	–	**(113)**
Cumulative translation adjustment	–	–	–	614	–	
Net fair value gain on cash flow hedge, net of tax *(note 21)*	–	–	–	1,397	–	
Net gains not recognised in the income statement	–	–	–	2,011	–	**2,011**
Balance at 31 December 2003	**155,560**	**(33)**	**(69,121)**	**3,861**	**(24,110)**	**66,157**
Profit for the year	–	–	–	–	15,368	**15,368**
Cost of employee share option scheme *(note 16)*	–	–	123	–	–	**123**
Exercise of share options *(note 16)*	1,436	–	(633)	–	–	**803**
Shares issued in relation to acquisitions	458	–	(374)	–	–	**84**
Share issuance costs	–	–	(114)	–	–	**(114)**
Acquisition of treasury shares	–	(91)	–	–	–	**(91)**
Cumulative translation adjustment	–	–	–	322	–	
Net fair value gain on cash flow hedge, net of tax *(note 21)*	–	–	–	808	–	
Net gains not recognised in the income statement				1,130		**1,130**
Balance at 31 December 2004	**157,454**	**(124)**	**(70,119)**	**4,991**	**(8,742)**	**83,460**

1. Legal status and principal activities

TEMENOS Group AG ("the Company") was incorporated in Glarus, Switzerland on 7 June 2001 as a stock corporation (Aktiengesellschaft). Since 26 June 2001 the shares of TEMENOS Group AG have been publicly traded on the SWX Swiss Exchange. On incorporation, TEMENOS Group AG succeeded TEMENOS Holdings NV in the role of the ultimate holding company of the Group.

The Company and its subsidiaries (the "TEMENOS GROUP" or "the Group") are engaged in the development and marketing 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. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial instruments at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

A reconciliation of consolidated net income and shareholders' equity, as reported in these financial statements, with the amounts which would have been reported had these financial statements been compiled under generally accepted accounting principles in the United States of America, is provided as supplementary information.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of TEMENOS Group AG as well as its subsidiaries.

Subsidiaries are all entities in which the Group has an interest of more than 50% of the voting rights or otherwise has power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. All assets and liabilities as well as expenses and earnings of the Group companies are included effective from the date of acquisition. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement as other operating income.

Associates are entities over which the Group generally has between 20% and 50% of the voting rights or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. Under this method the Group's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associate

The Group's interest in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

(c) Foreign currency

The consolidated financial statements are presented in US dollars because the dollar is the currency of reference in terms of market pricing, and the majority of the Group's sales transactions and net assets are denominated in US dollars.

All Group companies report based on the currency that best reflects the economic substance of its underlying events and circumstances relevant to that entity (its measurement currency).

The assets and liabilities of the subsidiaries (excluding intragroup balances, which are denominated in US dollars and are eliminated on consolidation) are translated into the reporting currency of the Group (US dollars) at the exchange rates prevailing at the balance sheet date. The results of operations (excluding intragroup transactions, which are denominated in US dollars and are eliminated on consolidation) are translated, on a monthly basis, at the average exchange rates of each monthly period. The resulting translation gains or losses are taken directly to shareholders' equity as cumulative translation adjustments and are included within "fair value and other reserves".

Foreign currency transactions are translated into the measurement currency using the rate of exchange ruling on the date of the transaction. At the end of the period, assets and liabilities denominated in foreign currencies are restated using the rate of exchange ruling on the balance sheet date. The resulting exchange gains or losses are credited or charged to the results for the period, except when deferred in equity as cash flow hedges. Gains or losses resulting from long term intragroup balances for which settlement is neither planned nor likely to occur in the foreseeable future are taken directly to shareholders' equity as cumulative translation adjustments and are included within "fair value and other reserves".

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held with banks with original maturities of three months or less.

(e) Accounts receivable

Accounts receivable are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Impairments are recorded against revenue when a credit note will be granted for a disputed receivable and in "sales and marketing" expense when it relates to a collection risk. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows discounted at the market rate of interest for similar borrowers.

(f) Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows (in years):

Furniture and fixtures	10
Office equipment	5
Computer equipment	3–4
Motor vehicles	4

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. Leasehold improvements are depreciated over the shorter of the lease term or ten years.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(g) Intangible assets

Intangible assets consist of: business-related purchased goodwill, quantified as the excess of the cost of acquiring a business over the fair value of the identifiable assets and liabilities so acquired; personnel-related purchased goodwill, representing the consideration paid to secure the services of trained, experienced consultants; purchased copyrights relating to software; and purchased computer software. These assets are stated at cost less accumulated amortisation and accumulated impairment losses.

For goodwill arising on acquisitions prior to the adoption of International Financial Reporting Standards No. 3 Business Combination (IFRS 3) on 31 March 2004 amortisation is calculated and recorded using the straight-line method, over a period of five years in the case of business-related purchased goodwill and over a period of three years in the case of personnel-related purchased goodwill. Following the introduction of IFRS 3, goodwill amortisation will cease at 31 December 2004 and in future accounting periods goodwill will instead be tested annually for impairment. Any goodwill arising from acquisitions after 31 March 2004 is not amortised but is tested annually for impairment. Negative goodwill, when arising, is recognised immediately in the income statement as other operating income.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Amortisation in the case of other intangible assets is calculated using the straight-line method over a period of three or four years.

(h) Impairment of long lived assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(i) Capitalisation of development costs

The Group follows a strategy of investing a substantial part of its revenues in research and development work which is directed towards the enhancement of its two primary product platforms, TEMENOS T24 and TEMENOS CoreBanking.

The costs associated with the development of new or substantially improved products or modules are capitalised when a project has achieved the stage of technical feasibility, the likelihood of success is probable, costs can be reliably measured and a future revenue stream can be justified. In contrast, the cost of the enhancements effected to TEMENOS T24 or TEMENOS CoreBanking on an on-going basis, as well as the cost of developing products specifically commissioned by clients, is charged to operations in the year in which such costs are incurred.

The capitalised development costs are amortised, using the straight-line method, commencing one month after the product is available for distribution. Development costs related to architecture developments are amortised over a five-year period and development costs related to functional developments are amortised over a three-year period.

(j) Taxation

Current taxation is provided based on the taxable income reported for fiscal purposes in the various tax jurisdictions in which the Group operates. The nominal and effective tax rates applicable vary substantially between jurisdictions.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries, as such amounts are considered to be permanently reinvested.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group incurs withholding tax in various jurisdictions. An assessment is made of the ability to recover these withholding taxes against the normal tax liabilities occurring within the Group, and a provision is made to the extent that withholding tax is considered irrecoverable.

(k) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included as liabilities in the balance sheet. The interest elements of the lease obligations are charged to the profit and loss account over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Fixed assets held under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(m) Employee share options

For share options granted with exercise prices below the market value at the date of grant, the cost is quantified as being the difference between the exercise price and the market price. This cost is charged to personnel costs over the period during which these options vest, with a corresponding credit made to “share premium”. Options are exercisable beginning three or five years from the date of grant and expire after ten years. When the options are exercised the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium. In the event that options are cancelled before they are exercised, the cumulative cost is reversed in the period in which the option is cancelled.

(n) Revenue recognition

The Group derives revenues from three primary sources: (1) software licences and the provision of software development services specifically commissioned by clients, which are collectively reflected in the income statement as “software licensing”; (2) software maintenance (help desk services and rights to future product enhancements), which is shown as “maintenance”; and (3) software implementation and support services, which are shown as “services”.

While the Group’s required basis for revenue recognition is defined under IAS 18 “Revenue”, the Group applies the requirements outlined in Statement of Position 97-2, “Software Revenue Recognition” (SOP 97-2), issued by the American Institute of Certified Public Accountants, as amended by SOP 98-9, “Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions”. This US accounting standard offers more detailed guidance for companies in the software industry and corresponds to the general requirements outlined in IAS 18.

