



# Financial Results & Business Review

Quarter ended March 31, 2003

Any remarks that we may make about future expectations, plans and prospects for the company constitute forward-looking statements. Actual results may differ materially from those indicated by these forward-looking statements as a result of various factors. In particular, the forward-looking financial information provided by the company in this conference call represents the company's estimates as of March 11th, 2003. We anticipate that subsequent events and developments will cause the company's estimates to change. However, while the company may elect to update this forward-looking financial information at some point in the future, the company specifically disclaims any obligation to do so. This forward-looking information should not be relied upon as representing the company's estimates of its future financial performance as of any date subsequent to May 13, 2003.

## Agenda

Overview of Q1  
2003

Financial results

Q&A

## Speaker

George Koukis

David Arnott

Executive Team

## Position

Chairman & CEO

CFO



## Overview of the Quarter

George Koukis  
Chairman & CEO

- In the face of restricted software spending by banks, Temenos has performed in line with our expectations and remains cautiously optimistic for the balance of year.
- We returned to profitability with EBIT of USD 1.1 million compared to USD 0.6 for the same period last year and EBITDA of USD 4.9 million compared to USD 2.9 million for the same period last year
- Operational performance was according to plan with signings reaching USD 8.2 million for the first Quarter (+5% compared to our target of USD 7.8)
- Net Income of USD 1.2 million compared to USD (0.2) million for the same period last year.
- We remain operationally focused across all divisions and are performing according to plan
- New deals signed during the Quarter include:
  - Fortis Global Custody Management and Trustee Services (Ireland) - Dublin
  - Industrial and Commercial Bank of China - China
  - Central Bank of Nigeria – Nigeria



# Financial Results

David Arnott  
CFO

## Revenue

Revenues at USD 32.9 million, up 5.7% compared to the same period last year

- Licensing revenue at USD 17.6 million up 7.6% for the quarter compared to the same period last year driven by stronger backlog
- Services revenue at USD 15.3 million, up 3.5% compared to same period last year driven by higher utilisation rate and higher level of business
- When adjusted for foreign exchange impact the growth in revenues for Q1 2003 is flat compared to the same period last year

## Operating costs

- Operating costs at USD 31.8 million up 4.3% on prior year
- Research & Development were up 23.0% on prior year, driven by higher Depreciation and Amortisation costs of intellectual property rights
- Service gross margins at 24.3% compared to 15.8% for same period last year, driven by better utilisation rate
- Sales & Marketing costs of 6.2 million were 4.2% lower than prior year, driven by more efficient management of marketing spending
- General & Administrative costs of USD 5.5 million were 14.5% higher than prior year, reflecting the impact of prior year investment in offices and infrastructure

## Cash costs

- Cash costs at USD 28.0 million compared to USD 28.2 million for prior year
- Cash costs adjusted for foreign exchange since Q1 2002 at USD 28.0 million compared to USD 31.9 million, down 12.2% on prior year

## Operating profit

- Operating profit for the quarter of USD 1.1 million, compared to USD 0.6 for the same period last year and EBITDA for the quarter of USD 4.9 million, up 68.2% compared to same period last year

## Net Earnings

- Net Income for the quarter of USD 1.2 million compared to USD (0.2) million for the same period last year.

USD million	Quarter ended:		Mar 31	Mar 31		Mar 31	Dec 31	
			2003	2002	% Growth	2003	2002	% Growth
<b>Revenues</b>								
Licensing			17.6	16.4	7.6%	17.6	6.3	178.7%
Services			15.3	14.7	3.5%	15.3	13.8	10.8%
<b>Total Revenues</b>			<b>32.9</b>	<b>31.1</b>	<b>5.7%</b>	<b>32.9</b>	<b>20.1</b>	<b>63.7%</b>
<b>Expenses</b>								
Software development			8.1	6.6	23.0%	8.1	9.9	(17.5)%
Services			11.6	12.4	(6.9)%	11.6	12.9	(10.6)%
Sales and marketing			6.2	6.5	(4.2)%	6.2	18.1	(65.6)%
General and admin.			5.9	5.0	18%	5.9	6.1	(3.3)%
<b>Total</b>			<b>31.8</b>	<b>30.5</b>	<b>4.3%</b>	<b>31.8</b>	<b>47.0</b>	<b>(32.3)%</b>
<b>Operating profit (loss)</b>			<b>1.1</b>	<b>0.6</b>	<b>71.6%</b>	<b>1.1</b>	<b>(26.9)</b>	<b>-</b>
<b>EBITDA</b>			<b>4.9</b>	<b>2.9</b>	<b>68.2%</b>	<b>4.9</b>	<b>(23.0)</b>	<b>-</b>
<b>Net profit / (loss)</b>			<b>1.2</b>	<b>(0.9)</b>	<b>-</b>	<b>1.2</b>	<b>(33.4)</b>	<b>-</b>

