Temenos

Interim Report 2011

TEMENOS
The Banking Software Company

Contents

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

unaudited

Consolidated income statement (condensed)

for the six months ended 30 June

	2011	2010
Revenues		
Software licensing	**67,293**	61,514
Maintenance	**97,824**	69,963
Services	**60,488**	62,642
Total revenues	**225,605**	194,119
Operating expenses		
Cost of sales	**77,888**	74,225
General and administrative	**32,668**	31,295
Other operating expenses	**141,718**	75,929
Total operating expenses	**252,274**	181,449
Operating (loss)/profit	**(26,669)**	12,670
Finance costs - net	**(5,109)**	(4,474)
(Loss)/profit before taxation	**(31,778)**	8,196
Taxation (note 3)	**(953)**	(202)
Net (loss)/income for the period	**(32,731)**	7,994
Attributable to:		
Equity holders of the parent	**(32,642)**	8,012
Non-controlling interest	**(89)**	(18)
Earnings per share for profit attributable to the equity holders of the Group (in US$): (note6)		
basic	**(0.47)**	0.13
diluted	**(0.46)**	0.12

The notes on page 8 to 11 form an integral part of these interim condolidated financial statements.

TEMENOS GROUP AG

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Consolidated statement of comprehensive income (condensed)

for the six months ended 30 June

	2011	2010
(Loss)/profit for the period	**(32,731)**	7,994
Other comprehensive income:		
Currency translation difference	**17,396**	(23,150)
Cash flow hedge	**(538)**	(503)
Other comprehensive income, net of tax	**16,858**	(23,653)
Total comprehensive income for the period	**(15,873)**	(15,659)
Attributable to:		
Equity holders of the parent	**(15,857)**	(15,653)
Non-controlling interest	**(16)**	(6)

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	30 June 2011	31 December 2010
Assets		
Current assets		
Cash and cash equivalents	**76,335**	160,274
Trade and other receivables	**309,735**	307,453
Other financial assets	**4,865**	6,062
Prepayments	**18,654**	17,048
Total current assets	**409,589**	490,837
Non-current assets		
Property, plant and equipment (note 7)	**15,329**	14,797
Intangible assets (note 7)	**425,738**	406,680
Trade and other receivables	**28,788**	33,503
Deferred tax asset	**38,389**	38,429
Total non-current assets	**508,244**	493,409
Total assets	**917,833**	984,246
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables	**106,492**	112,669
Other financial liabilities	**3,537**	3,794
Deferred revenues	**131,317**	155,408
Income taxes payable	**11,374**	12,155
Borrowings (note 8)	**10,888**	94,448
Provisions for other liabilities and charges	**1,790**	3,971
Total current liabilities	**265,398**	382,445
Non-current liabilities		
Borrowings (note 8)	**257,364**	88,172
Deferred tax liabilities	**11,649**	13,334
Income tax liabilities	**1,550**	1,550
Retirement benefit obligations	**4,370**	2,711
Trade and other payables	**3,372**	3,307
Total non-current liabilities	**278,305**	109,074
Total liabilities	**543,703**	491,519
Shareholders' equity		
Share capital (note 5)	**239,365**	236,958
Treasury shares (note 5)	**(108,111)**	(9,208)
Share premium and capital reserves	**13,280**	19,508
Fair value and other reserves	**(39,111)**	(55,896)
Retained earnings	**268,217**	300,859
	373,640	492,221
Non-controlling interest	**490**	506
Total equity	**374,130**	492,727
Total liabilities and equity	**917,833**	984,246

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for the six months ended 30 June

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	2011	2010
Cash (used in)/generated from operations	**(25,115)**	9,155
Income taxes paid	**(2,115)**	(1,912)
Net cash (used in)/generated from operating activities	**(27,230)**	7,243
Cash flows from investing activities		
Purchase of property, plant and equipment, net of disposals	**(3,203)**	(572)
Purchase of intangible assets, net of disposals	**(1,567)**	(1,700)
Capitalised development costs (note 7)	**(13,797)**	(9,502)
Acquisitions of subsidiaries, net of cash acquired	**(405)**	(3,657)
Disposals of subsidiaries, net of cash disposed	**-**	3,534
Settlement of financial instruments	**(12,298)**	(3,287)
Interest received	**75**	202
Net cash used in investing activities	**(31,195)**	(14,982)
Cash flows from financing activities		
Proceeds from issuance of shares, net of related expenses	**-**	2,751
Acquisition of treasury shares	**(108,111)**	(10,417)
Interest payments	**(1,799)**	(2,864)
Net proceeds from borrowings (note 8)	**85,079**	(15,466)
Payment of finance lease liabilities (note 8)	**(482)**	(341)
Payment of financial instrument related expenses	**(2,878)**	(308)
Net cash used in financing activities	**(28,191)**	(26,645)
Effect of exchange rate changes	**2,677**	(6,412)
Net decrease in cash and cash equivalents in the period	**(83,939)**	(40,796)
Cash and cash equivalents at the beginning of the period	**160,274**	142,651
Cash and cash equivalents at the end of the period	**76,335**	101,855