The Group recognises revenues when the following conditions exist: (1) there is persuasive evidence that an arrangement exists; (2) delivery of the software or services has occurred; (3) customer payment is deemed fixed or determinable; and (4) collection is probable. Revenue from contracts that include acceptance conditions is only recognised when the conditions have been met, except if the conditions imposed can be met with reasonable ease and certainty.

Software licensing
Software licence revenues represent all fees earned from granting customers licences to use our banking applications software, either through an initial licence or through the purchase of additional modules or user rights, but excludes any amounts that are related to maintenance. For software licence arrangements that do not require significant modification or customisation of the underlying software, revenue is recognised when the base criteria have been met.

If the software licence arrangement requires significant modification or customisation of the underlying software, the initial software licence revenue is generally recognised together with the services based on percentage-of-completion as defined in IAS 11, “Construction Contracts”, and as explained in the description of services below.

Software development services revenue represents fees charged to clients for developing requested additional functionality and is recognised on a percentage-of-completion basis.

Maintenance
Optional software maintenance is included in most software licence arrangements and is generally priced as a percentage of the initial software licence fees. Maintenance provides customers with rights to unspecified software product upgrades, maintenance enhancements and access to the help desk during the term of the support period and is recognised ratably on a straight-line basis over the term of the arrangement.

Services
Software implementation and support services represents income from consulting and implementation services sold separately under services contracts. Service contracts are accounted for on a percentage-of-completion basis in accordance with the rules applicable to long-term contract revenue recognition as defined in IAS 11, “Construction Contracts”, whereby revenue and profit recognised during the year is based on project hours incurred as a proportion of total projected hours to complete. These estimates are continually re-evaluated and revised, when necessary, throughout the life of the contract. Any adjustments to revenue and profit due to changes in estimates are accounted for in the period in which the change in estimates occurs. When estimates indicate that a loss will be incurred on a contract upon completion, a provision for the expected loss is recorded in the period in which the loss becomes evident.

Multiple element arrangements

In many cases, the Group enters into transactions with customers that include both software licence and services revenues. The revenues from these arrangements are generally accounted for separately in accordance with SOP 97-2. The factors considered in determining whether the revenue should be accounted for separately include the nature of the services (i.e. whether they are essential to the functionality of the software licence), availability of services from other vendors, timing of payments and acceptance criteria on the realisability of the software licence fee.

For arrangements with multiple elements, revenue is allocated to each element of a transaction based upon its fair value as determined by vendor specific objective evidence. Vendor specific objective evidence of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately. Revenue is deferred for any undelivered elements, and recognised when the product is delivered or over the period in which the service is performed. To the extent that the initial licensing fee incorporates the provision of unspecified upgrades and help desk support services for an agreed period, the value of these services is recognised ratably over the period.

If fair value cannot be objectively determined for any undelivered element included in bundled software and service arrangements, revenue is deferred until all elements are delivered and services have been performed. When the fair value of a delivered element has not been established, the Group uses the residual method to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognised as revenue.

Payment terms

Payment terms vary according to the individual contracts and may include extended or upfront payments. Management reviews the nature of all extended payment terms to assess whether the fee is considered fixed or determinable. When significant amounts are due outside of normal business practices the revenue is recorded as the amounts become due.

Licensing and service fees that have been invoiced but have not been recognised as revenue are reported on the balance sheet under "deferred revenues" while fees which have been earned but have not been invoiced are reported under "accrued revenues".

(o) Cost of licence and services

The direct costs associated with sales contracts, such as sales commissions and third-party licensing costs, are expensed as a "cost of licence" on an accrual basis in accordance with the obligations of the agreement. Service costs are recognised as incurred and primarily represent payroll costs for implementation support consultants and fees paid to third party consultants. Payments received in respect of out of pocket expenses are netted against the associated cost.

(p) Segment reporting

Business segments provide software licences or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide software licences or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

(q) Pensions

The Group maintains defined contribution plans for its employees around the world under which the relevant contributions are expensed as they accrue. Once the contributions have been paid, the Group has no further payment obligations.

In addition, employees of certain of the Group's subsidiaries participate in funded contributory defined benefit pension plans. The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for actuarial gains/losses and past service cost. The defined benefit obligation is calculated annually by actuaries using the projected unit credit method, however salary increase rates are not applicable to these defined benefit plans. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to income over the average remaining service lives of the related employees.

(r) Financial instruments and financial risk management

The Group's main financial instruments are cash, short-term receivables and payables, currency hedging instruments, available-for-sale investments, debt and certain other forms of financing, such as finance leases. Currency hedging instruments are carried at fair value. Management believes that the carrying amounts of other financial instruments approximate their fair value because of their short-term nature. Management further believes that the interest rates applicable to its debt and other forms of financing represent fair market rates and, therefore, their carrying value approximates fair value.

Credit risk
Concentration of credit risk is principally associated with accounts receivable and accrued (unbilled) revenue generated by licensees. This credit risk is, however, mitigated by the fact that the Group's licensees are highly rated financial institutions and the amounts due are spread over a large number of institutions. The Group does not generally require security guarantees to support these financial instruments. The Group does not anticipate non-performance by the counterparties in excess of the recorded provision for receivables which are deemed doubtful of collection.

Foreign exchange risk
As a result of the diverse nature of the business, foreign currency exchange rate fluctuations affect the Group significantly. A significant portion of the Group's revenue and cash in-flows are in US dollars, whereas a large part of the cost base is denominated in Euros, Sterling and other currencies. To mitigate this mismatch the Group is making efforts to migrate the revenue streams to currencies that match the cost base and also enters into contracts for derivative financial instruments such as foreign exchange contracts. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units and operates under written guidelines approved by the Board.

Accounting for derivative, financial instruments and hedging contracts
The Group enters into forward foreign currency exchange contracts and options for hedging a portion of the Group's payroll costs. Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at each balance sheet date to their fair value. Changes in the fair value of financial instruments that qualify as cash flow hedges and that are highly effective are recorded in the associated income statement line when the expense is incurred. Changes in the fair value of derivatives that are designated and qualify as hedges but for which the cost has not yet been incurred are recognised in equity in the line "net fair value gain on cash flow hedge".

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify as hedges under IAS 39 "Financial Instruments: Recognition and Measurement". Changes in the fair value of these derivatives are recognised immediately in the income statement in the line "income from financial instruments" and disclosed separately.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The estimated fair value of the derivative instruments entered into by the Group are provided by an independent third party.

Interest rate risk
The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets or liabilities other than restricted cash and loans.

Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

(s) Earnings per share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding during the period. The weighted average shares used to compute diluted earnings per share include the incremental shares of common stock relating to outstanding options to the extent such incremental shares are dilutive.