USD million	Q1 2003	Q4 2002	Q1 2002
Total Cost- As reported	31.8	47.0	30.5
Restructuring charges / One-Off charges	<u>0.0</u>	<u>(9.8)</u>	<u>0.0</u>
<b>Total Cost Adjusted</b>	<b>31.8</b>	<b>37.2</b>	<b>30.5</b>
Depreciation & Amortisation	3.8	3.9	2.3
<b>Total Cash Cost Adjusted</b>	<b>28.0</b>	<b>33.3</b>	<b>28.2</b>
Foreign Exchange Impact *	n/a	1.5	3.7
<b>Total Cash Cost Adjusted for FX</b>	<b>28.0</b>	<b>34.8</b>	<b>31.9</b>

\* Adjustment to Q1 2003 rate

USD million	Q1 2003	Q4 2002	Q1 2002
EBIT- As reported	1.1	(26.9)	0.6
Restructuring charges / One-Off charges	<u>0.0</u>	<u>(10.7)</u>	<u>0.0</u>
<b>EBIT Adjusted</b>	<b>1.1</b>	<b>(16.2)</b>	<b>0.6</b>
Depreciation & Amortisation	3.8	3.9	2.3
<b>EBITDA Adjusted</b>	<b>4.9</b>	<b>(12.3)</b>	<b>2.9</b>
Foreign Exchange Adjustment *	n/a	(1.2)	(1.8)
<b>EBITDA Adjusted for FX</b>	<b>4.9</b>	<b>(13.5)</b>	<b>1.1</b>

\* Adjustment to Q1 2003 rate

75% of revenues are in USD compared to 25% for the costs side

USD million	Q1 2003	Q4 2002	Q1 2002
R&D costs – As reported	8.1	9.9	6.6
Capitalised Development costs	0.7	0.1	1.6
Non Cash items	<u>(2.6)</u>	<u>(2.5)</u>	<u>(1.4)</u>
	<b>6.2</b>	<b>7.5</b>	<b>6.8</b>

Cash R&D costs significantly reduced and in line with target

USD million	Q1 2003	Q1 2002	FY 2002	FY 2001
Revenues	15.3	14.7	57.5	61.2
Costs	11.6	12.4	53.1	53.5
Margin	3.7	2.3	4.4	7.7
Margin (%)	24.2%	15.6%	7.7%	12.6%

- Service margin for quarter at historical high
  - Higher utilisation rate for Q1 of 81% (2002: 65%)
  - Better mix of external consultant vs own staff
- Margin in line with plan and sustainable for balance of year

USD million	Q1 2003	Q4 2002	Q1 2002
S & M costs – As reported	6.2	18.1	6.5
Restructuring/ One-Off charges	<u>0.0</u>	<u>(9.8)</u>	<u>(0.0)</u>
	<b>6.2</b>	<b>8.3</b>	<b>6.5</b>

Better management of marketing spending

USD million	Q1 2003	Q4 2002	Q1 2002
G&A costs – As reported	5.7	6.1	5.0
Restructuring / One-Off charges	<u>0.0</u>	<u>(0.9)</u>	<u>(0.0)</u>
	<b>5.7</b>	<b>5.2</b>	<b>5.0</b>

G&A has been negatively impacted by foreign exchange movement

# Balance Sheet

USD million	March 2003	March 2002	December 2002
Receivables	37.9	33.2	20.5
Accrued revenue	22.0	34.1	20.3
Less Deferred revenue	<u>(33.3)</u>	<u>(16.2)</u>	<u>(22.2)</u>
<b>Net</b>	<b>26.6</b>	<b>51.1</b>	<b>18.6</b>
Cash	17.5	53.1	24.0
Unutilised facility	15.0	24.8	15.0
Less Debt	<u>(7.5)</u>	<u>(30.0)</u>	<u>(5.0)</u>
<b>Available Cash</b>	<b>25.0</b>	<b>47.9</b>	<b>34.0</b>

Improvement in receivables and deferred revenue reflects achievement of key project milestones and recent ILF signings

Accrued revenues reflects stronger project management

Quarter	Amount
Q1 2003	(3.4)

Quarter	Amount
Q1 2002	(4.5)
Q2 2002	4.1
Q3 2002	(12.8)
Q4 2002	7.8
<b>TOTAL</b>	<b>(5.4)</b>