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	Share capital	Treasury shares	Share premium and capital reserves	Fair value and other reserves	Retained earnings	Non-controlling interest	Total
Balance at 31 December 2009	**178,340**	**-**	**(85,231)**	**(32,019)**	**239,218**	**661**	**300,969**
Total comprehensive income for the period	-	-	-	(23,665)	8,012	(6)	(15,659)
Cost of share option	-	-	11,363	-	-	-	11,363
Exercise of share options	16,633	1,728	(15,689)	-	-	-	2,672
Exercise of conversion rights	7	-	-	-	-	-	7
Acquisition of treasury shares	-	(10,417)	-	-	-	-	(10,417)
Share issuance costs	-	-	(198)	-	-	-	(198)
	16,640	(8,689)	(4,524)	(23,665)	8,012	(6)	(12,232)
Balance at 30 June 2010	**194,980**	**(8,689)**	**(89,755)**	**(55,684)**	**247,230**	**655**	**288,737**
Balance at 31 December 2010	**236,958**	**(9,208)**	**19,508**	**(55,896)**	**300,859**	**506**	**492,727**
Total comprehensive income for the period	-	-	-	16,785	(32,642)	(16)	(15,873)
Cost of share option	-	-	5,555	-	-	-	5,555
Exercise of share options	2,407	9,208	(11,700)	-	-	-	(85)
Acquisition of treasury shares	-	(108,111)	-	-	-	-	(108,111)
Share issuance costs	-	-	(83)	-	-	-	(83)
	2,407	(98,903)	(6,228)	16,785	(32,642)	(16)	(118,597)
Balance at 30 June 2011	**239,365**	**(108,111)**	**13,280**	**(39,111)**	**268,217**	**490**	**374,130**

The notes on page 8 to 11 form an integral part of these interim condolidated financial statements.

1 General information

TEMENOS Group AG ("the Company") was incorporated in Glarus, Switzerland on 7 June 2001 as a stock corporation (Aktiengesellschaft). Since 26 June 2001 the shares of TEMENOS Group AG have been publicly traded on the SIX Swiss Exchange. On incorporation, TEMENOS Group AG succeeded TEMENOS Holdings NV in the role of the ultimate holding company of the Group. From 23 May 2006 the Company moved its seat of incorporation to Geneva, Switzerland. The registered office is 2 Rue Ecole de Chimie, Geneva.

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 Basis of preparation

This condensed interim financial information for the six month ended 30 June 2011 has been prepared in accordance with IAS 34 (Interim financial reporting) and are unaudited. The consolidated interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2010 which have been prepared in accordance with IFRS's.

3 Accounting policies

Except as described below, the accounting policies are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2010.

Income tax is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

Standards, amendments and interpretations effective in 2011

- IFRS 7 (amendment) 'Financial Instruments: Disclosures', effective for annual periods beginning on or after 1 July 2010. This amendment aims to improve transparency of transactions involving transfers of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the asset. The application of this amendment has not affected the Group's financial statements.

- IFRIC 14 (amendment) 'Prepayments of a minimum funding requirement', effective for annual periods beginning on 1 January 2011. This amendment corrects an unintended consequence of IFIRC 14 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendment, it was not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This is now corrected with this amendment. The application of this amendment has not materially affected the Group's financial statements.

- IFRIC 19 (new interpretation) 'Extinguishing financial liabilities with equity instruments', effective for annual periods beginning on or after 1 July 2010.This interpretation clarifies the accounting by an entity when the terms of a financial liabilities are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss. Convertible bond conversion are scoped out of this interpretation. The application of this interpretation has no impact on the Group's financial statements.

- IAS 24 (revised) 'Related party disclosures', effective for annual periods on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The application of this revised standard has not affected the Group's financial statements.

- IAS 32 (amendment) 'Financial Instruments: Presentation', effective for annual periods beginning on or after 1 February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. The application of this amendment has not affected the Group's financial statements.

- 2010 Annual improvements. IASB issued a collection of amendments to several IFRSs to be effective from 1 January 2011 or later periods. The application of these improvements has not resulted in a material impact on the Group's financial statements.

Seasonality of operations

The Group is not significantly influenced by seasonal or cyclical fluctuations but, historically, the Group tends to recognise a higher volume of licensing revenue in the second half of the financial year.

Significant events and transactions during the period

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

Since the last financial year ended 31 December 2010 the Group has not suffered from any significant financial risks other than the impairment loss recognised on trade receivables and the Group still remains strongly vigilant to mitigate these risks.

Included in other operating expenses, is US$ 27.6 million of impairment loss on trade receivables for which there has been objective evidence in the first half year of 2011 that the Group would not recover the carrying amount.

The restructuring provision of US$ 2.7 million in respect of the acquisition of Viveo Group has been recycled to the income statement as a result of the rejection of the plan by the French court.