The amounts are expressed in thousands of US dollars

3. Principal group companies

The consolidated financial statements include the accounts of TEMENOS AG and the following entities as of 31 December 2004:

Company name	Country of incorporation	Ownership interest
TEMENOS Headquarters SA	Switzerland	100%
TEMENOS Suisse SA	Switzerland	100%
TEMENOS Luxembourg SA	Luxembourg	100%
TEMENOS (NL) BV	Netherlands	100%
TEMENOS Holland BV	Netherlands	100%
TEMENOS France SAS	France	100%
Quetzal Informatique SA	France	100%
TEMENOS Deutschland GmbH	Germany	100%
TEMENOS Hispania SA	Spain	100%
TEMENOS UK Limited	United Kingdom	100%
TEMENOS Systems Ireland Limited	Ireland	100%
TEMENOS USA, Inc.	U.S.A.	100%
TEMENOS (Russia) Limited	Cyprus	100%
TEMENOS Middle East Limited	Cyprus	100%
TEMENOS Singapore Pte Limited	Singapore	100%
TEMENOS Hong Kong Limited	Hong Kong	100%
TEMENOS Software Shanghai Co. Limited	China	100%
TEMENOS India Pte Limited	India	100%
TEMENOS (Thailand) Co. Limited	Thailand	100%
TEMENOS (Malaysia) Sdn Bhd	Malaysia	100%
TEMENOS Philippines, Inc.	Philippines	100%
TEMENOS Mexico SA de CV	Mexico	100%
Fomento Empresarial de Servicios Informaticos S.A. de C.V.	Mexico	51%
TEMENOS Ecuador SA	Ecuador	100%
TEMENOS Japan KK	Japan	100%
TEMENOS Korea Limited	Korea	100%
TEMENOS Australia Pty Limited	Australia	100%
TEMENOS Africa Pty Limited	South Africa	100%
TEMENOS Holdings NV	Netherlands Antilles	100%
TEMENOS Hellas SA	Greece	100%
TEMENOS Eastern Europe Limited	Cyprus	100%
TEMENOS Polska Sp. Zoo	Poland	100%

In addition to the group companies listed above, TEMENOS GROUP subsidiaries maintain branches or offices at the following locations: Beirut (Lebanon); Dubai (United Arab Emirates); and Moscow (Russia).

During the year TEMENOS Romania SA and TEMENOS Egypt SAE were disposed as part of the transaction to acquire the minority shareholding in TEMENOS Eastern Europe Limited (note 4).

4. Business combinations

Fomento Empresarial de Servicios Informaticos S.A. de C.V.
In January 2004 the Group formed a 51% subsidiary in Mexico called Fomento Empresarial de Servicios Informaticos S.A. de C.V., through its subsidiary TEMENOS Mexico S.A. de C.V.. This entity was capitalised with a total value of US$ 4,082 thousand. The TEMENOS Group provided its contribution through the licence rights to its software “TEMENOS T24” with an assigned value of US$ 2,082 thousand. The minority shareholder contributed cash of US$ 2,000 thousand.

As the Group’s contribution was contributed with nil cost, the Group recognised an immediate gain of US$ 1,020 thousand related to its 51% interest in the cash held by the subsidiary. This has been recognised in the consolidated statement of income as “other operating income”.

Since creation, the subsidiary has incurred losses which have been fully consolidated by the Group. Losses amounting to US$ 255 thousand have been allocated to the 49% minority interest and are recognised in the consolidated statement of income as “minority interest”. There is no impact on reported revenues as a result of the transaction.

The amounts are expressed in thousands of US dollars

TEMENOS Eastern Europe Limited

On 6 September 2004 the Group acquired the remaining 49% of the shares in its subsidiary TEMENOS Eastern Europe Limited for consideration of US$ 15,500 thousand. Since 1 January 2004 TEMENOS Eastern Europe Limited has been accounted for as a fully consolidated subsidiary, therefore there is no increase in Group revenues in the year as a result of the transaction. The impact of the minority interest share in the income statement as a result of this transaction is US$ 557 thousand.

Details of the transaction are as follows:

Purchase consideration:	
Cash paid and fair value of subsidiaries contributed in the year	3,420
Deferred cash consideration (discounted)	11,293
Legal costs, of which US$ 91 thousand was paid during the year	159
Total purchase consideration	14,872
Reversal of provision related to disputed management fees	705
Fair value of net assets acquired	3,668
Goodwill	10,499

The goodwill is attributable to the significant opportunities that exist in the region in which the company operates.

The assets and liabilities arising from the acquisition are as follows:

Assets acquired:	**Fair value**
Cash and cash equivalents	2,090
Accounts receivable	9,368
Accrued revenues	4,861
Prepayments and other assets	212
Tangible fixed assets	125
Maintenance agreements	5,098
Accounts payable	(9,318)
Accrued expenses	(3,983)
Deferred revenues	(853)
Income taxes payable	(114)
Net assets	7,486
Pre-acquisition share (51%)	(3,818)
Fair value of net assets acquired	3,668

The carrying value of the assets and liabilities acquired is considered equivalent to the fair value in all cases except for maintenance agreements which had a carrying value of US$ nil. The fair value of the acquired intangible asset for future customer maintenance agreements was determined based on its discounted future cash flows.

As part of the transaction the TEMENOS Group disposed of its interests in TEMENOS Romania SA and TEMENOS Egypt SAE to the former minority shareholder of TEMENOS Eastern Europe Ltd.

Deferred cash consideration (discounted) relates to promissory notes issued by the Group in respect of the acquisition. The consideration is payable in equal installments over the next four years on the anniversary of the completion date and is included within “accounts payable” and “long-term payables”. There is no interest applicable on the deferred consideration.

The transaction disclosed above is accounted for using the provisions of International Financial Reporting Standard 3, Business Combinations (IFRS 3). As a result of the provisions of IFRS 3 goodwill under this transaction is not amortised, but is reviewed annually for impairments.

Cash paid during 2003 in respect of acquisitions of US$ 2,050 thousand relates to the purchase of the GLOBUS related business of the PKTech Group during 2002 for total consideration of US$ 3,500 thousand.

The amounts are expressed in thousands of US dollars

5. Cash and cash equivalents

The balance in respect of cash and cash equivalents consists of:	2004	2003
Cash at bank	18,347	28,539
Short term deposits with banks	12,441	3,197
	30,788	31,736

6. Accounts receivable

	2004	2003
Trade receivables	49,822	37,505
VAT and other taxation recoverable	2,070	2,198
Other receivables	1,579	1,806
Provision for doubtful debts	(1,219)	(1,840)
	52,252	39,669

Included in trade receivables is an amount of US$ 14,611 thousand (2003: nil) in respect of amounts due from clients that are not yet invoiced, but which are due at fixed dates in the future.

The expense for doubtful debts recorded in “sales and marketing” is US$ 1,082 thousand (2003: US$ 446 thousand).

7. Tangible fixed assets

Tangible fixed assets consist of:

	Furniture & fixtures	Office equipment	Leasehold improvements	Computer equipment	Motor vehicles	Total
Cost						
At 1 January 2004	4,511	1,450	7,019	7,279	860	21,119
Foreign currency exchange differences(1)	321	89	552	456	56	1,474
Additions (2)	428	115	2,019	1,092	328	3,982
Full consolidation of entity previously under proportionate consolidation	26	13	38	110	36	223
Disposals (2)(3)	(117)	(72)	(227)	(1,492)	(398)	(2,306)
31 December 2004	5,169	1,595	9,401	7,445	882	24,492
Depreciation						
At 1 January 2004	1,448	853	3,511	5,769	349	11,930
Foreign currency exchange differences(1)	111	58	247	366	20	802
Charge for the year(2)(4)	477	257	1,258	872	197	3,061
Full consolidation of entity previously under proportionate consolidation	20	9	37	69	13	148
Disposals (2)(3)	(53)	(54)	(168)	(1,386)	(182)	(1,843)
31 December 2004	2,003	1,123	4,885	5,690	397	14,098
Net book value						
31 December 2004	3,166	472	4,516	1,755	485	10,394
31 December 2003	3,063	597	3,508	1,510	511	9,189

(1) The amounts have been restated to reflect the changes in the parity of the functional currencies of the operating entities owning the assets with the US dollar.

(2) Leased assets included in the table above, where the Group is a lessee, comprise mainly of motor vehicles and some office equipment.