Quarter	Amount
Q1 2001	1.7
Q2 2001	2.2
Q3 2001	(5.9)
Q4 2001	1.6
<b>TOTAL</b>	<b>(0.3)</b>

- Q1 outflows in line with expectations
- Q1/Q3 expected to be outflows, Q2/Q4 inflows

# Operating Cash Flows

USD million	Q1 2003	Q1 2002	Q4 2002
Operating Earnings	1.1	0.6	(26.9)
Restructuring costs	0.0	0.0	(7.0)
One -Off charges	0.0	0.0	10.7
Working Capital changes	(8.2)	(7.4)	27.7
Depreciation & Amortisation	<u>3.8</u>	<u>2.3</u>	<u>3.9</u>
<b>Operating Cash Flows</b>	<b>(3.3)</b>	<b>(4.5)</b>	<b>8.4</b>



# Q1 2003 Cash flow

US\$ million	Qtr ended March 31,	
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	2003	2002
<b>Cash at beginning of period</b>	<b>24.0</b>	<b>65.3</b>
Operating cash flow	(3.3)	(4.5)
Capital spending, including deferred consideration for 2002 transaction	(2.9)	(7.6)
Financing	(0.3)	(0.1)
<b>Cash at end of period</b>	<b>17.5</b>	<b>53.1</b>

**Q1 2003 is in line with our expectations, reflecting historical seasonality trend**



# Q1 2003 ILF Backlog

US\$ million

Qtr ended March 31,

**2003****Backlog at the start of the Quarter****32.9**

ILF revenue booked

(10.7)

Signings (ILF value)

6.9

Backlog movement – more than 12 month

(1.9)

Foreign Exchange effect

0.3

**Closing Backlog****27.5**

ILF 12 months Backlog in line with plan

- **Alphametrics Resale**
  - In March 2001 Temenos purchased Treasury Front Office functionality from Alphametrics
  - We have incorporated this functionality within our own product and have no further use for the IPR's.
  - In March 2003 we agreed on a management buy back of the IPR's
  - Cash transaction at Book Value (appr: USD 1.4 million) to be paid to Temenos in 6 installments
  - This will reduce operating costs by approx. USD 0.6 million for 2003
- **CoreBanking Restructuring**
  - In March 2003 we rationalised our Corebanking sales organisation to better leverage the Temenos infrastructure
  - As part of this restructuring, we also rationalised development capacity in Spain
  - As a result of these initiatives 2003 operating costs will be reduced by approximately USD 1.3 million per Quarter compared to the present run-rate

- Pipeline remains strong, and we remain cautiously optimistic. 83% visibility from business closed to date of our targeted 2003 revenues
- We are confident of achieving our Q2 ILF signings target of US\$12.8 million
- Impact of SARS on 2003 signings is still uncertain.
- Maintain prior guidance for 2003:
  - Total revenues of approximately USD 130 million, compared to USD 113 million last year
  - Operating cost guidance of approximately USD 120 million, compared to USD 157.7 last year
  - EBITDA of approximately USD 25 million, compared to USD (31.9) million last year
  - Target signings of 67.6 million compared to USD 58.0 million last year



# Additional Slides

***December 30th : Client signs USD 10m licence contract. USD 5m payable on January 30th, USD 5m payable on completion of project. Implementation will take place from March 1 to August 30 of year after signing***

- On signing: Backlog = USD 10m. No accounting entries
- On January 30th: USD 5m of cash received. Reported as a cash asset and current liability under caption « deferred revenue ». Backlog is still USD 10m.
- End of first month of project (now 20% complete): 20% of the contract revenue booked =USD 2m. As the client has paid in advance, deferred revenue reduced by USD 2m. Deferred revenue = USD 3m. Backlog reduced to USD 8m.
- Half way through project: USD 5m booked to revenue. No deferred revenue left, so now begin to « accrue ». Backlog now US\$5m.
- « Go live »: All USD 10m of revenue booked, accrued revenue = USD 5m. This is now invoiced. Accrual reversed, invoice sent out. Until invoice paid, the USD 5m is reported under « accounts receivable »



# Revenue Recognition - A Case Study

	Backlog	Revenue	Cash	Deferred	Accrued
Contract Signing	10	0	0	0	0
Contract Upfront Pmnt 50%	10	0	5	5	0
<u>Project:</u>					
20% complete	8	2	5	3	0
50% complete	5	5	5	0	0
90% complete	1	9	5	0	4
Live date	0	10	10	0	0