4 Estimates

The preparation of these interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Group's interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010, with the exception of changes in estimates that are required in determining the provision for income taxes.

5 Share capital

As at 30 June 2011, the issued shares of TEMENOS Group AG comprised 71,944,087 common shares of a nominal value of CHF 5 each. All issued shares are fully paid.

		Nominal value (in thousands)	
	number	**CHF 000**	**US$ 000**
Total number of shares issued, as at 1 January 2011	71,524,117	357,621	236,958
Share issued on exercise of employee share options	419,970	2,100	2,407
Total number of shares issued, as at 30 June 2011	71,944,087	359,721	239,365

As at 30 June 2011 the number of treasury shares held by the Group amounted to 2,898,695 (2010: 364,982). 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.

According to its Articles or Association, the Group has also the following conditional capital:

- authorised shares available until 17 June 2013	14,304,823
- conditional shares that may be issued on the exercise of employee share options	4,563,438
- conditional shares that may be issued in conjunction with financial instruments	6,607,904

6 Earnings per share

The basic earnings per share are calculated by dividing the net income attributable to the equity holders of the Group by the weighted average number of issued and outstanding shares in that period, excluding Treasury shares.

The diluted earnings per share is the basic earnings per share adjusted for dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares: "share options".

7 Property, plant and equipment and intangible assets

	Property, plant and equipment	**Intangible assets**
	US$ 000	**US$ 000**
Six months ended 30 June 2011		
Opening net book amount at 1 January 2011	14,797	406,680
Additions	3,374	1,646
Disposal	(33)	-
Capitalised development costs	-	13,797
Charge for the period	(3,195)	(21,104)
Foreign currency exchange differences, impairment and other movements	386	24,719
Closing net book amount 30 June 2011	15,329	425,738

8 Borrowings

	2011	2010
	US$ 000	US$ 000
Current		
Obligations under finance leases	509	568
Other loans	9	16
Bank borrowings	10,370	93,864
Total current	10,888	94,448
Non-current		
Obligations under finance leases	578	617
Other loans	56	4
Bank borrowings	256,730	87,551
Total non-current	257,364	88,172
Total borrowings	268,252	182,620

Movements in borrowings is analysed as follows:

Six months ended 30 June 2011	
Opening balance as at 1 January 2011	182,620
Net proceeds from borrowings	84,597
Increase in borrowings - other	1,035
Closing net book amount 30 June 2011	268,252

9 Expenses by function

	Half-year	
	2011	2010
	US$ 000	US$ 000
Sales and marketing	76,247	37,204
Services	81,551	66,616
Software development and maintenance	61,808	46,334
General and administrative	32,668	31,295
Total operating expenses	252,274	181,449

10 Segment information

The Chief Operating Decision Maker ("CODM") has been identified as the Group's Chief Executive Officer ("CEO"). He regularly reviews the Group's operating segment in order to assess performance and to allocate resources.

The CODM considers the business from a product perspective and, therefore, recognises the reporting segments as:"Product and Services". Regional information is still presented to the CODM but it is not primarily used to review the Group's performance and to make decisions as how to allocate resources.

The product segment is primarily engaged in marketing and licensing the Group's software and solutions and the services segment comprises of the various other activities such as product implementation, providing services.

The Group's Chief Executive Officer assesses the performance of the operating segments based on the operating result. This measure reflects operating expenses that are directly or reasonably attributable to the reporting segments. Unallocated costs mainly comprise of restructuring costs, share-based payment expenses, depreciation and amortisation, offices-related expenses, net finance costs and any other corporate expenses that cannot be directly attributable to the operating segments.

Reportable segments derive their revenue primarily from the licensing and maintenance of the Group' software solutions for the "Product" segment and respectively from providing a wide range of supporting activities in respect of the implementation of the Group's solutions for "Services" segment.

10 Segment information (continued)

The primary information provided to the Group's Chief Executive Officer for the reportable segments is as follows:

	Product		Services		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
External revenues	165,118	131,477	60,465	62,642	225,583	194,119
Operating profit	39,189	61,609	(4,810)	6,884	34,379	68,493

Intersegment transactions are treated as cost reductions rather than internal revenues. They are charged based on internal cost rates that excludes any profit margin.

RECONCILIATION TO THE GROUP'S INCOME STATEMENT

	2011	**2010**
Total operating profit for reportable segments	34,379	68,493
Depreciation and amortisation	(24,299)	(19,426)
Unallocated operating expenses	(36,749)	(36,397)
Finance costs - net	(5,109)	(4,474)
(Loss)/Profit before taxation	(31,778)	8,196

11 Post balance sheet events

On 27 July 2011, the Group acquired 100% of the share capital of PRIMISYN, a Canadian provider of business intelligence software for the financial service sector.
The acquisition of Primisyn will strengthen the Group's BI development team and reinforce its presence in the growing Canadian market.

The cash consideration transferred amounts to US$ 0.9 million and the fair value of any subsequent contingent consideration is still to be assessed.

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