The amounts are expressed in thousands of US dollars

	Cost	Depreciation	Net book value
At 1 January 2004	657	(434)	223
Additions	195	(107)	88
Disposals	(129)	92	(37)
Foreign currency exchange differences[1]	61	(35)	26
31 December 2004	784	(484)	300

(3) The loss on the disposals charged to the income statement in 2004 amounted to US$ 14 thousand.

(4) The depreciation charge reported above has been quantified as follows:

	Charge for the year	Currency translation adjustments	Total
Year ended:			
31 December 2004	2,958	103	3,061
31 December 2003	3,684	(79)	3,605

8. Intangible assets

	Purchased business -related goodwill	Purchased personnel -related goodwill	Purchased copyrights	Computer software	Purchased maintenance agreements	Total
Cost						
At 1 January 2004	6,248	1,335	18,663	3,575	–	29,821
Foreign currency exchange differences[1]	–	–	–	293	–	293
Additions	10,499	–	2,120	905	2,498	16,022
Full consolidation of entity previously under proportionate consolidation	–	219	–	–	–	219
Disposals[2]	–	(446)	–	(512)	–	(958)
31 December 2004	16,747	1,108	20,783	4,261	2,498	45,397
Amortisation						
At 1 January 2004	3,224	583	11,051	2,133	–	16,991
Foreign currency exchange differences[1]	–	–	–	184	–	184
Charge for year[3]	1,219	468	5,755	545	244	8,231
Full consolidation of entity previously under proportionate consolidation	–	86	–	–	–	86
Disposals[2]	–	(274)	–	(472)	–	(746)
31 December 2004	4,443	863	16,806	2,390	244	24,746
Net book value						
31 December 2004	12,304	245	3,977	1,871	2,254	20,651
31 December 2003	3,024	752	7,612	1,442	–	12,830

(1) The amounts have been restated to reflect the changes in the parity of the functional currencies of the operating entities owning the assets with the US dollar.

(2) The loss on disposals charged to the income statement in 2004 was US$ 88 thousand related to the disposal of purchased personnel-related goodwill. The cash proceeds for the year, related to the receipt of outstanding receivables from disposals in 2002, were US$ 864 thousand.

The amounts are expressed in thousands of US dollars

(3) The amortisation charge reported above has been quantified as follows:

	Charge for the year	Currency translation adjustments	Total
Year ended:			
31 December 2004	8,231	–	8,231
31 December 2003	8,283	5	8,288

9. Capitalised development costs

	Total
Cost	
At 1 January 2004	20,226
Additions	6,558
31 December 2004	26,784
Amortisation	
At 1 January 2004	11,587
Charge for the year	2,715
31 December 2004	14,302
Net book value	
31 December 2004	12,482
31 December 2003	8,639

10. Taxation

Tax expense:	2004	2003
Domestic current income taxes	350	191
Overseas current income taxes, including non-recoverable withholding tax	2,994	2,632
Total current taxes	3,344	2,823
Deferred income taxes	(303)	(1,060)
Total tax expense	3,041	1,763

TEMENOS Group AG is incorporated in Switzerland but the Group operates in various countries with various tax laws and rates. Consequently, the effective tax rate may vary from period to period to reflect the generation of taxable income in tax jurisdictions. A reconciliation between the reported income tax expense and the amount computed using a basic Swiss statutory corporate tax rate of 25%, is as follows:

	2004	2003
Profit before tax	17,597	12,688
Tax at the domestic rate of 25%	4,399	3,172
Effects of different tax rates	(12,230)	(2,927)
Tax holiday	(671)	(914)
Utilisation of previously unrecognised losses	(124)	(1,274)
Current year's losses not utilised	9,426	4,862
Recognition of deferred tax assets on net operating losses brought forward	(303)	(1,060)
Effect of current period adjustment for tax of prior period	67	(900)
Non deductible expenses	2,341	708
Other tax and credits	136	96
Total tax expense	3,041	1,763

The amounts are expressed in thousands of US dollars 31 December 2004

Deferred tax assets and liabilities are offset when the deferred income taxes relate to the same fiscal authority. Deferred tax assets and liabilities shown in the consolidated balance sheet are as follows:

	2004	**2003**
Deferred tax assets	2,174	1,515
Deferred tax liabilities	–	–
Net deferred tax assets	2,174	1,515

The deferred tax assets recognised in the financial statements relate to losses carried forward in certain of the Group's operating subsidiaries. An assessment of the realisability of deferred tax assets is made on a country by country basis, based on the weight of available evidence including factors such as recent earnings history and expected future taxable income. Deferred tax assets are recognised to the extent that realisation of the related tax benefit through the future taxable profits is probable.

In addition to the deferred tax assets recognised above, the Group has unrecognised deferred tax assets relating to losses carried forward of US$ 25,566 thousand, of which US$ 2,006 thousand will expire in the period from 2005 to 2009 and the remaining amount thereafter. There are no unrecognised deferred tax liabilities.

The movement in deferred tax assets is as follows:

At 1 January 2004	1,515
Income statement credit	303
Foreign exchange movement on deferred tax assets held in local currencies	356
31 December 2004	2,174

11. Bank loans

On 23 February 2004, the Group renegotiated existing financing facilities to replace short term debt instruments with medium term working capital facilities. No amounts were drawn on these facilities as at 31 December 2004. The pertinent details relating to the financing arrangements are as follows:

Facilities available for general working capital needs:

Tranche A: US$ 10 million repayable in full on 28 February 2007, bearing interest at LIBOR/EURIBOR (depending on drawing currency) +2.75%.

Tranche B: US$ 5 million repayable in full on 28 February 2006, bearing interest at LIBOR/EURIBOR (depending on drawing currency) +3.75%.

Tranche C: US$ 5 million repayable in full on 28 February 2005, bearing interest at LIBOR/EURIBOR (depending on drawing currency) +5.5%.

Commitment fees are due at 50% of the margin on Tranches A and B. There are no commitment fees on Tranche C.

Facility available for issuing guarantees (e.g. performance bonds, rent deposits):

Tranche D: US$ 5 million repayable in full on 28 February 2007. No commitment fees are due on this facility. Instead, industry standard guarantee setup fees are applied to any usage of this facility.

The security given to the lender for the above facilities is a pledge over the intellectual property rights in the software owned by the Group, including the benefit of present and future royalties arising from these property rights. Under the arrangements entered into, the Group is restricted from becoming further indebted to financial institutions. The facilities granted are subject to various financial covenants, which are based on conservative projections of the Group's results.

The amounts are expressed in thousands of US dollars

12. Liabilities under finance leases

	2004	2003
Obligations under finance leases:		
repayable within one year	136	82
repayable between two and five years	161	157
	297	239
Finance charges allocated to future accounting periods	(21)	(23)
	276	216
Included in accounts payable within one year	(52)	(60)
	224	156

13. Share capital

As at 31 December 2004, the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, comprised 54,932,788 common shares of a nominal value of CHF 5 each.

The changes in the number of issued and outstanding shares, in the year ended 31 December 2004, are summarised below:

		Nominal value	
	number	in CHF	in US$
Issued, as at 31 December 2002	54,133,217	270,666	154,190
Shares issued as part of the consideration paid for the acquisition of Integrated Core Technologies Participations SA in 2001	8,276	41	33
Shares issued on exercise of employee share options	330,976	1,655	1,337
Issued, as at 31 December 2003	54,472,469	272,362	155,560
Shares issued as part of the consideration paid for the acquisition of Integrated Core Technologies Participations SA in 2001	118,136	591	458
Shares issued on exercise of employee share options	361,830	1,809	1,436
Total number of shares issued, as at 31 December 2004	54,952,435	274,762	157,454
Treasury shares	(19,647)	(98)	(82)
Total number of shares outstanding, as at 31 December 2004	54,932,788	274,664	157,372

As at 31 December 2004 the number of treasury shares held by the Group amounted to 19,647 (2003: 8,276). Treasury shares include shares held for resale and other shares allotted to members of the TEMENOS Employee Share Option Scheme or other option holders at the time that they exercise their options.

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

authorised shares that may be issued in the context of acquisitions (available to the Board until 27 June 2006).	26,951,327
conditional shares that may be issued on the exercise of employee share options.	12,707,194
conditional shares that may be issued in conjunction with financial instruments.	13,930,680

The share capital of all subsidiaries has been eliminated on consolidation.

In the year ended 31 December 2001, 344,826 share options were allotted to the ex-shareholders of Integrated Core Technologies Participations SA when the company was acquired by the TEMENOS GROUP. As at 31 December 2004, 8,295 of these share options were outstanding (2003: 118,136). These options will vest on 1 July 2005.

Based on the vested portion of the total share options which were outstanding, as at 31 December 2004 and 2003, the share capital which would have been raised had these options been exercised by these dates would have amounted to:

31 December 2004	8,786
31 December 2003	7,912

The amounts are expressed in thousands of US dollars

Based on the average market value of the shares of TEMENOS Group AG for each quarter, and the vested portion of the potentially dilutive options as at 31 December 2004, the dilution effect of the latter has been quantified as follows:

	Common shares outstanding	Weighted average number of outstanding common shares	Employee share options outstanding	Share warrants outstanding	Equivalent potentially dilutive common shares
31 December 2004	54,932	54,737	6,757	8	3,470
31 December 2003	54,464	53,254	5,791	118	3,025

14. Share premium and capital reserves

	Share premium	Warranted share subscription reserve	Employee share options reserve	Discount on shares issued to employees	Negative premium arising on creation of TEMENOS Group AG	Total
Balance at 31 December 2004	3,832	430	2,245	(880)	(68,456)	(62,829)
Cost of employee share option scheme *(note 16)*	–	–	(79)	–	–	(79)
Exercise of share options *(note 16)*	–	–	–	(6,072)	–	(6,072)
Shares issued in relation to acquisitions	–	(28)	–	–	–	(28)
Share issuance costs	(113)	–	–	–	–	(113)
Balance at 31 December 2003	3,719	402	2,166	(6,952)	(68,456)	(69,121)
Cost of employee share option scheme *(note 16)*	–	–	123	–	–	123
Exercise of share options *(note 16)*	258	–	–	(891)	–	(633)
Shares issued in relation to acquisitions	–	(374)	–	–	–	(374)
Share issuance costs	(114)	–	–	–	–	(114)
Balance at 31 December 2004	3,863	28	2,289	(7,843)	(68,456)	(70,119)

Share premium
The share premium account reflects the premium on issuance of new shares at a price above their par value or negative premium when issued at a discount.

Reserve for treasury shares
Under Swiss law a legal reserve must be established for an amount equal to the cost of treasury shares held by the Group. This reserve is included within share premium. As at 31 December 2004 the cost of treasury shares held by the Group was US$ 124 thousand (2003: US$ 33 thousand).

Warranted share subscription reserve
The balance under this reserve represents the estimated fair market value, at the time of the transaction, of the share options granted in the context of an acquisition of a subsidiary which had not been exercised by the aforesaid dates. The warranted share subscription reserve was credited with the approximate fair value of the options on issuance.

Employee share options reserve
As detailed in note 16, the Group operates an employee share options scheme. The excess of the market price over the grant price is charged to personnel costs over the period during which the options vest, with a corresponding credit made to the employee share options reserve.

Discount on shares issued to employees
Under the terms of the employee share options scheme the Group issues shares to employees at option prices ranging from US$ 0.005 to US$ 15 per share. To the extent that shares are issued at a value that is lower than the nominal value of CHF 5 per share, this amount is allocated to discount on shares issued to employees.

The amounts are expressed in thousands of US dollars 31 December 2004

Negative premium arising on creation of TEMENOS Group AG
TEMENOS Group AG was incorporated on 7 June 2001. The issued and outstanding shares of TEMENOS Holdings NV were exchanged shortly before the initial public offering for TEMENOS Group AG shares, thus rendering TEMENOS Holdings NV a wholly owned subsidiary of TEMENOS Group AG. The number of shares acquired was 40,104,336 which prior to the exchange had a nominal value of US$ 0.001 per share, totalling US$ 39 thousand. The new shares in TEMENOS Group AG were issued at nominal value of CHF 5 which resulted in a negative premium of US$ 113,538 thousand. Expenses related to the initial public offering of TEMENOS Group AG, and share premium items arising prior to the creation of TEMENOS Group AG, were recorded against this account.

A deficit of US$ 62,277 thousand was recorded to share premium on the cancellation of shares repurchased in 2000. This was transferred into "negative premium arising on creation of TEMENOS Group AG" during the period ended 31 December 2001.

15. Fair value and other reserves

Included within fair value and other reserves are the following:

Cumulative translation adjustment
The cumulative translation adjustment represents the foreign exchange gains and losses resulting from the translation of the subsidiaries' assets, liabilities and results of operations from their functional currency into the Group's reporting currency (US$).

Fair value gains on cash flow hedges
The fair value reserve on cash flow hedges represents the fair value gain on forward foreign currency exchange contracts that were outstanding at the end of the reporting period.

16. Employee share options

In 1997 a share option scheme was introduced under which the Board of Directors of TEMENOS Holdings NV was empowered to grant share options to employees of the company (and/or its subsidiary companies) in relation to a maximum of 10,000,000 common shares. Following the corporate restructuring of the Group during the year ended 31 December 2001, this authorisation was retained by TEMENOS Holdings NV under an arrangement whereby the share options granted are converted into TEMENOS Group AG shares on exercise. TEMENOS Group AG has been empowered to issue a corresponding number of its own shares for this purpose.

The cumulative options granted under this plan as at 31 December 2004, net of cancellations, were 9,650,541 shares (as at 31 December 2003: 8,313,344) with option prices ranging from US$ 0.005 to US$ 15.00 per share. The vesting period ranges from one to five years and the options expire ten years after the grant date. The cumulative options exercised under the plan as at 31 December 2004 amounted to 2,892,806 shares (period ended 31 December 2003: 2,522,700). The cost of the scheme, calculated as the difference between the exercise price and the market price at the time of grant, is charged to operations over the vesting period of the option. US$ 123 thousand was charged to operations in respect of this during 2004 (2003: credit of US$ 79 thousand).

A summary of the movements on the stock option plan for the two years ended 31 December 2004 is set out below:

	2004		2003	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding at the beginning of the year	5,790,645	$ 3.61	4,957,001	$ 3.50
Options granted during the year	1,500,000	$ 6.94	3,099,800	$ 1.99
Options cancelled during the year	(162,803)	$ 5.62	(235,456)	$ 7.91
Options exercised during the year	(370,106)	$ 2.25	(2,030,700)	$ 0.38
Options outstanding at the end of the year	6,757,736	$ 4.63	5,790,645	$ 3.61

As at 31 December 2004 1,014,200 (2003: 614,200) of these outstanding share options were held by executive members of the Board of Directors of TEMENOS Group AG, at exercise prices ranging from US$ 0.87 to US$ 15.00 per share. During 2004 executive members of the Board of Directors of TEMENOS Group AG were granted 400,000 options at an exercise price of US$ 6.80 per share (2003: 465,000 options exercise prices ranging from US$ 0.87 to US$ 1.33 per share).

17. Segmental reporting

Segment information of the TEMENOS GROUP is based on two segment formats. The primary reporting segment format consists of the two distinct business activities: software licensing; and services. The secondary reporting segment format consists of the major geographical regions in which the Group operates. The company's internal organisational structure and internal financial reporting address both segments.

The amounts are expressed in thousands of US dollars

(a) Primary reporting format – business segments
The Group is organised into two main business segments:
Software licensing – comprising of licensing, development and maintenance of the Group's software
Services – comprising of consultancy services related to implementation of the Group's software

	2004			2003		
	Software licensing	Services	Total	Software licensing	Services	Total
Segment revenues	102,635	50,940	153,575	91,968	54,223	146,191
Segment operating result	69,559	3,272	72,831	55,161	5,393	60,554
Unallocated operating costs			(57,506)			(49,832)
Operating profit			15,325			10,722
Other income (expenses)						
Reversal of impairment of available-for-sale investment			2,100			–
Interest expense			(350)			(583)
Interest income			254			306
Income (loss) from financial instruments			(20)			892
Financial instrument related expenses			(406)			(449)
Foreign exchange gains, net			694			1,800
Total other income			2,272			1,966
Profit before taxation			17,597			12,688
Taxation			(3,041)			(1,763)
Profit for the year after taxation			14,556			10,925
Minority interest			812			(38)
Net profit for the year			15,368			10,887
Assets						
Segment assets	86,523	21,140	107,663	68,739	14,176	82,915
Unallocated assets			56,387			68,875
Total assets			164,050			151,790
Liabilities						
Segment liabilities	(32,094)	(2,532)	(34,626)	(33,743)	(2,154)	(35,897)
Unallocated liabilities			(45,241)			(49,698)
Total liabilities			(79,867)			(85,595)
Other segment items (not including unallocated items)						
Capital expenditure	6,558	–	6,558	2,897	–	2,897
Depreciation and amortisation	9,710	469	10,179	9,677	467	10,144

There are no transactions between the segments. However, revenues for software licensing and services from multi-element contracts are reallocated between the segments based on the fair value of the contract elements as a result of the application of SOP 97-2.

Unallocated operating costs represent sales and marketing expenses, administrative expenses and goodwill amortisation as these are not separately identifiable to either business segment.

Segment assets consist primarily of receivables, accrued revenue and intangible assets. Management do not consider it appropriate to allocate cash, deferred expenses and tangible fixed assets to business segments.

Segment liabilities comprise of deferred revenues. Management do not consider it appropriate to allocate accounts payable, accrued expenses and loans to business segments.

(b) Secondary reporting format - geographical segments

Revenue by region of destination of product or service

	Asia	**Americas**	**Europe, Middle East, and Africa**	**Total**
Year ended 31 December 2004	23,781	20,031	109,763	153,575
Year ended 31 December 2003	20,478	11,321	114,392	146,191

Assets by region

Year ended 31 December 2004				
Segment assets	16,074	3,757	71,367	91,198
Unallocated assets				72,852
Total assets				164,050
Year ended 31 December 2003				
Segment assets	11,232	7,560	45,476	64,268
Unallocated assets				87,522
Total assets				151,790

Segment assets consist primarily of receivables and accrued revenue. The majority of intellectual property is considered a corporate asset. Management do not consider it appropriate to allocate cash, deferred expenses and tangible fixed assets by geographical segment.

Capital expenditure, depreciation and amortisation are not allocated to segments.

18. Personnel costs and numbers

Total personnel costs and the total number of the employees of the Group as at 31 December 2004 and 2003, are set out below (in thousands of US dollars except for staff numbers):

By region where employees are based
Number of persons employed (including external consultants)

	average for year **2004**	31 December **2004**	31 December **2003**
Europe, Middle East and Africa	587	551	619
Asia	529	555	557
Americas	64	73	48
	1,180	1,179	1,224

Personnel costs

	2004	**2003**
Salary, bonuses and commissions	59,096	58,824
Social charges	6,248	5,428
Pension costs	3,098	3,042
Cost of employee share option scheme	123	(79)
Other personnel costs	3,395	2,171
	71,960	69,386

Included in the personnel costs shown above, are the following amounts in respect of directors' remuneration:	**2004**	**2003**
Executive directors of TEMENOS Group AG	1,493	1,207
Non-executive directors	100	100

19. Pensions

Throughout the world the Group maintains defined contribution plans for its employees under which the relevant contributions are expensed as they accrue. The aggregate cost of these plans – many of which are state-sponsored – in the year 31 December 2004, amounted to US$ 3.1 million (2003: US$ 3.0 million). Generally, the Group does not maintain, nor is it committed to support, any defined benefit plans for its current or former employees.

TEMENOS Headquarters SA and TEMENOS Suisse SA each have a funded contributory defined benefit pension plan covering their employees. The pertinent details relating to these pension plans are set out below (in thousands of US dollars):

The amounts recognised in the balance sheet at 31 December are as follows:

	2004	2003
Present value of funded obligations	6,710	5,587
Fair value of plan assets	(6,820)	(5,646)
	(110)	(59)
Unrecognised actuarial gains (losses)	–	–
Net asset in the balance sheet	(110)	(59)
Amounts in the balance sheet:		
liabilities	–	–
prepaid asset	110	59
Net asset in the balance sheet	110	59

The amounts recognised in the income statement as of 31 December are as follows:

	2004	2003
Current service cost	703	566
Interest on obligation	176	122
Expected return on plan assets	(190)	(136)
Total costs included in personnel costs	689	552
Actual return on plan assets	235	480

Movements in the net asset recognised in the balance sheet at 31 December are as follows:

	2004	2003
Net asset at beginning of the year	(59)	–
Net expense recognised in the income statement	689	552
Contributions	(730)	(608)
Benefits paid	–	–
Exchange differences	(10)	(3)
Net asset at end of the year	(110)	(59)

Principal weighted average actuarial assumptions at the balance sheet date:

	2004	2003
Discount rate at 31 December	3.00%	3.25%
Expected return on plan assets at 31 December	3.00%	3.25%

20. Depreciation and amortisation

The depreciation and amortisation charge is analysed as follows (in thousands of US dollars):

	Depreciation of tangible fixed assets (note 7)	Amortisation of purchased business-related goodwill (note 8)	Amortisation of purchased personnel-related goodwill (note 8)	Amortisation of other intangible assets (note 8)	Amortisation of capitalised development costs (note 9)	Aggregate amount charged to operations
Year ended:						
31 December 2004	2,958	1,219	468	6,544	2,715	13,904
31 December 2003	3,684	1,228	467	6,588	2,506	14,473

The amortisation charge for purchased goodwill is included on a separate line on the face of the income statement. The amortisation charge for purchased copyrights and capitalised development costs is included in the profit and loss statement in the line "software development". The depreciation charge for tangible fixed assets and the amortisation charge for computer software is allocated to the respective operating costs in the profit and loss statement based on headcount.

21. Financial instruments

Derivative financial instruments
The Group entered into forward foreign currency exchange contracts and options during the year to hedge a portion of the Group's payroll costs. The profit on contracts that qualified as cash flow hedges under IAS 39 generated profits for the year of US$ 2,325 thousand (2003: US$ 817 thousand). This profit has been offset against operating expenses. The loss on contracts that did not qualify as hedges under IAS 39 has been recorded as "income (loss) from financial instruments" and amounts to US$ 20 thousand (2003: profit of US$ 892 thousand).

The fair value contracts outstanding at 31 December 2004 are as follows:

	Assets
Forward foreign currency exchange contracts for 2005	
(included within prepayments and other assets)	2,205

The net fair value gain on open forward foreign exchange contracts which mostly hedge anticipated future foreign currency payroll costs will be transferred from reserves to the income statement in the period these costs are incurred, on a monthly basis between January and December 2005.

Financial instrument related expenses
In February 2004 an arrangement was signed with a major international bank for a loan facility (as described in note 11). The legal and set up fees relating to the arrangement amounted to US$ 406 thousand, and have been fully expensed in 2004.

22. Reversal of impairment of available-for-sale investment

In January 2002 TEMENOS Holdings NV acquired a 20% equity interest, and an option to acquire the remaining interest, in a private Italian company specialising in serving the financial services industry by providing wealth management software tools. This equity interest was acquired through the injection of new capital into the investee company, amounting to US$ 2.5 million. Due to significant losses incurred in 2002 and the limited visibility of improving conditions, the Company did not exercise its option to purchase the remaining interest. The investment was fully provided for during the financial year ended 31 December 2002.

In December 2004 TEMENOS Holdings NV entered into an agreement to sell its 20% equity interest to the original shareholders for a value of US$ 2.1 million resulting in the recording of a gain in the 2004 consolidated statement of income. This agreement was completed in January 2005 and the related proceeds will be received during 2005.

23. Interest in joint venture

Until 31 December 2003 the Group accounted for its 51% interest in TEMENOS Eastern Europe Limited as a joint venture. Since 1 January 2004 the Group has fully consolidated the subsidiary. The following amounts represent the Group's 51% share of the assets and liabilities, revenues and results of the joint venture which were included in the consolidated balance sheet and income statement for the year ended 31 December 2003:

	2003
Current assets	10,308
Non-current assets	246
	10,554
Current liabilities	(8,672)
Non-current liabilities	(38)
	(8,710)
Net assets	1,844
Revenues	3,623
Loss for the year after taxation and dividends	(305)

There were no contingent liabilities relating to the Group's interest in the joint venture as at 31 December 2003.

The average number of employees in the joint venture in 2003 was 44.

24. Earnings per share calculations

The earnings per share reported have been calculated as follows:

	2004	2003
Net profit for the year	15,368	10,887
Weighted average of common shares outstanding during the year (in thousands)	54,737	53,254
Equivalent common shares relating to outstanding share options and share warrants (in thousands)	3,470	3,025
Aggregate number of equivalent common shares for purposes of calculating the diluted earnings per share (in thousands)	58,207	56,279
Earnings per share (in US$ per share)		
– basic	0.28	0.20
– diluted	0.26	0.19

The amounts are expressed in thousands of US dollars

25. Commitments and contingencies

The Group has obligations under operating leases relating to office premises and leased equipment. Operating lease expenses relating to office premises for the year ended 31 December 2004 amounted to US$ 10.8 million (2003: US$ 8.8 million) and operating lease expenses relating to leased equipment were US$ 1.1 million (2003: US$ 1.7 million).

As at 31 December 2004, the future minimum lease payments to which the Group was committed under non-cancellable operating leases were as follows:

	Office premises	Equipment	Total
2005	8,245	1,227	9,472
2006	7,363	817	8,180
2007	4,807	361	5,168
2008	4,010	11	4,021
2009	3,599	–	3,599
Thereafter	11,220	–	11,220
Total	39,244	2,416	41,660

The Group is also involved in various lawsuits, claims, investigations and proceedings incidental to the normal conduct of its operations. These matters mainly include the risks associated with personnel litigation, tax claims and contractual disputes. Management believes that these contingencies will not have a material adverse effect on the business, financial condition or results of the Group. Information relating to provisions recorded in the financial statements is included in note 26.

26. Provisions for liabilities and charges

	Legal claims	Onerous lease	Total
At 1 January 2004	363	–	363
Charged to income statement	1,447	1,015	2,462
Foreign currency exchange differences	1	52	53
Used during the year	(1,543)	–	(1,543)
31 December 2004	268	1,067	1,335

Legal claims

The amounts represent provisions for certain legal claims brought against the Group. The outcome of the legal disputes is uncertain. In the directors' opinion the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2004.

Onerous lease

During the year one of the Group's subsidiaries sublet a property to a third party. The difference between the amount that will be received from the tenant, and the amount that will be paid to the landlord, has been fully provided. The provision will be utilised during the next 6 years.

The amounts are expressed in thousands of US dollars 31 December 2004

27. Related party transactions and balances

The TEMENOS GROUP formerly had related party relationships with the Global Technology Group of South Africa. The Global Technology Group of South Africa ceased to be a related party from 1st February 2003 when all cross-directorships were removed. During the year ended 31 December 2004 there were no transactions with this related party (2003: revenues derived of US$ 32 thousand and expenses incurred of US$ 79 thousand). As at 31 December 2004 there were no balances with this related party (2003: $nil).

Remuneration of executive and non-executive directors is described in note 18. Equity compensation for executive and non-executive directors granted in the form of stock options is described in note 16.

In December 2003 an office building that is leased by TEMENOS Headquarters SA was acquired by one of the directors and major shareholders of TEMENOS Group AG. The annual rent payable in respect of this lease is CHF 475 thousand, and the terms and conditions of the lease agreement conform to standard market practices.

Since December 1999 TEMENOS Suisse SA has leased an office building that is owned by a company which is managed and controlled by two of the major shareholders and directors of TEMENOS Group AG. The annual rent payable in respect of this lease is CHF 360 thousand, and the terms and conditions of the lease agreement confirm to standard market practices.

There were no other large or significant transactions with related parties during the year ended 31 December 2004 and all transactions with related parties were carried out at arm's length rates.

28. Post balance sheet events

As explained in note 22, TEMENOS Holdings NV completed its sale of its 20% equity interest in an italian company for a value of US$ 2.1m in January 2005.

29. Reconciliation of consolidated net profit and consolidated shareholders' equity from International Financial Reporting Standards to US Generally Accepted Accounting Principles

The TEMENOS GROUP financial statements are compiled in accordance with International Financial Reporting Standards (IFRS), which differ in certain respects from US generally accepted accounting principles (US GAAP). A description of the material differences for consolidated net profit and consolidated shareholders' equity are shown in the following tables:

	2004	2003
Net profit		
Net profit for the year per IFRS, as reported	15,368	10,887
Capitalised development costs, net of amortisation (1)	(3,843)	(391)
Amortisation of goodwill less impairment charges (2)	(411)	1,227
Reversal of impairment of available-for-sale investment (3)	(2,100)	–
Foreign exchange gains on intercompany balances (4)	(942)	(1,054)
Net profit for the year per US GAAP, as adjusted	8,072	10,669
Shareholders' equity		
Shareholders' equity per IFRS, as reported	83,460	66,157
Capitalised development costs, net of amortisation (1)	(12,482)	(8,639)
Amortisation of goodwill less impairment charges (2)	2,025	2,436
Shareholders' equity per US GAAP, as adjusted	73,003	59,954
Earnings per US GAAP (in US$ per share)		
basic	0.15	0.21
diluted	0.14	0.21

These numbers are provided for information purposes only and omit the additional disclosures that would be required under US GAAP.

(1) Under IFRS the company is required to capitalise the costs associated with the development of new or substantially improved products or modules when a project has achieved the stage of technical feasibility, the likelihood of success is probable, costs can be reliably measured and a future revenue stream can be justified. Under US GAAP the criteria for capitalising development costs are similar, however, technical feasibility as described by FAS 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed", is strictly defined and generally only arises very late in the development cycle. Therefore under US GAAP all of the costs incurred in developing software to date have been expensed as incurred.

(2) Under IFRS, until 31 December 2004, goodwill was required to be amortised over its useful life. Under US GAAP goodwill is not amortised, but is tested annually for impairment.

(3) Under IFRS impairment losses are required to be reversed when there has been a change in the economic conditions relating to the assets. Under US GAAP it is not permitted to recognise a reversal of impairment, and the gain on sale of available-for-sale investments is only recognised when the investment is ultimately disposed.

(4) Under IFRS foreign currency exchange gains or losses arising on intragroup balances for which settlement is neither planned nor likely to occur in the foreseeable future are recorded directly to shareholders' equity as a cumulative translation adjustment. Where settlement occurs or is probable the cumulative gains or losses previously recorded in shareholders' equity are recognised in the income statement. Under US GAAP it is not permitted to reverse the amounts relating to prior periods until the entity is liquidated.

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REPORT OF THE STATUTORY AUDITORS TO THE GENERAL MEETING OF TEMENOS GROUP AG, GLARUS

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) on pages 51 to 53 of TEMENOS Group AG for the year ended December 31, 2004.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements comply with Swiss law and the company's articles of incorporation.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA

M. Foley **T. Randolph**

Geneva, 11 March 2005

TEMENOS GROUP AG

The amounts are expressed in thousands of Swiss Francs

balance sheet

as at 31 December

	2004	2003
Assets		
Investments in, and advances to, subsidiaries	**449,675**	*447,608*
Receivable from other Group entities	–	*243*
Other receivables	7	–
Treasury shares	105	–
Liquid funds	166	*51*
Total assets	**449,953**	*447,902*
Liabilities and shareholders' equity		
Current liabilities		
Payable to other Group entities	**150**	*577*
Accrued expenses	**26**	*60*
Total liabilities	**176**	*637*
Shareholders' equity		
Share capital *(note 3)*	**274,762**	*272,362*
Share premium	**174,888**	*174,811*
Reserve for treasury shares *(note 4)*	**146**	*41*
Retained earnings (deficit)	**(19)**	*51*
Total shareholders' equity	**449,777**	*447,265*
Total shareholders' equity and liabilities	**449,953**	*447,902*

income statement

for the year ended 31 December

	2004	2003
Expenses associated with the maintenance of the Register of Shareholders and other related costs	**(70)**	*(89)*
Revaluation of the investment in subsidiary companies (on the basis of the market value of the TEMENOS Group AG shares)	–	*341,063*
Net (loss) profit	**(70)**	*340,974*
Retained earnings (deficit) at beginning of year	**51**	*(340,923)*
Retained (deficit) earnings at end of year	**(19)**	*51*

The amounts are expressed in thousands of Swiss Francs 31 December 2004

1. Legal status and principal activities

TEMENOS Group AG ("the Company") was incorporated in Glarus, Switzerland on 7 June 2001 as a stock corporation (Aktiengesellschaft). Since 26 June 2001 the shares of TEMENOS Group AG have been publicly traded on the SWX Swiss Exchange.

TEMENOS Group AG succeeded TEMENOS Holdings NV in the role of the ultimate holding company of the Group but is not otherwise engaged in trading, financing, investing activities, except as the holder of all the issued and outstanding shares of TEMENOS Holdings NV and IT Services Limited.

2. Investments in, and advances to, subsidiaries

The investments of TEMENOS Group AG represent the shares of its two wholly owned subsidiary companies, as follows:

	2004	2003
TEMENOS Holdings NV, Netherlands Antilles		
40,104,335.86 shares of a nominal value of US$ 0.001 each, at cost	200,522	200,522
Advances for the acquisition of new shares	249,052	246,985
I.T. Services Limited, Cyprus		
100 shares of a nominal value of CY£ 1 each, at cost	101	101
	449,675	447,608

3. Share capital

As at 31 December 2004 the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, comprised 54,952,435 common shares of a nominal value of CHF 5 each.

The changes in the number of issued and outstanding shares, in the year ended 31 December 2004, are summarised below:

	2004		2003	
	number	Nominal value in CHF	number	Nominal value in CHF
Authorised share capital issued	51,473,309	257,366	51,355,173	256,775
Conditional or contingent capital issued	3,479,126	17,396	3,117,296	15,587
Total number of TEMENOS Group AG shares issued, as at 31 December	54,952,435	274,762	54,472,469	272,362

The shares issued by the Company during the year are set out below:

	2004 number	2003 number
Total number of TEMENOS Group AG shares issued, as at 1 January	54,472,469	54,133,217
Shares issued and allotted in relation to acquisitions	109,841	8,276
Shares issued and allotted on exercising of employee share options	361,830	322,700
Shares held as Treasury stock by TEMENOS Holdings NV	8,295	8,276
Total number of TEMENOS Group AG shares issued, as at 31 December	54,952,435	54,472,469

It should be noted that the above tables includes treasury shares which had not been allotted to third parties. As at 31 December 2004 the number of treasury shares held by the Group amounted to 8,295 (2003: 8,276). These Treasury shares are held by TEMENOS Holdings NV (a wholly owned subsidiary of TEMENOS Group AG) and will be allotted to members of the TEMENOS Employee Share Option Scheme at the time that they exercise their options. A reserve has been created for these Treasury shares.

The amounts are expressed in thousands of Swiss Francs

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

authorised shares that may be issued in the context of acquisitions (available to the Board until 27 June 2006).	26,951,327
conditional shares that may be issued on the exercise of employee share options.	12,707,194
conditional shares that may be issued in conjunction with financial instruments.	13,930,680

The only holdings of 5% or more in the issued share capital of the Company are as follows:

George Koukis	26.1%
Kim Goodall	10.4%
Global Finance SA (through its funds Global Capital Investors LP and Global Capital Investors (II) LP)	10.1%
Schroders plc	5.3%

4. Share premiums

The share premium is reported after:

- deduction of expenses, amounting to CHF 146 thousand (2003: CHF 154 thousand), which were incurred in conjunction with the issuance of new shares
- deduction for reserve for treasury shares of CHF 146 thousand (2003: CHF 41 thousand).

5. Treasury shares

TEMENOS Group AG holds 11,352 shares at 31 December 2004 intended for resale.

6. Contingent liabilities

TEMENOS Group AG has provided certain guarantees to third parties, primarily in favour of TEMENOS Holdings NV, in the context of credit facilities placed at the disposal of the latter. Management believes that these guarantees are unlikely to be activated.

Information for Investors

CAPITAL STRUCTURE

The share capital is divided into 54.9 million registered shares of a nominal value of CHF 5.

APPROPRIATION OF PROFITS

TEMENOS does not expect to pay dividends in the foreseeable future.

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ANNUAL GENERAL MEETING

25 May 2005

NEXT PUBLICATION

27 April 2005 Q1 Results Presentation

Development of the TEMENOS share price

STATISTICS ON TEMENOS SHARES

Registered shares of CHF 5 nominal	2004
Sector:	Technology/Software
Market Segment:	SWX Market
Index Member:	SPI
Swiss Security No:	124 5391
ISIN No:	CH0012453913
Symbol:	TEMN
Number of shares	54,952,435
Market price high/low (CHF)	11.85/7.86
Market price 31.12.2003 (CHF)	8.90
Market price 31.12.2004 (CHF)	10.50
Market capitalisation high/low (CHF m)	645/572
Share capital nominal value at 31.12.2004 (CHF m)	275

Key Figures per Share	
Basic earnings per share (in US$)	0.28
Diluted earnings per share (in US$)	0.26
Consolidated shareholders' equity (US$ m)	83.5
Consolidated shareholders' equity per share (US$)	1.52

Major shareholders of TEMENOS Group AG	
George Koukis	26.1%
Kim Goodall*	10.4%
Global Capital Investors and related entities	10.1%
Schroders**	5.3%

** to the best of our knowledge. 9.1% (out of 10.4%) are deposited shares (art. 689d CO)*

*** taking into account that they are all dispo shares (art. 689d CO)*

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